



# Competition vs. Integration: A Case Study of Urban Rail Transit

Paul Mees, John Stone & Leigh Glover

GAMUT Annual Meeting

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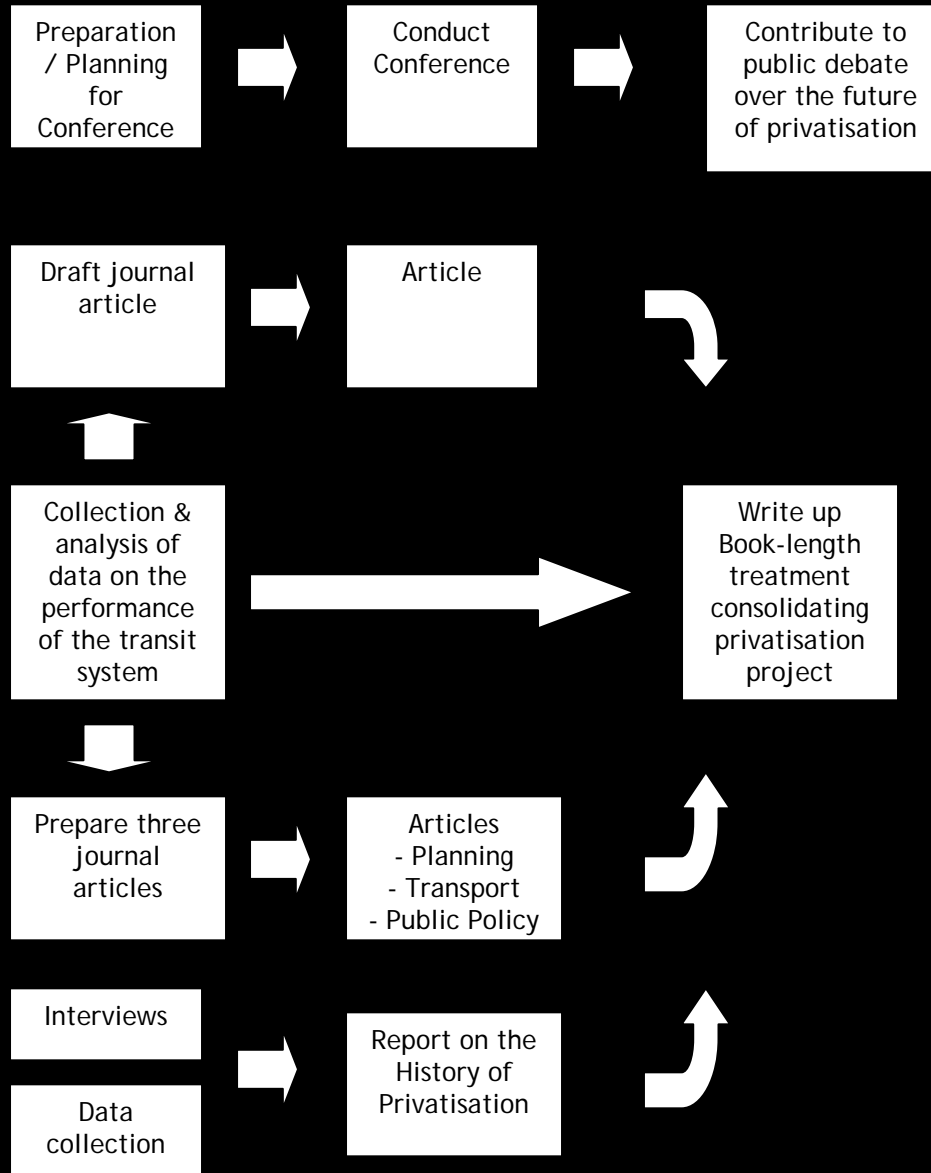
University of Melbourne  
November 2007



**GAMUT**

GOVERNANCE AND MANAGEMENT OF URBAN TRANSPORT

## Simple Schematic of Main Activities



### Conference Program

**Registration** 9.30 am

**How can public transport grow?**

10.00 am – 12.00 pm

(Chair: Prof Nick Low, Director GAMUT)

- o **Opening address**

Dr Ian McPhail

Commissioner for Environmental Sustainability

- o **Network planning: the international key to public transport growth**

Dr Gustav Nielsen

Oslo Institute of Transport Economics.

Author of the European Union's HiTrans best practice guide: Public transport – planning the networks.

- o **Networks in Melbourne: the missing piece of public transport planning**

John Stone

GAMUT Project Officer

- o **Questions and Discussions**

**Lunch** 12.00 – 1.00 pm

**Beyond the current franchises: public transport growth in Melbourne?**

1.00 – 3.00 pm

(Moderator: Jon Faine)

Paul Mees

Senior Lecturer; Faculty of Architecture, Building and Planning

Richard Allsop

An architect of the Kennett government's 1999 privatisation plan, now with the Institute of Public Affairs

John Stanley

Executive Director, Bus Association of Victoria

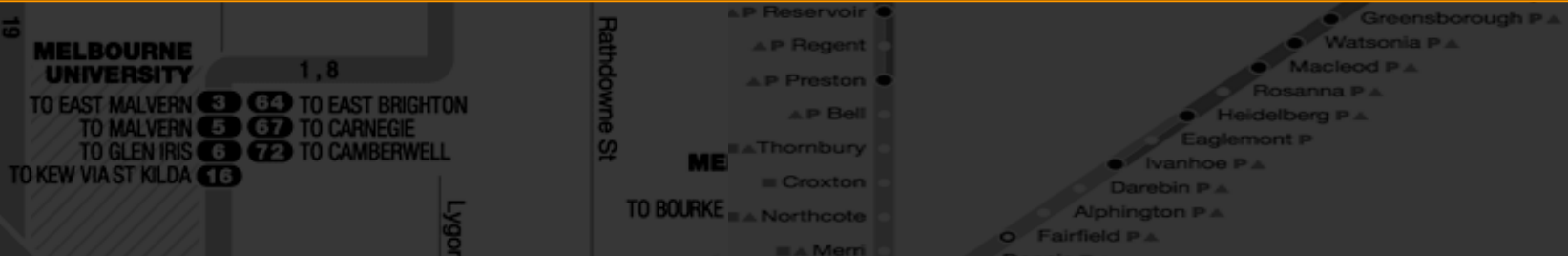
**Closing remarks**

3.00 – 3.30 pm



# Three Aspects of the Melbourne Case Study

- Historical Narrative
- Political Science (Governance & Politics)
- Performance Assessment



# Historical Narrative

1856



Melbourne & Hobson's Bay Railway bankrupted

Creation: Railways Dept

Local councils develop tramways

1913

Unions allowed (Aust. Tramways Employees' Assoc. formed)

1920

Melbourne & Metro. Tramways Board (MMTB) formed

1934

ATEA becomes Australian Tramways and Motor Omnibus Employees' Association

1949

Sir RJH Risson, Chair, MMTB (next 21 years)

1950s & 60s

Era of political & industrial turbulence  
Conflicts over 'one-man tram crews'

1969

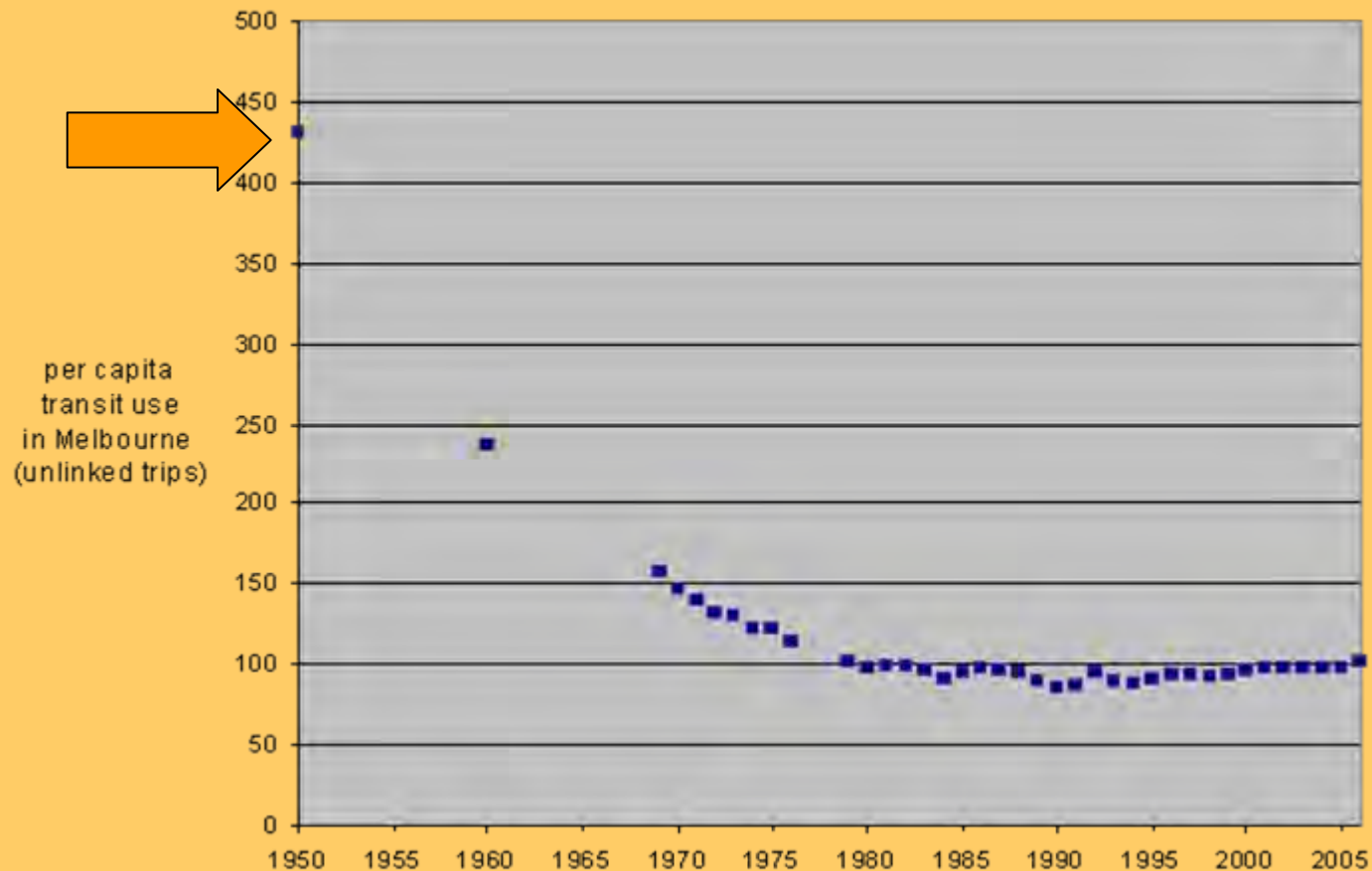
Tramways unionist O'Shea jailed in industrial dispute

1970s

Tramway disputes lessen greatly, railway disputes increase



# Annual per Capita Transit Use in Melbourne from 1950 (unlinked trips)



Sources: To 1999 – operators' Annual Reports; from 1999 – DOI, compiled from information from private operators



Apl 1982

Cain government (ALP) elected  
Crabb: Transport Minister

Era of fairly constant industrial disputation

1983

Institutional reforms:  
Train & Trams merge: Metro. Transit Authority created

Mar 1985

Roper Transport Minister

Dec 1987

Kennan Transport Minister

Jan—Feb 1990

Six-week tram strike protesting driver-only proposals & retail ticketing  
'Scratch' ticket dispute  
Blockage of CBD

Creation of Public Transport Corporation

Apl 1990

Spyker: Transport Minister

Aug 1990

Kirner becomes Premier



Government fatally wounded by collapse of two financial institutions, sale of State bank,  
& scratch ticket debacle

Oct 1992

Kennett Government (Coalition) elected  
Brown: Transport Minister  
Stockdale: Treasurer (1992-99)



Political agenda: Reduce public debt, reduce public sector, reduce union power, privatisation

1993

Rationalisation: 'Public Transport Reform Program'  
• Sought 50% cut in PTC operating budget



Apl 1993

Reform Agreement reached with unions: Trade-off:  
Cessation of strikes (until Feb 1997)—No privatisation

Late 1995

Treasury explores privatisation/ reforms

Mar 1996

Kennett Government re-elected #2 term

Jun 1996

PTC budget cut goal met (\$254m cut)  
• PTC employment ↓ by 8500 by 1996

Jan 1997

Cooper: Transport Minister: Favours privatisation



Feb/ Mar 1997

Negotiations with unions over new Reform Agreement break down

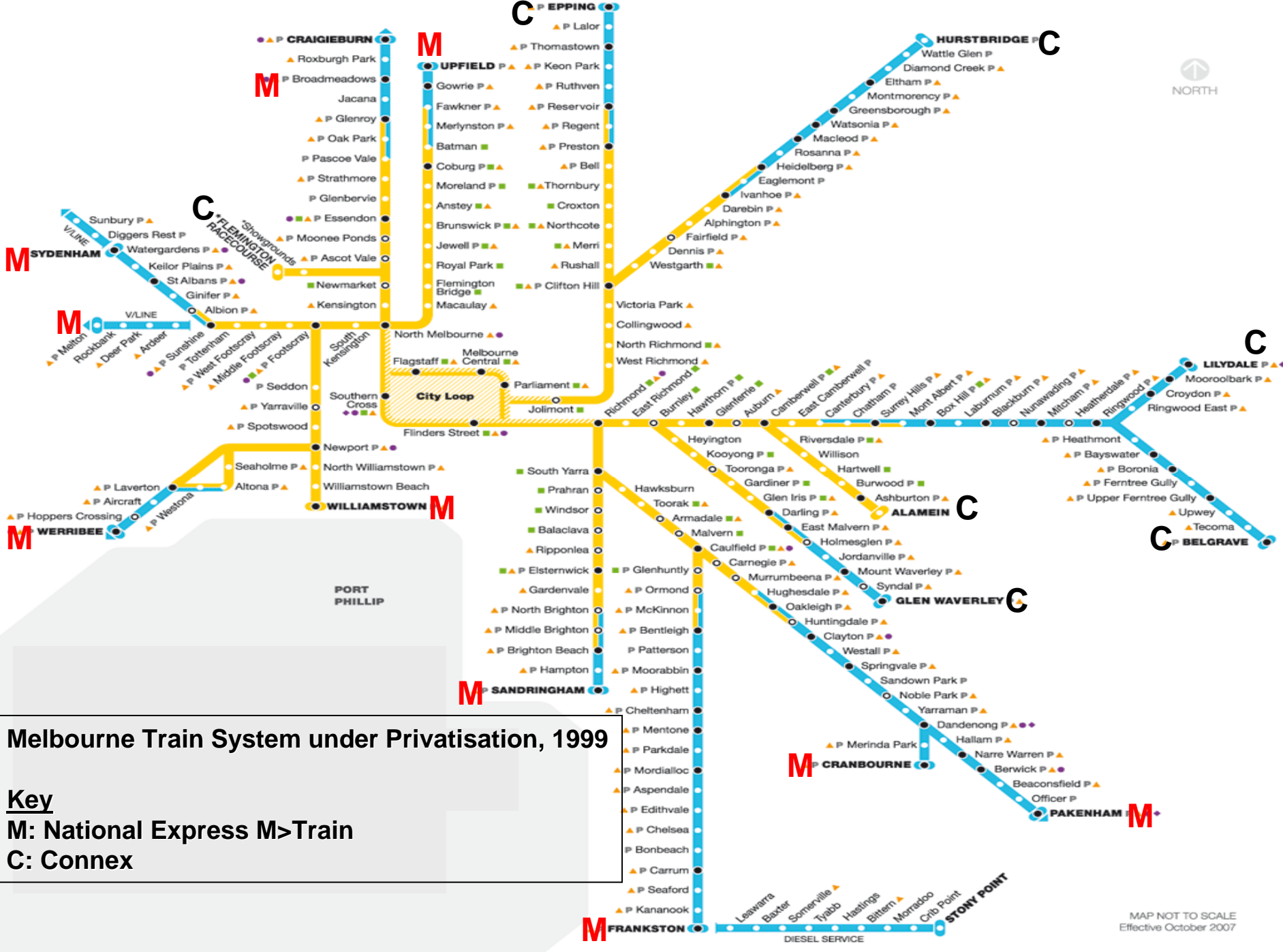
TRU calls for 48-hour strike on weekend of Melbourne Grand Prix

Premier Kennett moves to privatise public transport—informs Cabinet—draws on consultants report

Transport Reform Unit in Treasury given task of privatisation

# Government Objectives

- To secure a progressive improvement in the quality of services available to public transport users in Victoria
  - To secure a substantial and sustained increase in the number of passengers using the public transport system
  - To minimise the long term costs of public transport to the taxpayer
  - To transfer risk to the private sector
  - To ensure that the highest standards of safety are maintained at all times
- E.g., Successful bidders aimed for 3.6% p.a. passenger growth rates, for the contract period (c.f., the decadal average of the 1990s of around 1% p.a.), & thus were to receive lower subsidy payments.



# Melbourne Train System under Privatisation, 1999

**Key**  
**M:** National Express M>Train  
**C:** Connex

MAP NOT TO SCALE  
 Effective October 2007



Mar 1998

PTC dissolved: Preparations for private operations (2 Train, 2 Tram)

Sep 1999

Bracks government (ALP) elected  
Batchelor: Transport Minister



Privatisation undertaken



1999--2002

Franchisees experience many operational difficulties;  
Rapid patronage increases fail to materialise

Aug 2002

TRU Exec. Dir. Oversees 're-franchising' agreements

Dec 2002

Government provides \$105m to franchisees as part of Interim Operating Agreements;

Dec 2002

National Express formally abandons MTran & MTram operations (Receivership)

Government enters into contract with remaining franchisees (Yarra Trams & Connex);  
'Bailout' payments are made by the Government

Dec 2006

Kosky: Transport Minister

Jul 2007

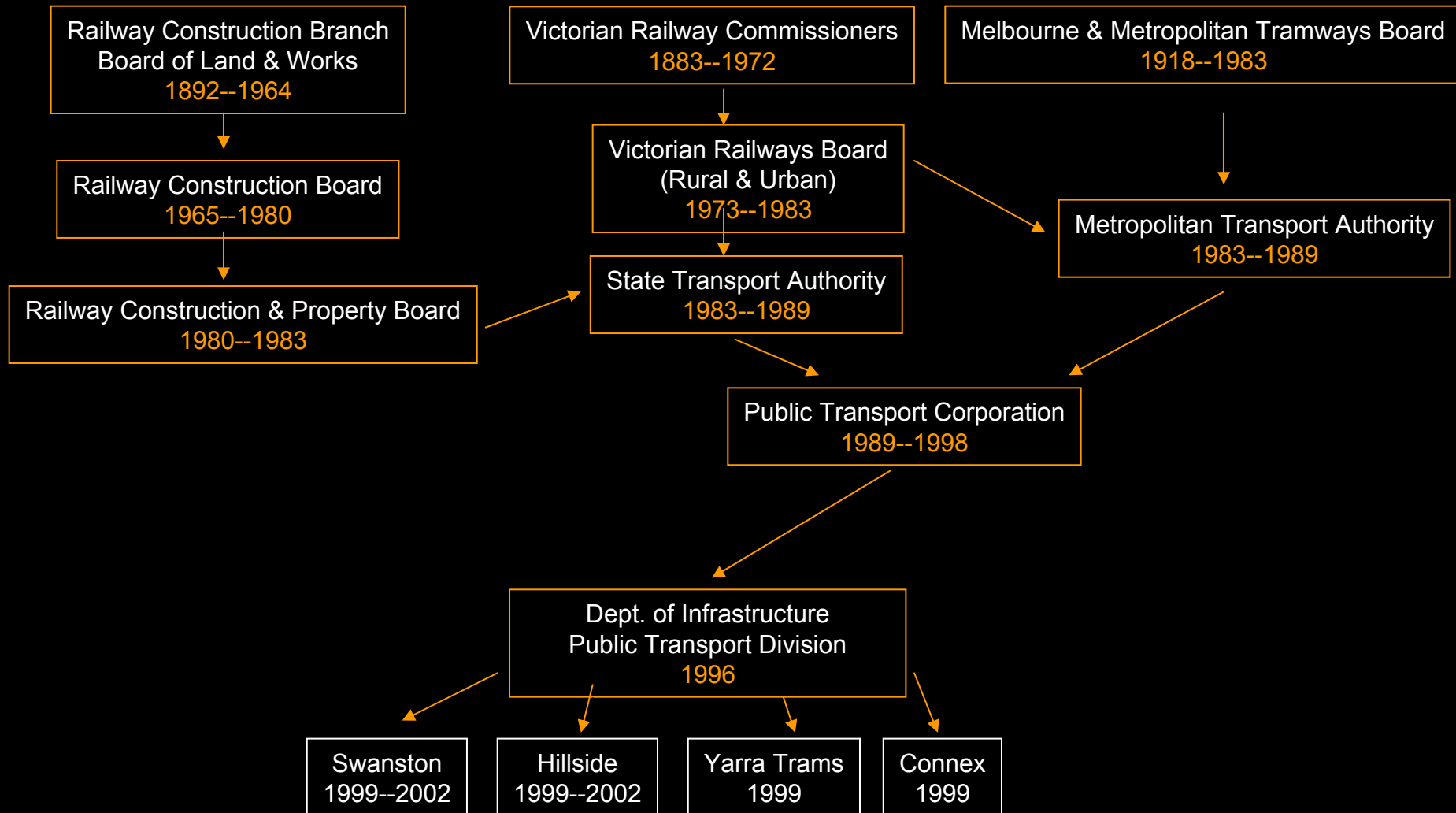
Brumby becomes Premier

Aug 2007

Government decides to extend existing franchisees' contracts to November 2009;  
Re-tendering in late-2008



# Governance & Politics: Institutional Arrangements

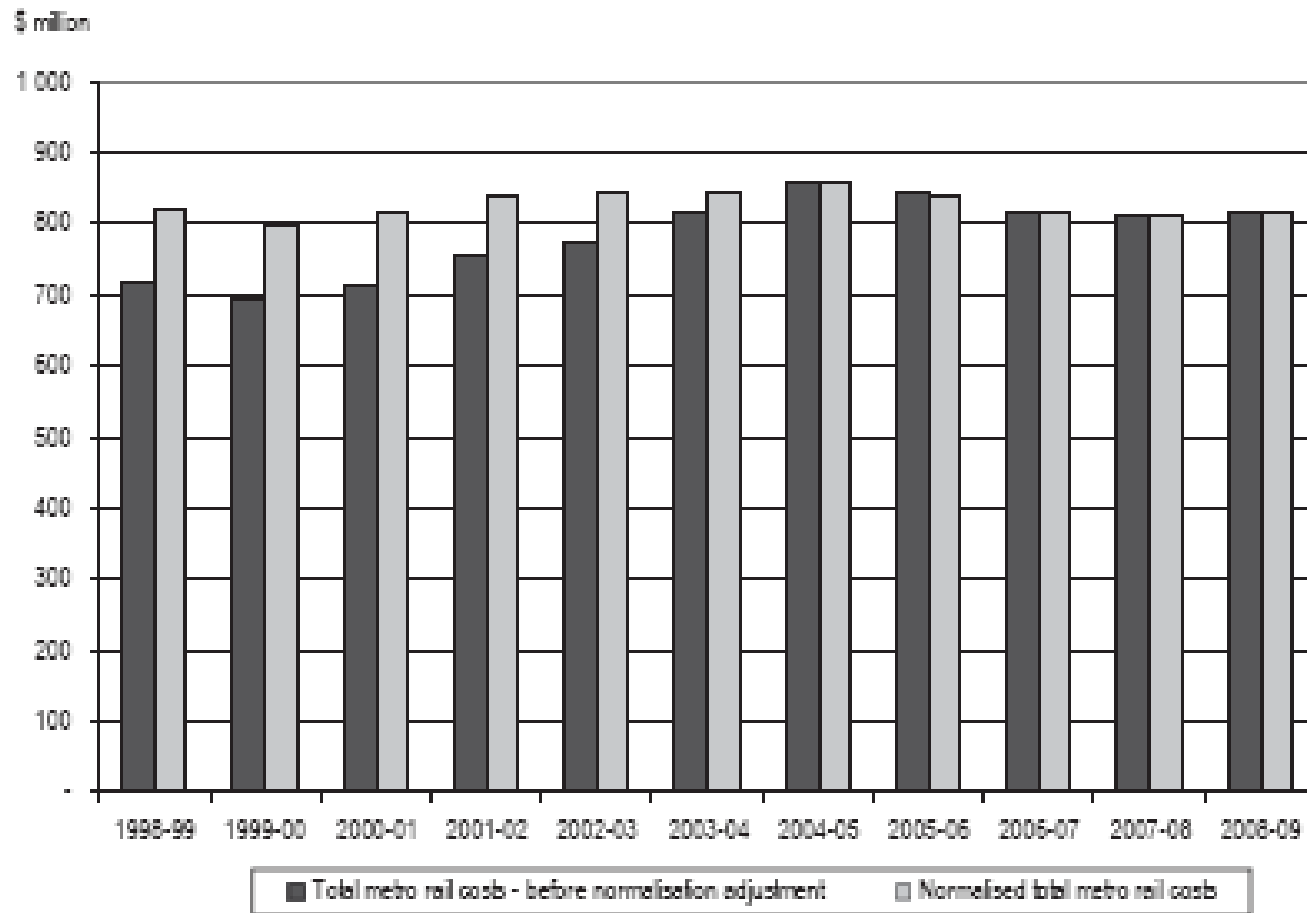


## Public Transport Governance in Victoria: Late 19thC to Present

Phase	System Structure	Finance Model	Public Accountability*
I - Mixed Economy	Small public & private operators	Public (local govt.) & private sectors	Weak
II - Public Institutions	State Public Authorities (per mode)	Public Authority w controls over borrowing	Weak
III - Managerial (MTA)	Departmental & Dedicated public agencies (all modes)	Public sector programme budgeting	Strong
IV - Corporatist (PTC)	Centralised public agency (all modes)	Public sector programme oversight	Strong
V- Privatised: 'Competition' Model	Corporate–Private (Minimal public oversight of competing corporations)	Private sector w loose directives over public subsidy use	Weak
VI - Privatised: 'Partnership' Model	Corporate–Private ('Partnership' Model)	Private sector w tighter directives over public subsidy use	Weak

## Performance Assessment: Operating Costs

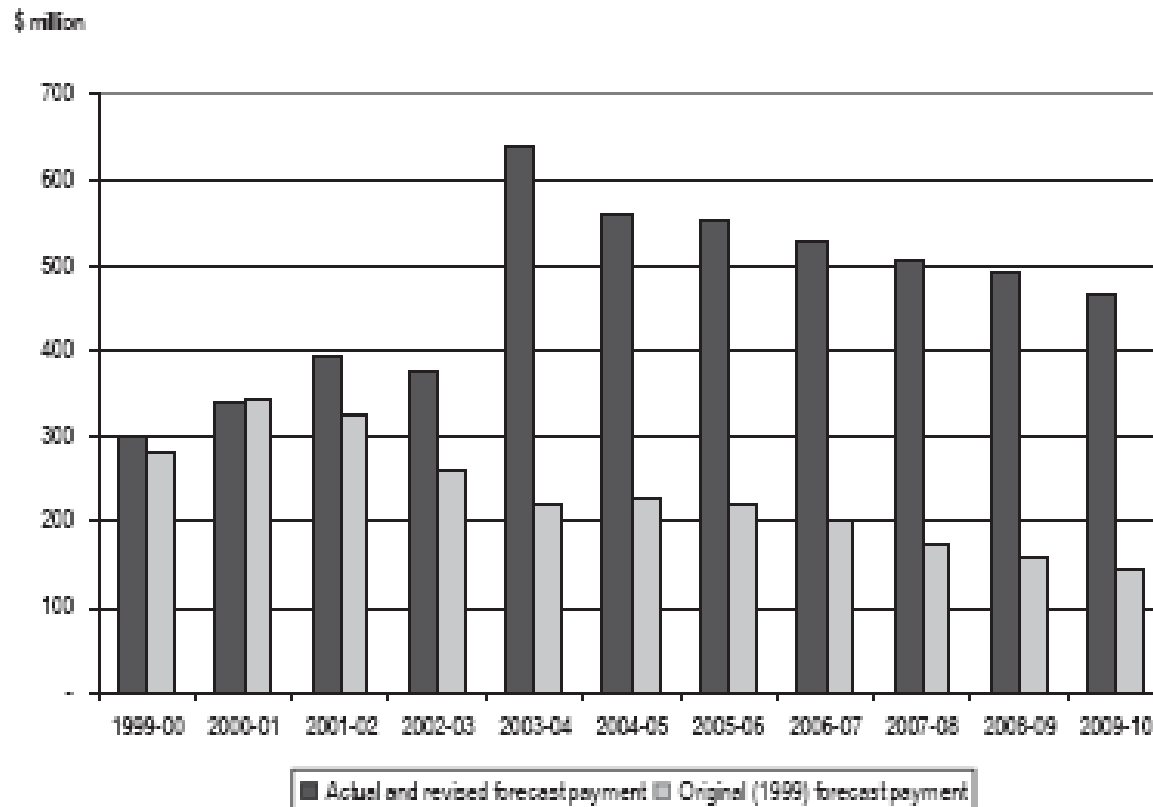
FIGURE 2D: TOTAL COST OF OPERATING MELBOURNE'S TRAINS AND TRAMS (\$MILLION PER YEAR)



Auditor General (2005). *Franchising Melbourne's train and tram system*. Government Printer, Melbourne.

## Performance Assessment: Public Subsidy

FIGURE 2E: MELBOURNE'S TRAIN AND TRAM PAYMENT PROFILE (2004-05 REAL DOLLARS) – PAYMENTS TO FRANCHISEES



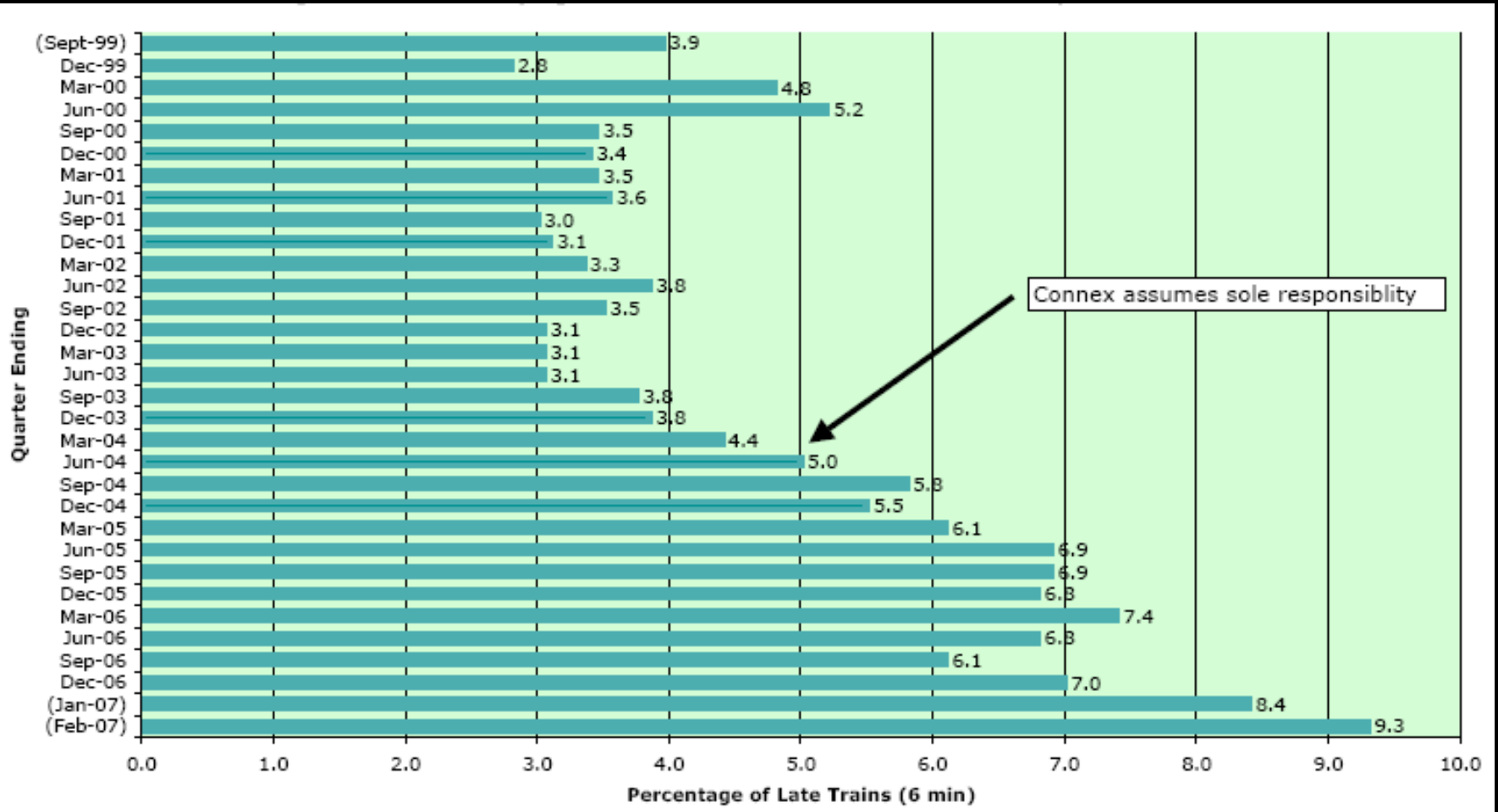
Auditor General (2005). *Franchising Melbourne's train and tram system*. Government Printer, Melbourne.

## The Cost of Privatisation (AUD\$million)

Period (financial years)	2000-2006 (incl.)	2000-2010 (incl.)
Continuation of PTC subsidy	1960	3080
Subsidy under privatisation	3160	5150
Additional cost of privatisation	1200	2070

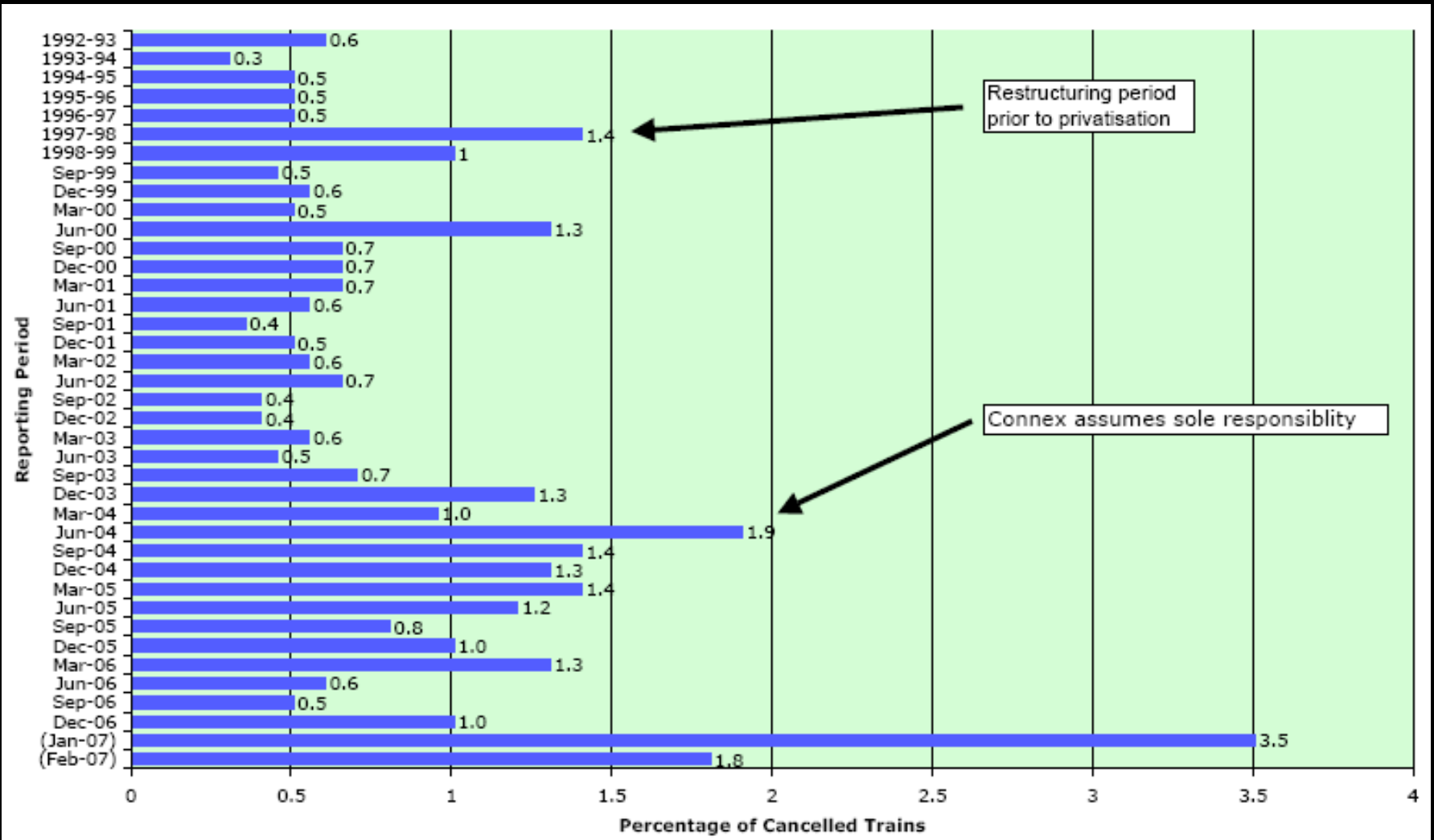
Source: Mees, P. (2006). *Putting the public interest back into public transport*. Mimeo.

# Performance Assessment: Train Punctuality



Source: *Track Record*, published by Director of Public Transport, various editions.

# Performance Assessment: Train Cancellations



Source: *Track Record*, plus Annual Reports of previous public operators.