

Melbourne's public transport: performance and prospects after 15 years of 'privatisation'

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Abstract: Since the first 'privatisation' experiment in 1999, there have been several iterations in the form and content of the franchise contracts for Melbourne's trains and trams. As decisions about renewing contracts or refranchising are due in the term of the current ALP government, it is timely to assess the financial and operational performance of these franchises.

This assessment of performance is based on data from a range of sources. Information on changes in service levels and performance, patronage, and payments to operators comes from departmental reports, budget papers and reports from the Victorian Auditor-General. The complicated and opaque nature of the information available from these sources has meant that this paper can only report on our attempts to untangle the web of changing payment categories and obscure definitions. We are able to describe changes over time in some indicators of performance, total costs to the taxpayer, and allocation of risk between the public and private sectors.

Further work is continuing to examine the current political and institutional environment in which the performance of the franchise model can be understood; to explore options for the approaching franchise negotiations; and to make an assessment of future capabilities for growth.

Introduction

The planning and operation of large urban transport systems is a complex and politically sensitive urban governance task. In Australian cities, where cost recovery from the farebox and other sources is low, it is also a very expensive undertaking for State Treasuries.

Internationally, since the 1980s, there have been many attempts to manage the financial and political risks associated with public transport operations through arrangements involving varying levels of private sector participation. Melbourne's franchising model, through which international transport companies take on the operation and some planning of the city's complex heavy-rail and tram systems, is unique and its evolution over the past 15 years is of interest transport agencies, governments and researchers around the world.

From a neo-liberal perspective, regulatory models to deal with the natural monopoly of public transport service supply range from full public enterprises to Uber-style private contracts between customers and suppliers (Gomez-Ibañez, 2003). Most transport economists recognise the complex public transport systems require some government intervention between the customer and the supplier, even if this is simply setting some minimum standards in a largely the de-regulated market. However, there are differences of opinion on which transport-planning tasks can be effectively privatised.

Van de Velde (1999) identifies a hierarchy of tasks from 'strategic' questions of setting objectives for access, mode share and cost recovery; through 'tactical' issues of network and timetable design; to operational matters of workforce management and maintenance. Based on empirical evidence, some researchers argue that, in order to be both efficient and effective, a complex urban public transport system must have strong public and democratic controls of strategic and tactical planning (Mees, 2010; Vuchic, 2005). Others base their argument for greater private involvement on relationships of trust between private operators and public regulators (John Stanley, Betts, & Lucas, 2006).

Cities in the UK and NZ have experimented with models of de-regulation which give all tactical (and some strategic) powers to competing private companies, but there is little appetite for expanding the application of this model. In fact, the trend in Chinese cities is in the opposite direction after some

experiments with de-regulation (Jing & Chen, 2012) and some analysts are seeking more nuanced understandings of the conditions for effective contracting out (Hefetz & Warner, 2013).

However, franchising or other forms of private sector engagement that blur the tactical/strategic boundary are still being pursued. The Melbourne franchise model offers separate contracts for operation and maintenance of the large train and tram systems to large international companies, with many small to medium-sized local and international companies with contracts to operate suburban bus routes. While this model is often referred to as 'privatisation' it is important to note that it differs from other large-scale 'reforms' undertaken in energy and water in Australia since the 1990s. Infrastructure has not been sold: tracks and rolling stock remain in public hands.

Potential problems with franchising public transport operations are many. These include: weak public sector negotiating position due to a dwindling international pool of 'private' companies willing to tender for complex franchises, regulatory capture, political dependence through 'depoliticisation' (Flinders & Buller, 2006), gradual reduction of private-sector risk exposure at the expense of the public sector, and a weakening of public sector capability to make and carry through strategic planning initiatives,

This paper assesses a range of evidence on current operational and financial performance of the Melbourne train and tram franchises, particularly focussing on the period under the Coalition government from 2010-2014. Information on changes in service levels and performance, patronage, and payments to operators comes from annual reports; budget papers; quarterly performance reports (*Track Record*); and reports from the Victorian Auditor-General. This material is complex. The names and the purposes of the many categories of payments identified in *Track Record* have changed repeatedly; and the definitions provided in public documents are often impenetrable. In order to clarify our understanding of apparent discrepancies and anomalies in the public record, we approached PTV for further details and explanations. The reply from PTV's Contracts and Performance Management Department clarified some matters and is quoted in the paper.

Following a short section providing background to the various phases in the history of the franchises since 1999, we document the changing scale and purpose of payments to the operators and the allocation of risk. Then we examine various measures of performance that can be tracked via public documents. We conclude with some comments on the trends that this data reveal and the issues that will need to be addressed in the 2017-2018 contract negotiations.

Background

Since the first 'privatisation' experiment in 1999, the management of Melbourne's train and tram operations has seen several iterations in the form and content of the franchise contracts. The contracts were renegotiated in 2004 and then again in 2009. They are due for review in November 2017 (PTV, 2013): exactly one year before the next Victorian State election. This paper aims to make a constructive contribution to debate on the options open to the government during this process.

Past analysis of the financial and operational performance of the franchises has shown that public subsidies grew to much higher levels than was promised by the architects of the new arrangements and that the subsidies grew faster than any improvements in service quality or quantity (Mees, Stone, Buxton, & Moriarty, 2006; Stone, 2010). Over 20 per cent of \$600 million paid to Connex and Transdev for the train and tram franchises in 2004 was "to secure the franchisees' operation" (Auditor-General Victoria, 2005, p. 26). Despite all the vociferous claims to the contrary since 1999, Minister for Public Transport Lynne Kosky admitted in the lead up to the 2009 re-tendering process that: "it's no cheaper...we have had to put a lot more money into the system" (Lucas, 2009b).

In 2009, both the train and tram franchises were awarded to new international companies. This decision followed intense public dissatisfaction with train performance under the Connex franchise. Further changes to the management of the franchises came with the establishment of Public Transport Victoria (PTV), a statutory authority set up to plan and coordinate Victoria's public transport system. This authority is now responsible for negotiating and policing franchise agreements. The decision to establish this authority followed a Coalition policy announcement, made in response to a nominally similar Greens policy, just before the Coalition's somewhat unexpected victory at the 2010 state election.

The original public transport franchise agreements with the train and tram operators were put in place in 1999 with the goal of reducing subsidy payments to zero by 2010 (J. Stanley & Hensher, 2004). In

an attempt to introduce competition into the natural monopoly of public transport service supply, the tram and train systems were split into two separate operational units. In these franchises, the new operators took substantial risk. Government subsidies were expected to decrease considerably over the life of the franchises, and in return operators would upgrade infrastructure and improve services (Cole, 2003; Willacy, 1999). Unlike contemporaneous privatisations in power and water, infrastructure and rolling stock remained under public ownership. The Victorian Premier at the time, Jeff Kennett, declared that within five years Melbourne would experience “the most wonderful change to the quality of public transport” (Lucas, 2009a).

In reality, the operators, particularly the militantly anti-union National Express, over-promised patronage and revenue growth and operational cost-savings. All operators found themselves in financial trouble and the break-up of train and tram operations simply caused confusion for passengers. The first round of franchising collapsed after National Express walked away from its tram and train contracts in 2002 (Department of Infrastructure, 2005, pp. 8-9; Kain, 2006; Mees, 2005; Stone, 2010).

In 2004, the franchise agreements were redrawn after the ALP balked at the opportunity to bring operations back to the public sector, even though this would not have required compensation payments. In these new contracts, the state took back some financial risks. At the time, the Auditor-General (2005, p. 5) noted that the decreased risk for the operators - which the A-G considered understandable in light of the operator failures after the first franchise period - meant that the community benefits from privatisation may be diminished.

A further revision of contracts took place during the 2009 franchise re-negotiations. This process took place against a backdrop of intense media and public scrutiny of the performance of the rail operator, Connex. Unanticipated by Connex or the government agencies (Stone, 2010, p. 9), patronage had grown significantly since 2005. This, combined with operational unreliability, created significant overcrowding on peak period trains. Part of the government’s response to this political crisis was to give the re-negotiated franchises to new operators: Metro Trains Melbourne, (a consortium of rail and construction businesses comprising Hong Kong’s MTR Corporation, John Holland Group and UGL Rail) (Metro Trains Melbourne, 2014), and Keolis (through KDR Victoria which operates as Yarra Trams (Keolis, undated)).

Payments

Overview

(Note: all \$ amounts are adjusted for inflation and are expressed in June 2014 real values)

Prior to the renegotiation of the franchise agreements in 2004, payment information related to farebox and maintenance was not published. Therefore, our analysis covers the period from July 2004 until June 2014. While the labelling in public documents has often changed, payments to the operators fall into two broad categories: the base subsidy, farebox and incentive/penalty payments; and payments for rolling stock, maintenance and capital projects.

Total payments received by the train operators increased consistently from \$592 million in 2004-05 to \$969.7 million in 2012-13. In 2013-14, total payments declined to \$800.7 million largely through fall in farebox revenue.

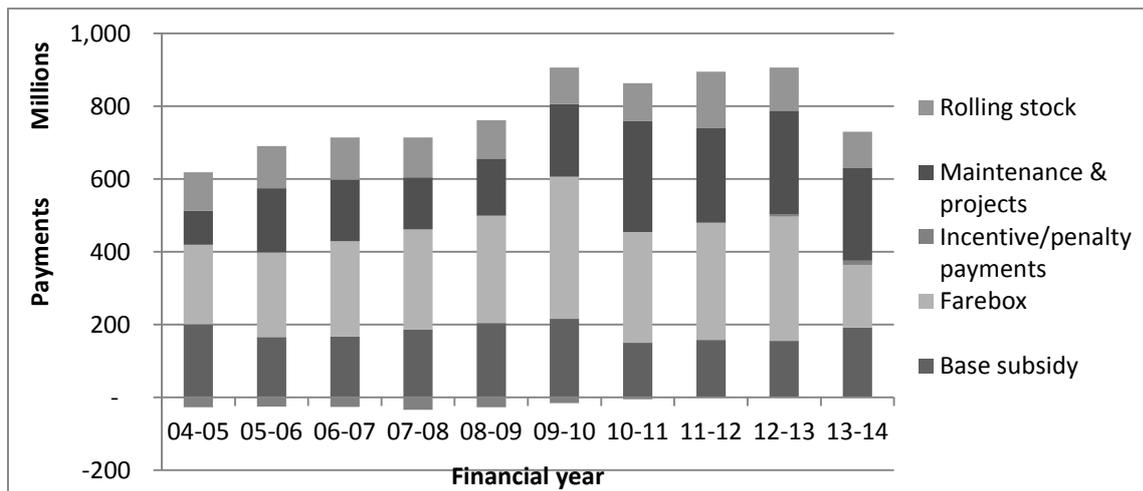


Figure 1: Payments to train operator, 2004-05 to 2013-14 (Source: *Track Record*)

We can see, in Figure 1, that expenditure on rolling stock and maintenance grew after 2009. This is unsurprising given the focus on over-crowding and train faults over the preceding four years (State of Victoria, 2010, p. 73). The impact of the increased maintenance budget is assessed below.

Payments to the tram franchisee increased from \$346 million in 2004-05 to peak at \$393 million in 2008-09. The 2009 contracts marginally reduced total payments, although there was a small upward trend for several years until, as with the trains, farebox revenue fell sharply in 2013-14.

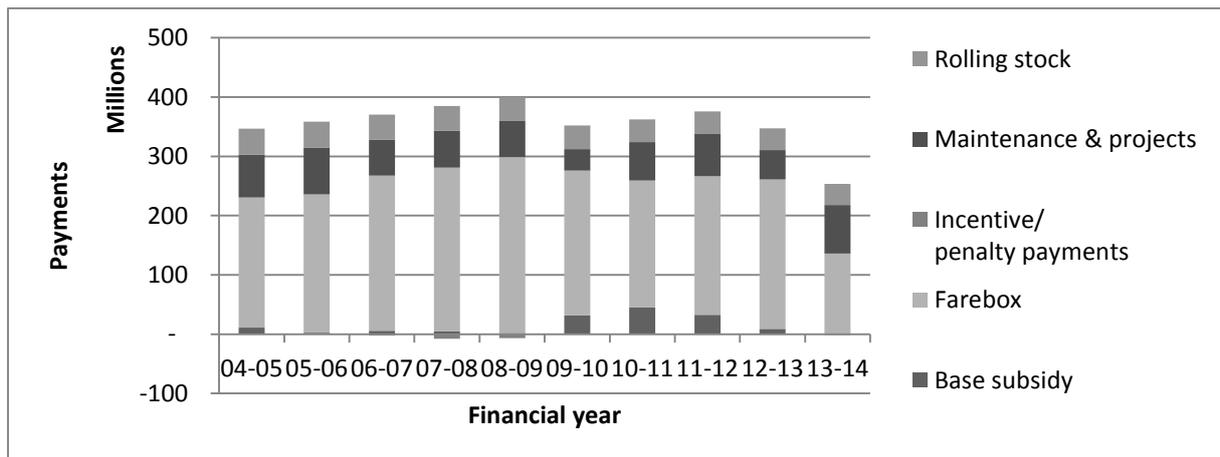


Figure 2: Payments to tram operator, 2004-05 to 2013-14. (Source: *Track Record*)

Base subsidy, farebox and incentives

The franchise model is built on the idea of profitability for the operator: “Government simply guarantees their organisational operating margin via an effective subsidy whereby the cost of running trains over and above ticket sales is covered” (Hale, 2013, p. 12).

The 2009 *Invitation to Tender* clearly illustrated the role profit margin plays in setting up the payment structure (Department of Transport, 2008b, p. 30).

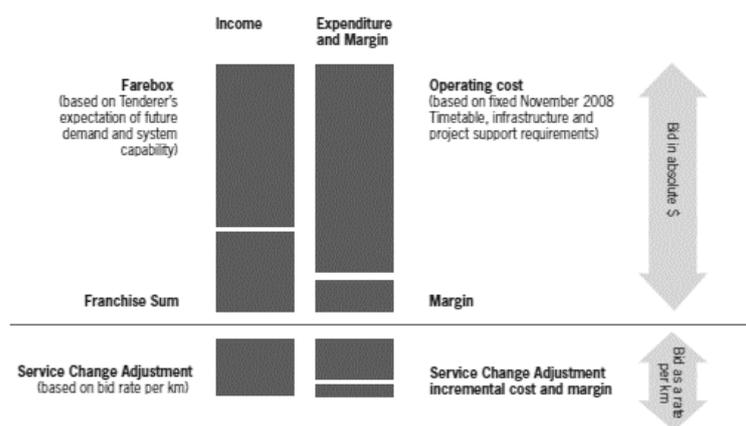


Figure 3: Structure of franchise payments. (Department of Transport, 2008b, p. 30)

The base subsidy (or franchise sum) was first described in 1999 as “the money which the Government pays each month to the franchisees for delivering the services” (Department of Infrastructure, 1999, p. 7) and more recently as payment to operators “in recognition of the fact that public transport in Melbourne is loss-making” (Department of Infrastructure, 2005, p. 89). The initial franchise agreements hubristically predicted that operational cost reductions of up to \$1.8 billion would be possible: it was thought that the base subsidies would fall to zero in the final years of the contract (Department of Infrastructure, 2005, p. 7). In the later contracts, the base subsidy is maintained, but at fluctuating levels due to changes in the mechanisms for the distribution of ticket revenue.

The ticket revenue (‘farebox’) distributed to the operators is variously described as a *Ticketing Revenue Guarantee* and a *Revenue reset adjustment*. Operators are also compensated for the discounts provided under the various concession ticket entitlements.

In the first franchise, ticket revenue was allocated to operators on the basis of a “quarterly survey of passenger ticket usage across the public transport system” (Department of Infrastructure, 2005, p. 7). This system led to acrimony between the operators (Auditor-General Victoria, 2005, p. 127), so in 2004 a separate entity, Metlink, was established to oversee revenue distribution. Train and tram operators each received 40 per cent of fare revenue, while the government received 20 per cent for buses (Department of Infrastructure, 2005, p. 22). In 2009, these percentages were changed to 30 per cent for the tram operator and 40 per cent for the train franchise (Department of Transport, 2008b, p. 21).

Complicating this simple formula for farebox distribution is a ‘safety net’ set up to protect operators from a shortfall in fare revenues. This risk-avoidance mechanism is based primarily on the commercial-in-confidence revenue forecasts made by the operators in their franchise bids: these forecasts (called *Expected Farebox Revenue* in the contracts) estimate earnings before interest, tax, depreciation, and amortisation (EBITDA) for each six month period in the life of the franchise (Allens Arthur Robinson, 2012, p. 155). Compensation is payable to the operator if revenue falls below a set threshold (called a ‘collar’ in the 2009 agreement). In the 2004 contracts, the threshold was 40 per cent of the *Expected Farebox Revenue* for trams and 20 per cent for trains (Department of Infrastructure, 2005, p. 60). In 2009, this was changed to 30 per cent for both operators (Department of Transport, 2008b, p. 22; 2008c, p. 21). The amount payable has changed over time. In the 2004 contracts, the rate for trains was 50 per cent of the difference between actual revenue and the threshold, and 75 per cent for trams (Department of Infrastructure, 2005, pp. 59-60). In the 2009 contracts, the amount payable was set at 50 per cent for both operators (Department of Transport, 2008b, p. 22; 2008c, p. 21).

Because the *Expected Farebox Revenue* figures are not publicly available, it is difficult to assess what impact this mechanism is having on overall payments. However, having tested a number of hypothetical scenarios, we believe that the new formulas represent a benefit to the franchisees.

Two other interesting changes can be observed between the 2004 and 2009 contracts. First, the 2004 tram contract contained “smoothing mechanism” under which farebox payments were cumulative

(Department of Infrastructure, 2005, p. 60). This meant that, where a positive revenue year followed a negative one, Yarra Trams were required to repay their previous compensation to the government. This mechanism appears to have been removed with the new contracts in 2009. Second, the 2009 contract established a 'reset mechanism' whereby actual farebox revenue amounts replace the estimates made by the operators in their franchise bids. There are three 'reset' points specified in the contracts (Department of Transport, 2008c, p. 21). This reset mechanism may explain the fluctuations in base subsidy and maintenance payments since 2009.

The initial franchise agreements had some tough clauses. The new train operators signed up to improve their punctuality and reliability performance by at least 20 per cent; and the trams by "more than 30 per cent in order to earn incentive payments" (Department of Infrastructure, 1999, p. 3). However, these targets were never met, nor even seriously contemplated by the operators or government transport planners.

By 2009, performance expectations were much weaker: "the Operational Performance Regime (OPR) both monitors the operational performance and provides an incentive to the Franchisee to provide punctual and reliable services" (Department of Transport, 2008a, p. 56). Under this system the operators are able to earn a bonus or incur penalties depending on their performance against OPR targets (pp. 56-57). This system was meant to provide "a direct financial incentive for the Franchisee to maximise service delivery and ... to minimise disruption to passengers and operations" (p. 57). However, the 2009 contracts set a cap of \$1 million per month (\$12 million per annum) on penalty and incentive payments was introduced in order to "defray risks on both sides" (p. 58).

Maintenance, rolling stock & projects

The original franchise agreements included capital grants for investment in "new and upgraded infrastructure and rolling stock over the life of each franchise" with the government contributing specified amounts for these purposes (State of Victoria, 2000, p. 8). In 2004, a distinction was made between capital projects – "payments for metropolitan train or tram network extensions and works on track, stations or stops which are not of a maintenance nature" (Department of Infrastructure, 2004, p. 8) – and payments for maintenance of "all fixed infrastructure, track, overhead systems, signal etc." (p. 8). These categories were combined under new arrangements made when PTV was established in April 2012.

In late 2014, Federal MP, Alannah MacTiernan and public transport advocacy groups raised concerns about apparent long-term breaches of standards for timely repair of significant track faults. In off-the-record comments, senior industry figures have suggested that a detailed protocol on maintenance priorities established with Connex in 2008 has been abandoned by Metro. (More information on this is being sought for the final paper.)

While the maintenance contracts are revenue stream for the franchisees, capital purchases remain in state ownership. Since 2004, this also includes rolling stock. Under the original franchises, rolling stock was purchased and maintained by the operators. However, each franchisee specified their new purchases independently and refurbished existing vehicles in their own way. This led to inefficiencies in fleet maintenance and problems of compatibility: for example, some trains could not be used on lines outside the original franchise area (Department of Infrastructure, 2005, p. 19). As a result, the State took back ownership of the rolling stock in 2004 (Auditor-General Victoria, 2005, p. 60). Trains and trams are then leased to the operators. The costs of the leases, and insurance, are paid to the operators who then pass the money on to the third-party leasing companies

The last small payment category – operations & systems – covers business-systems upgrades, driver establishment payments (train only), electricity charges, and employee entitlements (Public Transport Victoria, 2012, p. 18).

Performance

As noted previously, the performance of the franchisees is measured against standards for reliability and punctuality of services. A "technical measure of operational performance quality, expressed in 'passenger weighted minutes of delay'" is used to calculate the penalty/incentive for the operator (Department of Infrastructure, 1999, p. 3). In short, this measure calculates the percentage of passengers who arrived on time or were affected by cancelled or late services. However, due to a desire for "simplicity and familiarity" these figures are not published (Department of Transport, 2008b,

p. 57) and public reports provide only data on how many trains (not passengers) ran and were on time. Therefore, these are the figures used in this analysis.

Definitions

Punctuality

Up until November 2009 a metropolitan train or tram was considered on time if it arrived at its destination “no earlier than 59 seconds before and no more than five minutes and 59 seconds after the time in the timetable” (Department of Transport, 2009a, p. 20). Since 2009, the definition of on-time has narrowed to mean that a train or tram arrives at its destination no earlier than 59 seconds and no later than 4 minutes and 59 seconds after the time in the timetable (Department of Transport, 2009b, p. 3).

Train punctuality is measured at its destination (allowing for the unpopular ‘skip-stopping’ practice to catch up time without breaching the letter of the contracts) while the punctuality of trams is measured at several points along the route and at the destination.

Until November 2009, the service threshold for trains was 92 per cent and 80 per cent for trams. After 2009, to release some of the pressure from the tighter definition of ‘on-time’, thresholds were relaxed to 88per cent for trains and 77per cent for trams.

Reliability

This is the percentage of scheduled services that have been delivered. Since 2009, this measure now includes ‘short services’ (i.e. services delivered in part but not in full) and loop bypasses: “such as when a service is scheduled to travel through the City or Westona loops but fails to do so” (Department of Transport, 2009b, p. 21).

The service level threshold for trains was originally 98 per cent and 95 per cent for trams. In 2009, the threshold for trams was tightened to 98 per cent, while trains remained the same.

Performance measures

Contract standards: Trains

The data published in Track Record shows little change in reliability between 2004-05 and 2013-14; and punctuality has fallen (see figure 4), although it still remains above the contract threshold.

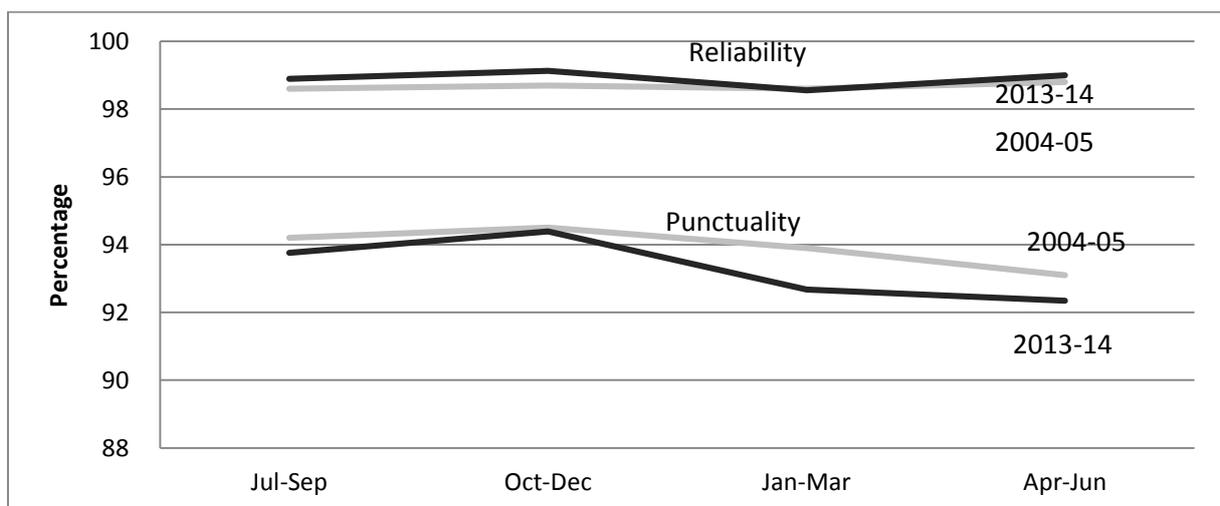


Figure 4: Comparison of reliability and punctuality for trains in 2004-05 and 2013-14.

Contract standards: Trams

There has been little change in reliability in tram operations between 2004-05 and 2013-14. The 2013-2014 measures of punctuality at destination and over the route show some improvement in comparison to 2004-2005. Anecdotal evidence from Yarra Trams suggests that tram running speeds have been falling due to increasing traffic volumes, so this result is surprising. It may be that the timetables have been altered to reflect these slower travel speeds: this is being investigated. The reliability and punctuality over route measures are above the thresholds set by PTV, but punctuality at destination is under both the original and more relaxed 2009 threshold.

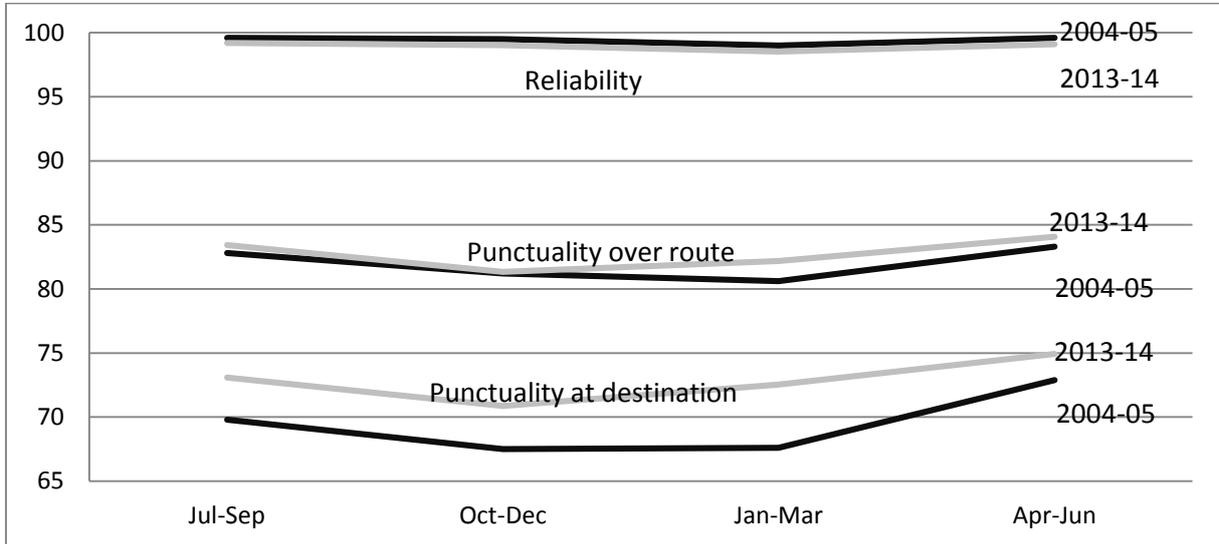


Figure 5: Comparison of reliability and punctuality for trams, 2004-05 and 2013-14.

Patronage

According to state budget papers, trains and trams experienced sustained growth in patronage reaching a peak in 2010-11. Anecdotal evidence from PTV staff suggests that the patronage on trams and trains has continued to fall in 2015.

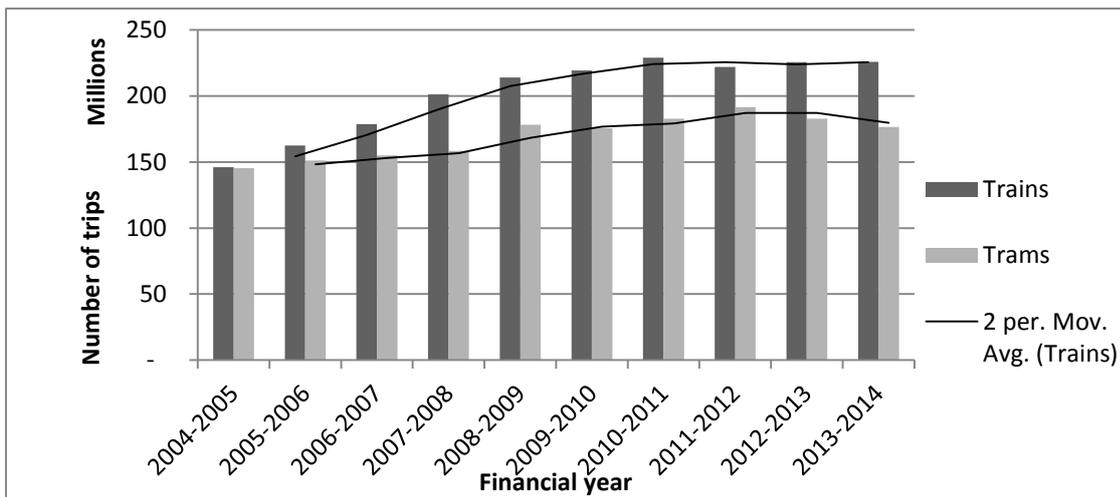


Figure 6: Unlinked trips: trains and trams, 2004-05 to 2013-14 (Source: State Budget Papers)

State transport planners have acknowledged that the increase in patronage from 2005 was due to external to the management of the system itself such as growth in CBD employment and rising petrol prices (Stone, 2010, p. 9).

Correcting for population growth, the measurement of trips per capita shows a slight positive trend for trains and a recent decline in tram patronage. A big fall in bus use has brought the overall rate of public transport use down steeply in recent years.

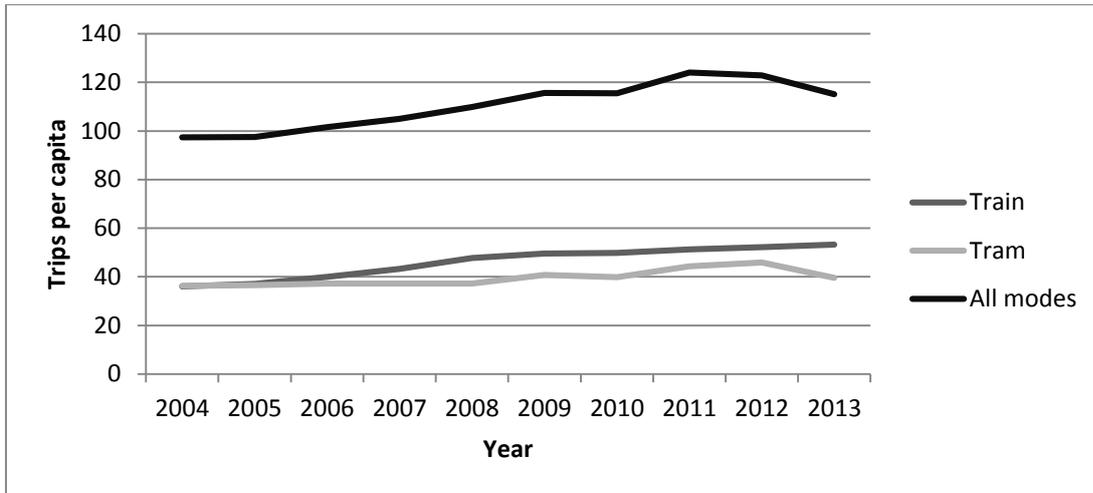


Figure 7: Public transport boardings per capita, 2004-2013.

Service supply

In response to patronage growth, service kilometres for trains have steadily increased from 16.7 million in 2004-05 to 21.9 million in 2012-13 when growth stabilised. In contrast, there has been little change in tram service supply.

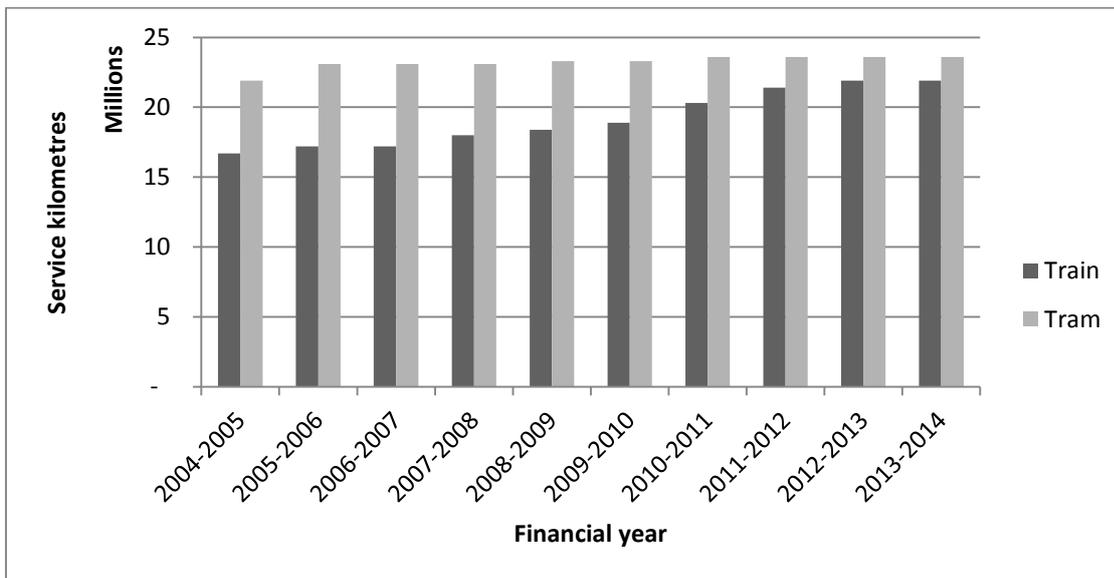


Figure 8: Service kilometres: train and tram, 2004-05 to 2013-14 (Source: State budget papers).

Efficiency

Up until 2009, there was some improvement in the overall efficiency of both train and tram operations (measured in trips per service-km), although this was experienced by many passengers as overcrowding on peak services. Downward trends in patronage have reduced efficiency in recent years.

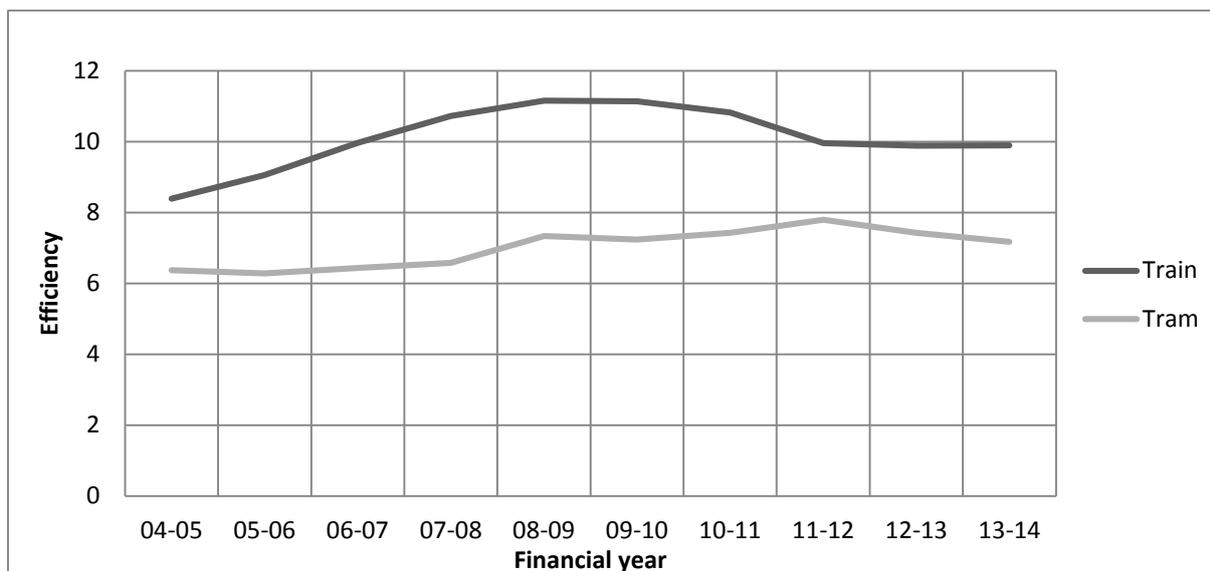


Figure 9: Efficiency: trips per service kilometre (Source: State budget papers).

Other service measures

Morning peak trains

In 2008, it was promised that the number of trains into Flinders Street between 8.00 and 9.00 am would increase to 136 (Department of Transport, 2008d). Analysis of the latest timetables (from 2014) shows that only 116 trains are scheduled to arrive at Flinders Street in this period. While this is an increase from the 2006 figure of 92, it is significantly less than the 2008 commitment.

Specific routes

To provide a deeper understanding of the changing experience of public transport users than can be found in the aggregated data, we have chosen one train and one tram line to examine in more detail. The Frankston train line was chosen because of the political impact of public dissatisfaction with its performance: this has been widely acknowledged as pivotal in the 2010 and 2014 state elections. Selection of a tram route was based on available data. Few tram timetables from earlier than 2010 are easily available publicly, but we did find timetables for Route 48 (North Balywn – Docklands). All comparisons are based on timetables and not real-time data as this is unavailable for public transport in Melbourne.

There has been significant change on the Frankston line between 2006 and 2014. In 2006, there were 58 express services on weekdays that took less than 55 minutes to go from Frankston to Richmond (from a total of 70). In 2014, the number of weekday services has increased to 100, but the majority of the services (87) take longer than 55 minutes to travel the same distance. The same applies to weekend services where there has been a significant increase in services, but they the majority run slower than scheduled in 2006.

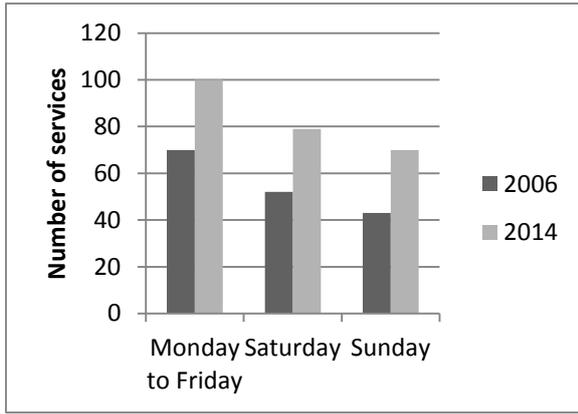


Figure 10: Services on Frankston line

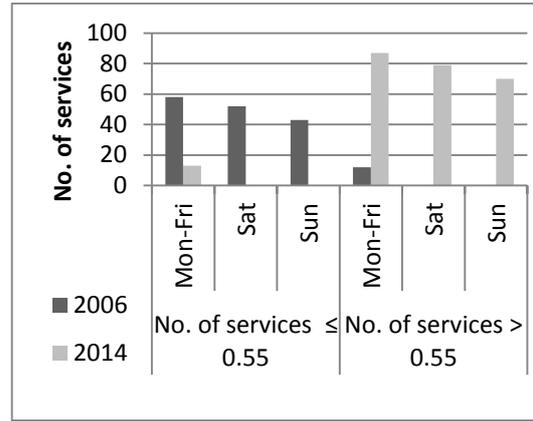


Figure 11: Speed of services on Frankston line

A report on mobility attitudes from 2014 found that the number one factor across all age groups that would entice people to commute more by public transport would be if it took less time (RSG, 2014, p. 22). The second most important factor for people under 30 was that the service was reliable (p. 22).

As the authorities have only been publishing reliability and punctuality data on individual train lines and tram routes since 2012, our analysis covers only this shorter period.

Reliability on the Frankston line fluctuated between July 2012 and June 2014, with no change overall.

Punctuality over this same period also fluctuated quite significantly, but overall declined by nearly four percentage points.

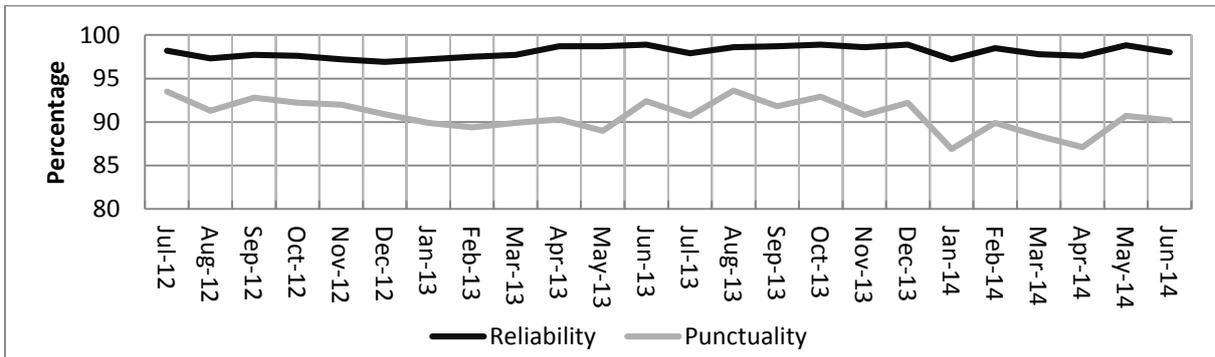


Figure 12: Reliability and punctuality on Frankston line, July 2012 to June 2014 (Source: PTV)

The Route 48 tram has seen a slight increase in the number of weekday and Saturday services between 2006 and 2014. Speeds as published in the timetable have remained steady across both weekdays and weekends.

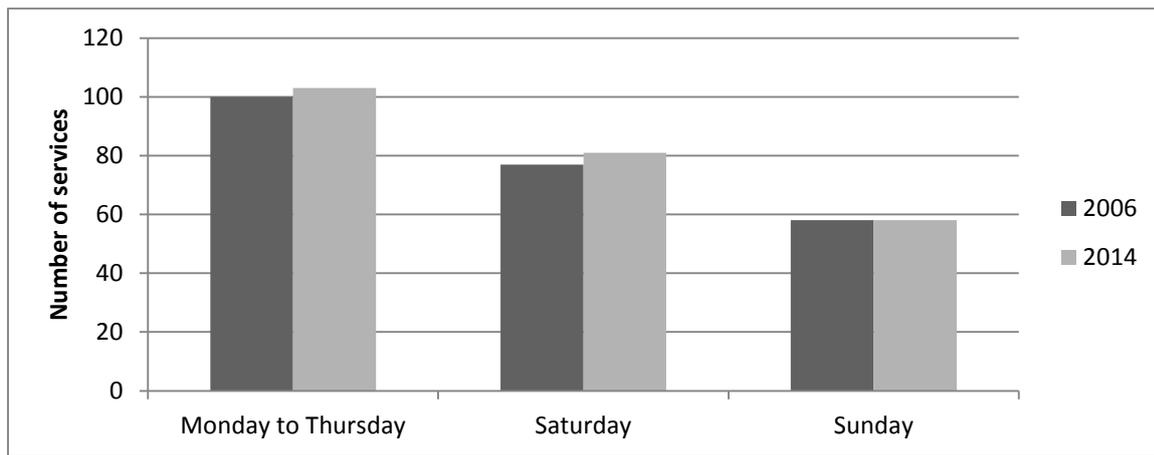


Figure 13: Number of services on Route 48, 2006 and 2014 (published timetables)

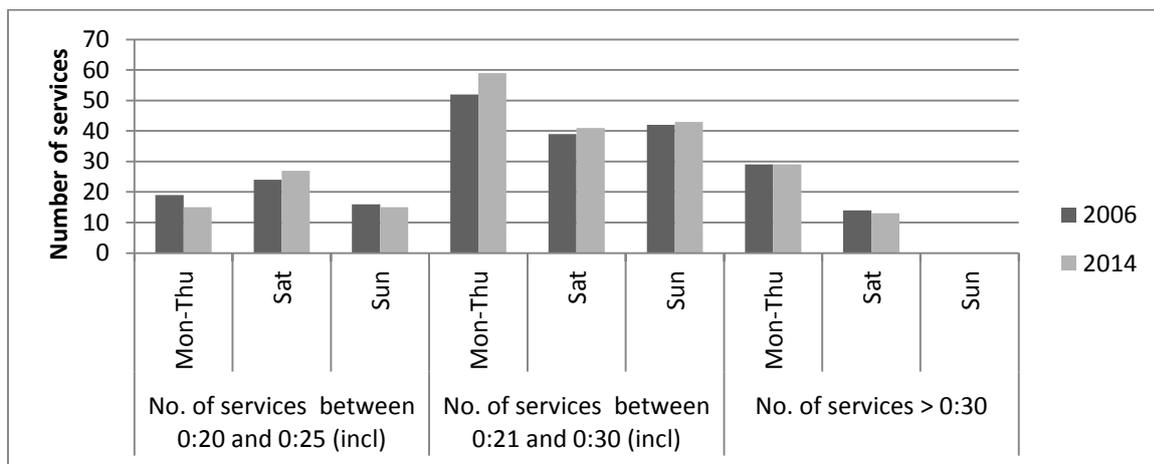


Figure 14: Speed of services on Route 48: 2006 and 2014 (published timetables)

Route 48 experienced an improvement in punctuality of over 10 percentage points. Reliability remained steady at around 99per cent or more. These results are inconsistent with the aggregated data described earlier. Yarra Trams have been approached for comment on the relationship between these results and specific actions that might have been taken to improve operations. This information will be included in the final paper.

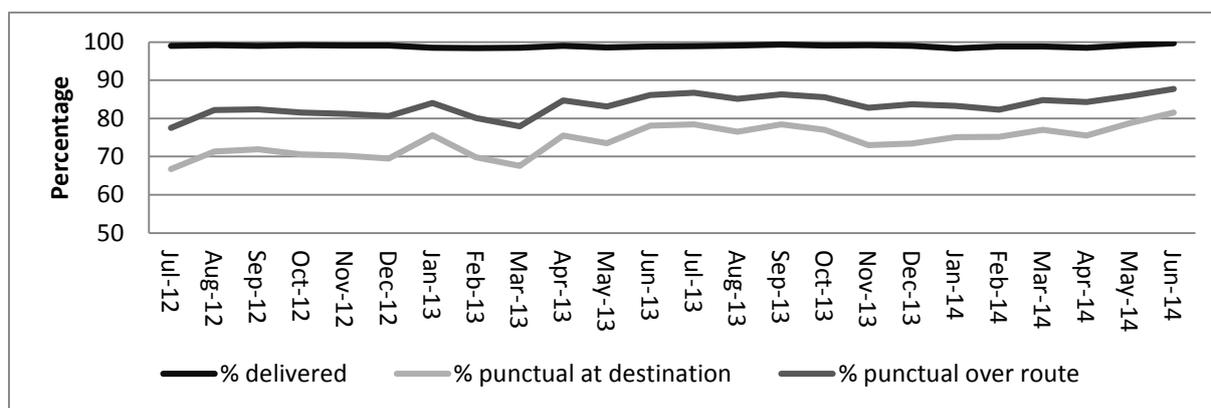


Figure 15: Comparison of reliability and punctuality on Route 48: July 2012 to June 2014.

Discussion

Total government payments for the private operation of Melbourne’s train and tram systems have grown by 40 per cent in real terms from \$938 million in 2004-05 to \$1.33 billion in 2012-13. Almost of all of this increase has gone to the train franchisee, MTM, in the form of additional payments for maintenance and distribution of fare revenue: total payments to MTM grew by 63 per cent.

Further investigation is needed into the purposes to which Metro has put its increased maintenance income. There appears to have been little oversight of the increasingly large maintenance spending. We understand that clear protocols and targets for outcomes from maintenance programs were established with Connex before it lost the train franchise in 2009. Similar arrangements do not appear to have been put in place with MTM. The relationship between the level of maintenance payments and progress in meeting safety requirements and improving service standards will need to be a central focus of the negotiations over the next franchise contracts,

In contrast to the 63 per cent increase in payments to MTM over the decade to 2014, there has been only a 30 per cent increase in overall train services (measured in total service-kilometres), and travel times have increased for many journeys. Across the day, train punctuality has fallen since 2014, though it is now measured to a slightly tighter standard. Data on the numbers of passengers affected by poor punctuality is collected internally, but is not publicly available. Loose definitions in the contracts have allowed Metro to avoid penalties by skipping stops to make up time on delayed trains. In addition, caps on penalties since 2009 have meant that failing to meet targets is more a public relations problem than an issue of major concern to shareholders.

Patronage, in raw numbers, has much grown faster than the rate of increase in services. Correcting for population growth, trips per capita have grown by 40 per cent. This represents an improvement in public transport’s market share. Further investigation of patterns in patronage growth in peak and off-peak periods is required to understand the extent to which the increased service levels are allowing rail to compete with the car outside the traditional CBD-focussed commuter market. The causes and implications of the slowing, and even reversal, of trends in patronage growth are unclear. The traditional explanation would be that the changes reflect an economic downturn with consequently fewer work-related trips. It is also possible that patrons have found alternative means of travel that suit them better after experiences of over-crowding and lack of reliability. Some researchers have suggested that recent similar falls in both car and public transport use in other cities are indicators of a phenomenon that they call ‘Peak Travel’. Such claims, which are based on new assumptions about the relationship between supply characteristics such as congestion and relativities between car and public transport speeds and demand drivers like economic activity, need careful evaluation.

The opacity of the contracts makes it difficult to understand fully the changes in the distribution of risk under the 2009 contracts. Clearly, the rail operator has benefitted during the recent period of growth, but with patronage contracting, the apparent protections they enjoy in the contracts may come into play. The fall in payments in 2013-14 may suggest that the government has some protection against falling ticket revenue, but without detailed knowledge of the revenue expectations included in Metro’s franchise bid it is hard to tell.

Conclusion

Is Melbourne's model of single-mode franchising serving the city well?

As described above, franchising is not bringing costs down or improving operational efficiency. This is despite significant patronage growth, and is contrary to the predictions of the early proponents of franchising.

In addition to this basic failing, some disturbing trends on the question of regulatory capture and diminishing public sector capability to make and carry through strategic planning initiatives under the previous government emerged during the current franchise period, particularly during the term of the Coalition state government. The lack of accountability for MTM's increased maintenance payments has already been discussed. Further, MTM Metro were offered control over design, construction and operation of a major infrastructure upgrade on the Cranbourne-Pakenham lines through an 'unsolicited' planning proposal. This was evidence of a willingness to allow greater private-sector influence over strategic questions in urban transport planning. The ALP's rejection of this approach is a positive sign, but there remains a lack of clarity on responsibility for strategic and tactical planning decisions. This is exacerbated by the lack of clear statements of intent from the government on mode-share expectations for public transport outside its traditional function serving CBD commuters and as a suburban 'safety net'.

These are just two examples of the weakness of public authorities in negotiations with the operators. This is not surprising because, during the Coalition's time in office, PTV had little active ministerial support in demanding higher performance from the operators, and, staff resources were focussed on contract management at the expense of public transport planning skills. Government support is needed for current internal efforts to strengthen this capability.

If the franchise arrangements are to continue, new contracts will need a wider range of performance indicators related to improve operational efficiency and to more clearly meeting the needs of users. Useful precedents can be found in European practices used to define and measure performance standards in contracts between operators (both public and private) and public transport authorities. New franchises will also need to tackle the urgent need for better coordination of bus, tram and train services as has been recommended many times in the past (Lazanas & Stone, 2010).

Beyond these local issues, public sector authorities are facing an increasingly difficult negotiating climate due to a dwindling international pool of companies willing to tender for complex rail-based franchises. Most 'private' companies in this market are, in reality, subsidiaries of large state-owned rail operators. This is a global problem that requires further examination

On the question of risk exposure, the literature suggests that we might expect a gradual reduction of private-sector risk exposure at the expense of the public sector. There is some indication that this may not be the case in Melbourne, but further data to confirm that the recent fall in payments continues to match trends in patronage.

Overall, the data provided in this paper suggests that, if it wishes to continue with the current franchise model, the government still needs to make the case that this gives better value to taxpayers and to public transport users than returning the operation of Melbourne's trams and trains to public sector organisations working under strong performance benchmarks.

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