Franchising and privatisation of public transport: a history of failure

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Introduction

Franchising of public transport services has been limited in Australia until recently. The problematic experience of Melbourne, where train and train services have been franchised since 1999, has until recently, discouraged other states from following suit. However, following advocacy by Infrastructure Australia (2017), the South Australian government has announced that it will release tenders for tram and train services as well as bus services (which were previously contracted out). The NSW Government franchised public bus services in Newcastle in 2015, Sydney's Inner West in 2017 and is now in the process of franchising the remaining public bus services.

These moves come against a background of public disillusionment with privatisation in its various forms, including public-private partnerships and outsourcing (of which franchising is a variant). Unsurprisingly, proponents of franchising have insisted, incorrectly, that the policy is not one of privatisation, pointing out that assets such as rail tracks and buses are not being sold.

However, the reaction against privatisation has not been confined to the full-scale sale of public enterprises. The reaction is most marked in the United Kingdom, which has had the longest recent experience of privatisation beginning with the election of the Thatcher government in 1999. The UK has entirely abandoned its flagship program of public-private partnerships (PPPs) and is reversing the longstanding trend towards outsourcing public services. In the current election campaign, the Labour Party is advocating the renationalisation of passenger rail, currently operated under a franchise system that is the model for proposals here.

This paper assesses the arguments for and against franchising public transport in the light of the broader policy debate about privatisation of public services. Particular attention is paid to experience in the UK, which has been the model for franchising in Australia, and Melbourne, the only Australian city with extensive experience of franchising.

Background

From the 1980s to the early 2000s, there was a global movement towards privatisation of public enterprises and public services. At least in the English-speaking world, the United Kingdom provided the primary model. The shift to privatisation reversed a trend, over a century or more towards greater public involvement in the provision of goods and services, motivated by the perceived failure of private provision.

Broadly speaking, the pattern of public service privatisation in Australia has been as follows.

* In the 1980s and 1990s, the Thatcher and Blair governments in the United Kingdom introduced a wide range of measures aimed at replacing direct public provision of services with various forms of private provision, with the aim of increasing competition and exposure to market forces. These included full privatisation, public-private partnerships, competitive tendering and contracting and franchising

* In most cases, initial evaluations were highly positive, commonly suggesting cost reductions of the order of 20 per cent, with no reference to any offsetting losses

* Australian governments adopted the UK model with marginal variations

* These policies were then re-exported to the South-East Asian region through development assistance policies and infrastructure finance, provided by institutions such as Macquarie Bank.

* Subsequent experience in the UK revealed that reforms had failed to live up to expectations leading to modification and subsequent abandonment of the reforms. Australian reform advocates largely ignored these problems
* Similar difficulties emerged in Australia.

As will be shown in this report, franchising of public transport services is an example of this process. Problems observed in the case of the UK have re-emerged in Melbourne, the main Australian jurisdiction where franchising has been adopted. Despite these failures, governments in other states have pushed ahead with the adoption of franchising approaches.

Forms of privatisation

Privatisation policies have taken a variety of forms

* Full privatisation: the sale of government business enterprises, such as Telstra, to private investors, with subsequent government involvement limited to regulation. Since full privatisation is rarely feasible in relation to public transport this policy will not be discussed here.

* Public-private partnerships (PPPs) in which private investors finance the construction and operation of facilities providing services to the public, typically with the private partner relying on user revenue such as tolls

* Outsourcing, in which governments replaced internal provision of a wide range of services with provision by private firms, selected by competitive tender

* Franchising in which the provision of a public service is contracted out to a private firm for a fixed period, commonly five to ten years, with the franchisee receiving a subsidy along with revenue from users.

Both PPP and franchising models have been adopted in relation to transport. The PPP model, normally involving toll roads. has been preferred for roads in Australia. Franchising is the most common in urban public transport (bus, rail and ferry services). In both cases, the model adopted has drawn heavily on UK approaches. The failure of the UK model is therefore relevant.

Advocacy of franchising in Australia

The case for franchising is presented in a report issued by Infrastructure Australia (2017). Before proceeding, it is important to understand the institutional background relating Infrastructure Australia to the similarly named, and closely related body, Infrastructure Partnerships Australia. The two are notionally distinct, but in practice are little more than separate wings of the same body.

IPA is an industry body representing Australia's infrastructure industry. Its self-description is

> Infrastructure Partnerships Australia is an industry public policy think tank and an executive network, focused on excellence in social and economic infrastructure.
>
> We bring together Australia's major public and private infrastructure organisations, harnessing deep industry expertise and our policy expertise to shape government infrastructure policy toward the best possible economic and social outcomes.

Despite the reference to the public sector, the board of IPA is overwhelmingly dominated by private sector representatives of monopoly infrastructure firms and financiers. The handful of public sector representatives includes Treasury representatives, not anyone actually involved in public sector provision of infrastructure. Of course, there is no mention of transport users or workers engaged in the provision of transport services.

IA is a statutory organisation which describes itself as

> the nation's independent infrastructure advisor. We provide research and advice to governments, industry and the community on the infrastructure investments and reforms that will benefit all Australians.

The close ties between these two bodies and vested interests in privatised transport are illustrated by the multiple roles of Mark Birrell. Birrell, a former Victorian cabinet minister, has served as Chairman of both Infrastructure Australia and Infrastructure Partnerships Australia, as well as being a board member of Transurban, the owner of most of Australia's private toll roads.

In effect, Infrastructure Australia acts as a publicly funded lobby group, working in co-operation with Infrastructure Partnerships Australia on behalf of private firms such as Transurban. It is independent only in the sense that it is not responsible to the public which pays for its operations.

The fact that IA is, in effect, a lobby group, does not mean that its recommendations can be dismissed out of hand. However, they should be regarded as advocacy rather than independent analysis, and scrutinised accordingly.

Costs and benefits of privatisation

Initial appraisals of privatisation were almost uniformly positive. However, as will be discussed below, experience has shown that these assessments were premature. Many privatisation policies have failed, resulting in high costs to the public and inadequate provision of services. This section will focus primarily on the forms of privatisation most comparable to franchising, namely PPPs and outsourcing.

PPPs: The Private Finance Initiative

Public Private Partnerships involve the provision by private firms of public infrastructure, notably including transport and social infrastructure, in return for a stream of payments extending over many years (typically 20 to 30 years). Such arrangements offer the appearance of substantial initial savings, and are frequently presented as providing a 'magic pudding', allowing the provision of services at no cost to the public. However, the question of whether such arrangements provide value for money can only be determined after the completion of the contract period. For this reason, evidence is limited. The only comprehensive assessment is applicable to the UK, where the Private Finance Initiative (PFI) was introduced in the early 1990s, and abandoned 25 years later in 2018.

The Private Finance Initiative (PFI), introduced in the United Kingdom in the 1990s was the model for Public Private Partnerships in Australia, and in other countries, including Canada, the Netherlands, Norway and Colombia. Australian governments have also sought to export the PPP model to other countries in our region.

The PFI went through a variety of forms. PFI was particularly heavily used by the Blair 'New Labour' government, which made over 600 agreements.

Over time, however, it became evident that the long-term costs of PFI far outweighed the apparent initial savings. The Conservative government elected in 2010 abandoned the original PFI and replaced it with a modified model, named PF2. Ultimately, however, the changes could not resolve the fundamental failings of the PFI model, and PF2 was also abolished in October 2018.

PPPs: Evaluation

Although it is commonly claimed that Public Private Partnerships yield improved value for money, independent research on these claims is limited. A recent special issue of the A*nnals of Public and Cooperative Economics*, surveyed the literature. The results were mixed at best, and negative at worst.

Helby Petersen (2019) offers a systematic review of 21 previous studies, concluding

> just three of the 21 studies found PPP to be less costly than conventional procurement, thus challenging the common promotion of PPPs as a mechanism for obtaining greater cost efficiency and lower lifecycle costs in construction and infrastructure projects. The peer-reviewed literature does not back that assertion. This finding is also interesting from a theoretical perspective, as it suggests that

> evaluative evidence does not support the theoretical expectation about whole-life cost savings resulting from task integration and private sector expertise, as PPP proponents argue. Rather, the international peer-reviewed literature suggests that PPPs tend to be more costly than the conventional public procurement alternative.

O'Shea, Palcic and Reeves (2019) examine schools procurement in Ireland. They conclude

> Advocates of public-private partnerships (PPPs) argue that they can deliver public infrastructure more efficiently than traditional procurement through timelier completion and superior value for money. Despite these claims, comparative analysis of the performance of both procurement methods has received scant attention in the PPP literature to date. This paper addresses this issue by providing an in-depth, case-based comparison of PPP versus traditional procurement in the schools sector in Ireland. Through detailed semi-structured interviews with key stakeholders and an examination of the available documentation, we assess whether the key objectives of using PPP have been achieved. Overall, we find no evidence that PPP leads to faster delivery of infrastructure when the overall procurement process from contract notice to delivery is accounted for. In addition, we find only limited evidence to suggest that PPP results in better value for money.

Acerete, Gasca and Stafford (2019) examine Design, Build, Fund and Operate (DBFO) toll road schemes, commonly referred to in Australia as Build, Own, Operate and Transfer (BOOT). They conclude

> Now that a good number of DBFO schemes in the UK and Spain have been operational for well over half the contract period, there is scope for a detailed ex post evaluation of DBFO performance in both countries and an analysis of how the DBFO model has evolved. Preliminary results show that these contracts continue to be very expensive for public administrations, especially in the UK, where the financing costs and fee per kilometre are high. On the other hand, they are an easy source of revenue for the parent companies of the concessionaires, where the increased use of subordinated debt rather than equity seeks to reduce

> risk. However, despite circumventing the controversial hard-tolling, some projects in both Spain and the UK present poor outcomes. Several other problems around these projects are identified, including lack of public accountability and transparency or poor governance, raising long-term questions around affordability and opportunities for further study.

Vecchi and Casalin. (2019), propose alternative funding mechanisms as a response to the failure of previous approaches, saying:

> The traditional infrastructure-based PPP approach seems to have failed to achieve higher level of efficiency and, above all, effectiveness,

Palcic, Reeves and Siemiatycki (2019) summarize the studies in the special issue as follows:

> Taken together the papers compiled in this special feature provide insight on a range of fundamental questions that remain to be answered about PPPs. Value for money has long been viewed as the key benchmark to evaluate the merit of using a PPP relative to alternative procurement models. Yet the research shows that on strictly financial terms, PPPs deliver outcomes that are decidedly mixed. It is not clear-cut that PPPs facilitate the provision of infrastructure that is lower cost on a lifecycle or risk adjusted basis. PPPs are generating significant profits for their private sector investors in certain cases, often at the expense of their government counterparts. Beyond financial performance, there is varied evidence as to whether PPPs build infrastructure faster, with greater innovation, or of better quality than under traditional procurement.

Another example where it is possible to assess a PPP arrangement over the full life cycle is that of public health services in Spain, notably in the Alzira region of Valencia. A PPP arrangement beginning in 2003, and widely praised at its inception, was terminated by in April 2018 when the administrative concession came to an end. An evaluation by Comendeiro-Maaløe et al (2019), while cautioning that 'performance does not necessarily depend on the type of governance model', concluded that

* Alzira performed worse than the benchmark in 15 out of 26 indicators.

* Over time, Alzira improved less than peers in 9 out 26 indicators.

* Alzira outperformed between the 25% and the 50% of its public-tenured peers.

To summarize the literature, while PPP arrangements appear to offer 'something for nothing' in the short run, long-term evaluation shows that these benefits are offset by longer term costs, including higher budgetary costs and inflexible contract renegotiations

Outsourcing and Competitive Tendering

PPPs were mostly used for capital-intensive construction projects, where financing issues were central. The privatisation of public services, particularly local government services, proceeded largely through competitive tendering and contracting. The first systematic implementation of competitive tendering and contracting was undertaken in the UK. The Thatcher government required local governments to subject services to competitive tendering under the 1980 Local Government, Planning and Land Act. Similar measures played a central role in Australia's adoption of National Competition Policy in the 1990s.

As in other instances of privatisation, early evaluations were highly favourable. The typical finding, summarised by Domberger and Rimmer (1994) was the competitive tendering yielded an average cost reduction of 20 per cent. Case studies in the UK included garbage collection (Domberger, Meadowcroft and Thompson 1986) and hospital domestic services (Domberger, Meadowcroft and Thompson 1987).

Closer analysis revealed that most of the apparent gains came either at the expense of workers, through reductions in wages and loss of working conditions, or through reductions in service quality. Milne and McGee found that cost savings in the UK National Health Service were driven primarily by wage reductions, or by unsustainably low bids from contractors. Similar results were obtained by Paddon (1992). Fraser and Quiggin found evidence of lower service quality from outsourced school cleaning in Australia (1999).

The finding that savings are due, in large measure, to wage reductions is not confined to critics of competitive tendering. Where advocacy of union-busting and wage reductions is politically safe, as in the United States, wage reductions are advanced as the primary source of cost savings from the process (Jerch et al 2016).

It is important to avoid the suggestion that outsourcing is either always beneficial or always harmful. The question of where to draw the boundaries of an enterprise (public or private), has been analysed by economists since Coase (1937) with no definitive answer.

However, after several decades of experience in the UK, it is now clear that the benefits of outsourcing public services have been overstated. Over the last decade, there has been an increasing trend towards insourcing, that is, the replacement of previously outsourced services with in-house provision. The process was accelerated by the financial collapse of Carillion, a leading provider of outsourced services in 2018. Brady (2019) quotes the Mayor of Hackney where the council has been on a 10-year journey to bring services back in-house.

> There has not been an example that I am aware of where we have brought something in-house and it has not cost us less to deliver that service.

This view is supported by a survey undertaken by the Association for Public Service Excellence which surveyed 208 senior local government officers in 2017, before the Carillion collapse. It found that 73% had or were in the process of considering insourcing a service, with 45% having already completed the process. similarly, the New Local Government Network poll of nearly 200 council leaders found that 39% wanted to outsource less over the next two years, compared with 15% who were looking to outsource more.

A particular problem noted in these studies is that the number of providers in the market is relatively limited, so that tendering is not truly competitive. The same small group of providers, characterised more by expertise in dealing with the tender process than by specialised skills in particular services, appears over and over: Serco, Interserve, G4S and Carillion. It was for this reason that the collapse of Carillion in the UK presented such a severe problem. Not only were governments faced with the direct effects of the collapse, but there were few alternative providers, and even these presented the risk of a further collapse.

Implications for the franchising debate

Outsourcing and franchising are closely related. The primary difference is that the providers of outsourced services are paid directly by governments, while franchise operators typically collect revenue from service users, and receive a public subsidy to cover the provision of loss-making services. Franchising therefore has a dimension not present in outsourcing, namely the decision on how to set user charges such as public transport fares.

In most respects, however, the arguments for and against outsourcing are the same as the arguments for and against franchising. Advocates claim that private sector providers are inherently more efficient, and that the tendering process will guarantee efficient provision. Critics point to the potential for gaming the incentive structure, the higher costs of capital in the private sector, excessive payments to bloated management, and the likely loss of wages and conditions for the workers actually involved in providing the service.

In some cases, outsourcing makes sense for governments, as it does for private businesses. No organisation can provide all the services it needs internally, and in many cases, it makes more sense to rely on specialist providers. The case for outsourcing is strongest for goods and services that are standardised, easily measured and provided by competitive markets. Conversely, outsourcing rarely works well for services that are complex, hard to measure and central to the mission of the organisation concerned.

Privatisation and franchising in UK public transport

As in other areas, the UK was the leader in adopting a comprehensive franchising approach to public transport.

Rail transport

Until the 1990s intercity rail transport services were provided by British Rail, a public enterprise established after World War II in response to the failure of the previous system in which four private companies had operated, each effectively a regional monopoly, operating under government regulation.

Separately, public transport services were provided by public enterprises. In London, public transport, notably including the London Underground, was gradually nationalised over the first half of the 20th century.

The Thatcher government privatised British Rail in the 1990s. Rather than returning to the previous system of integrated private monopolies, the government separated ownership of the rail track system from the provision of 'above rail' services. The rail tracks were operated by a single monopoly enterprise (Railtrack) while rail services were divided into a number of regional services, each of which was operated on a franchise basis.

The franchise model for passenger transport was a form of competitive tendering and contracting. The approach was based on the government defining a set of services that it wishes to procure over fixed period, typically five years. The standard specification included service frequency and most, though not all, fares. Companies bid to operate the franchise on the basis of the subsidy they were willing to accept, after collecting revenue from fares and paying for trains, power, staff, station operations, ticketing. The hope was that the required subsidy would fall over time. Further, it was expected that the regional monopolies created by the initial round of franchising would be replaced by competing firms, operating over the separately owned Railtrack systems. As firms responded to market incentives the need for direct government control would fade away

Most of the public transport reforms failed partly or completely. The rail track privatisation failed disastrously. Necessary investments in upgrading infrastructure were mismanaged or not made at all, while Railtrack paid large dividends to its shareholders. A series of major disasters, notably including the Hatfield crash in 2000 pushed the company into liquidation. After only eight years of operation, Railtrack was replaced by a publicly owned firm Network Rail.

A similar failure took place with the Blair Labour government's attempt to operate the London Underground as a Public Private Partnership. This policy was introduced in 2003, but was rapidly abandoned, with full public ownership and operation being restored in 2010.

The franchising model for rail transport services has encountered severe problems, leading a number of franchises to be renationalised or relinquished. Fares have risen substantially without eliminating the need for subsidies. Brady (2018) notes

> Privatisation was supposed to cut costs and bring a focus on improving service. This hasn't quite happened, particularly regarding total funding. The funding has been rearranged and passed to different actors and involves a range of private businesses. However, the UK government still spends over $12 billion annually on the rail system, including the subsidies to Network Rail.

Moreover, the envisaged market in rail services has not emerged in a significant way in the UK. As Brady (2018) observes:

> Services are dominated by the government-mandated franchises, and over the years, the Department for Transport has become more directive in specifying the details of services as a result of infrastructure upgrades, managing the complex and overlapping needs of the network, and at times the perceived lack of customer focus of the operators. Competition "on the rail" has not occurred as opposed to competition between railways and other modes of transport.

Over time, several operators have either relinquished their franchises or had them terminated due to unsatisfactory service.

On the East coast line, the Great North Eastern Railway (GNER), part of the Sea Containers conglomerate, collapsed. The franchise was taken back into public ownership, but retendered to Virgin Trains East Coast (VTEC) in 2015. In 2018, VTEC collapsed and was again replaced by a publicly owned operator, London North Eastern Railway (LNER)

Problems have continued. In August 2019, the competition for the next South Eastern rail franchise was scrapped, with the existing operator allowed to continue despite widespread dissatisfaction (https://www.cityam.com/government-cancels-bidding-for-south-eastern-rail-franchise). At the same time, another contract was awarded to Firstgroup despite opposition from its own shareholders, fears over the financial viability of its other rail operations and legal action by rival bidders (Topham 2019).

After many attempts at patching the system, its failures have become too glaring to ignore. In 2017, the Transport Committee of the UK Parliament reported that "the UK's rail franchising model is "no longer fit for purpose" and is failing passengers" (https://www.bbc.com/news/uk-politics-38867199).

As a result of these failures, the Labour Party has proposed renationalisation of the rail system. Opinion polls suggest overwhelming public support for this policy, with at least 60 per cent in favour and only 20 per cent opposed

(https://www.theweek.co.uk/rail-privatisation/93649/should-railways-be-public-or-private

https://news.sky.com/story/majority-of-brits-back-rail-nationalisation-sky-data-poll-shows-11193313).

Bus Services

Bus services in the UK were also franchised. Rowney and Straw (2014), in a report for the Institute for Public Policy Research concludes that the impact of franchising has been mixed. For instance, there is tight regulatory control exercised by Transport for London over franchised London bus services, which is not the case in other UK cities. Notably, the level of regulation exercised by TfL which includes service frequency, is considerably more stringent than that of comparable Australian authorities such as Transport for NSW.

On the other hand, Rowney and Straw (2014) conclude:

> Bus markets outside London are dramatically different. These markets are completely liberalised and there is a much weaker legal duty on government to guarantee bus services than is the case for either London buses or GB rail.
>
> Liberalisation has not resulted in a competitive market – 37 per cent of weekly services outside London do not face any effective head-to head-competition and just 1 per cent of weekly services face effective head-to-head competition over all or most of their route. Many operators are now making excessive profits. The Competition Commission found that average profits for operators were 3.5 percentage points above the mid-point of its calculated range of appropriate returns.
>
> Instead of a liberalised market driving better outcomes, fares have risen and patronage has fallen. Fares in England (outside London) rose by 35 per cent above inflation between 1995 and 2013. Fares rose in real terms in Wales by 34 per cent and in Scotland by 20 per cent over the same period. Overall bus patronage across Great Britain (excluding London) dropped by 32.5 per cent since 1986 compared to a 99 per cent increase in London. The bus is therefore not fulfilling its potential in terms of relieving congestion, increasing access to jobs and public services, and reducing the carbon emissions of transport. This is a public policy failure since buses are used by households from all income groups.

Similarly, Preston (2014), in a report for the Public Policy Institute for Wales, concludes

> The overall impact of deregulation has been negative. Fares have increased whilst operator costs have gone down. Wales pays higher subsidies than the rest of Great Britain outside of London without any noticeable added benefit, and the lack of competition in some areas makes it likely that some subsidy leaks into operator profits.

Taylor and Sloman (2016), in a report for the Foundation for Quality Transport, highlight that

> The privatised, deregulated bus system can only work if bus companies make a profit. This comes at a cost to society, in the dividends paid to bus company shareholders. This cost could be worth paying if it enabled a better bus system, but is hard to justify if (as we will later see) the deregulated structure is a barrier to world-class services, and public funding for buses is under pressure. Across Britain, bus companies' average operating profit in the ten years to 2013 was £297 million per year. Almost all of this – on average, £277 million per year – was paid out as dividends to shareholders. This means that over a ten year period, there was a leakage of £2.8 billion, in the form of dividend payments to shareholders. Levels of 'retained profit' (money reinvested in expanding or developing bus services) were very low: ranging from 0.2-1.5% of turnover in London, the big cities, and other areas.
>
> Nationally, dividend leakage is roughly equivalent to one-tenth of the public money that goes into supporting bus services. In some areas, dividend leakage is comparable to the level of recent cuts in public funding for bus services.

As with outsourcing, local authorities are seeking to restore public provision. An attempt by the Conservative government to prohibit public operation was severely criticised in the House of Lords and ultimately withdrawn.

(https://www.localgov.co.uk/Committee-supports-right-of-councils-to-run-bus-services-/42113).

Summary

In summary, most of the UK transport reforms have already failed, and the franchising system is unlikely to survive much longer, at least in its present form. Citing the UK as a model indicates either ignorance or a failure to learn from experience.

Public transport franchising in Melbourne

Trains and Trams

IA (2017) provides the following summary of franchising, divided into four periods; the first franchises (1999–2002), non-tendered private operation (2003–2009), re-franchised operation (2009–2016), and renegotiation of contracts (2016–ongoing).

> **1. First franchise (1999–2003):** in June 1999, successful bidders for the five contracts were announced. National Express won the contracts for Bayside Trains, Swanston Trams and V/Line Passenger. Connex won the contract for Hillside Trains and a joint venture between Transdev and Transfield Services won Yarra Trams. The franchise models were vertically integrated, with the franchisee managing the infrastructure and train operations. Despite some significant success in improving service levels, by 2002 the franchisees were experiencing financial difficulties. In response, the government called a review of the franchising process and implemented interim operating arrangements. In December 2002 National Express withdrew from its three contracts. The government appointed receivers to run the former National Express franchises and announced the restructuring of the network into single metropolitan train and tram companies. It was also decided that V/Line Passenger would return to public operation, where it remains today.
>
> **2. Non-tendered private operation (2004–2009):** in 2003-2004 contracts were renegotiated with the remaining franchisees, with Connex taking over heavy rail and Transdev/Transfield Services contracted to the tram network. The contracts were relatively short (four years). This recognised that they were renegotiated rather than re-franchised, and in the near future the market should be tested again.

Some key contract amendments were made, including revenue risk sharing with government, which ensured the operators were financially stable for the duration of their contracts.

4. **Re-franchised operation (2009–2016):** in 2009 a competitive tender process was undertaken, with Metro Trains Melbourne winning the heavy rail contract and Keolis Downer EDI Rail (KDR) operating the tram network. The contracts were set to run to 2017, with the franchisees able to negotiate for a seven-year extension if they meet performance criteria.

5. **Renegotiation of contracts (2016–ongoing):** in February 2016 the government announced the franchisees had met the necessary performance criteria to begin negotiating exclusively for a contract extension. A Request for Proposal has been issued to the franchisees and negotiations are ongoing. If negotiations fail, the state could extend the existing agreements at a fixed price for three years while a new tender process is undertaken.

This summary partly reveals and partly conceals a history of failure, with repeated redesigns being undertaken in an attempt to secure satisfactory operation. This parallels the experience in the UK, where new versions of PPP and franchising models have been introduced on a regular basis, announced as successful, then abandoned within a few years.

IA (2017) is commendably clear about the failure of the first round of franchising.

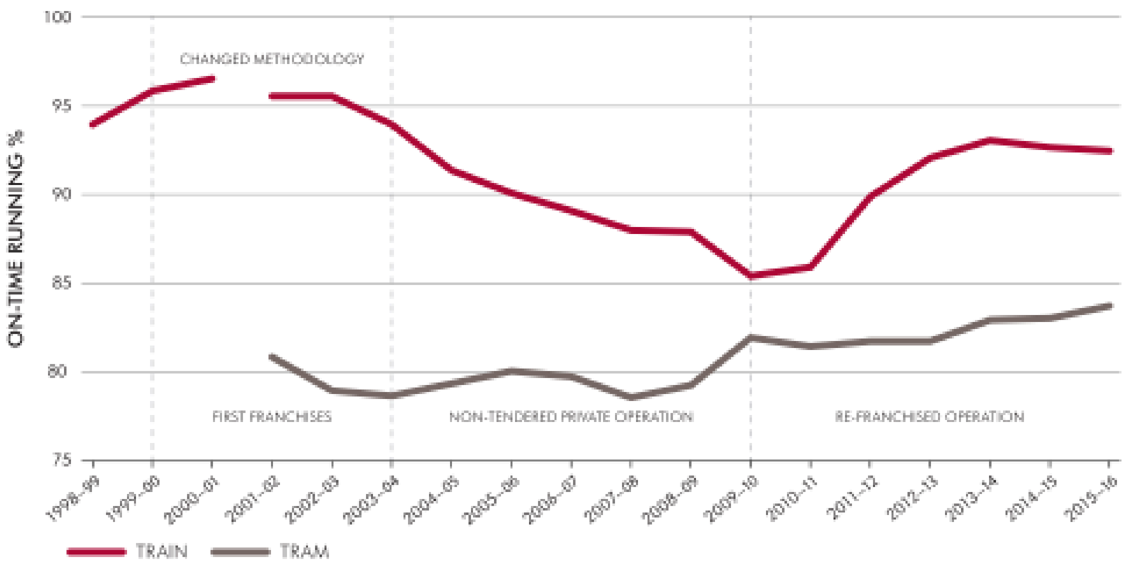
> During this period the franchisees were financially unsustainable, with National Express withdrawing from its contracts for Bayside Trains, Swanston Trams and V/Line Passenger. The instability came at a cost to taxpayers, with an additional $110 million in subsidies paid to the operators.
>
> Additionally, because of the need for stability, the subsequent contracts with Connex and Transdev/ Transfield Services were renegotiated rather than re-franchised and V/Line Passenger was returned to public operation, where it remains today.

On the other hand, the description of the second round of franchising and the subsequent renewal of franchises omits important failures. (https://www.theage.com.au/business/victoria-backs-the-leasing-route-on-public-transport-20061211-ge3rm0.html)

The experience of train and tram franchising in Melbourne parallels that in the UK. The most important positive development has been an expansion in patronage. However, this is attributable more to increases in population and population density than to improvements in services. Private operators have not delivered promised improvements in service quality. Nor has there been a substantial reduction in the requirement for public subsidy. Broadly speaking, performance on most indicators declined in the first decade of franchising, and has partly recovered since then, in some cases returning the levels of 2000.

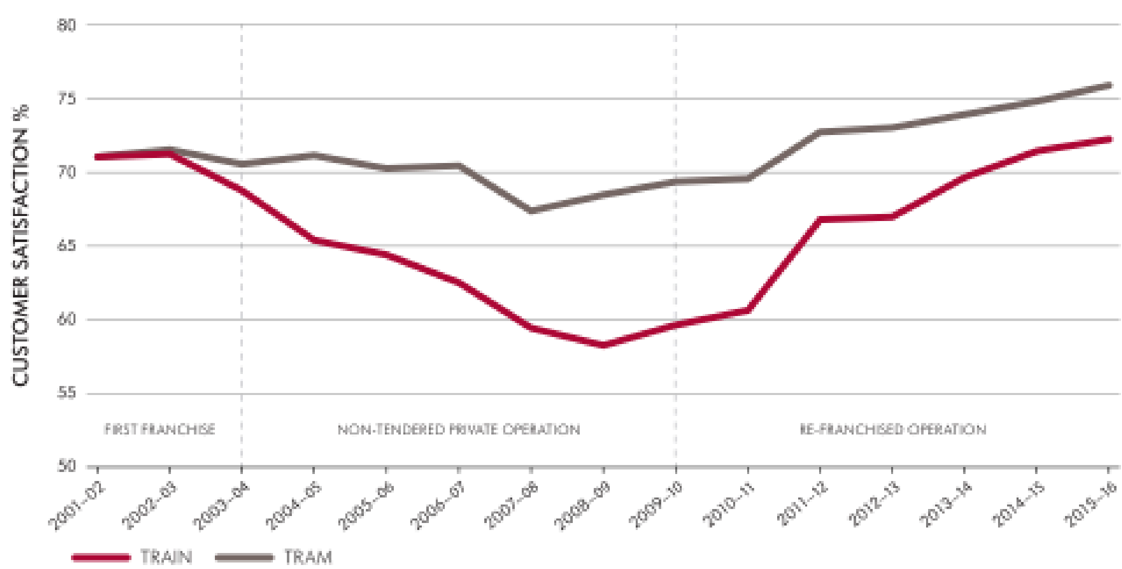
Infrastructure Australia (2017) puts the most favourable possible spin on the data regarding outcomes such as punctuality and customer satisfaction. For example, Infrastructure Australia (2017) states that punctuality performance has improved *in recent years* (emphasis added). The reality is that punctuality of train services declined sharply during the period of non-tendered private provision and has only partly recovered since then. Punctuality of tram services has improved marginally.

Figure 8: Punctuality – trains and trams that run on time as a percentage of total services[62,63]



Similarly, Infrastructure Australia (2017) states that "Customer satisfaction correlates with punctuality – it is currently *at a 15-year high* (emphasis added). In reality, as with punctuality, there have been marginal improvements in customer satisfaction with tram services. The statement that satisfaction with train services is "at a 15 year high" can more accurately be stated as "after a sharp decline, satisfaction has recovered to a level comparable to that in 2000"

Figure 10: Customer satisfaction index, train and tram[65]



These misleading statements are problematic in themselves. More importantly, they indicate that no claim made by IA (2017) should be accepted at face value: even if technically accurate, such claims are likely to mislead by omission.

Independent assessments

The rosy assessment of IA (2017) contrasts with independent assessments. Donaldson (2015) notes that;

> Measures of punctuality and reliability of Melbourne's trains and trams remained largely unchanged between 2004 and 2014. Yet government payments to private operators of Melbourne's trains and trams increased by 40% in real terms between 2004-05 and 2012-13 — from $938 million to $1.33 billion.

Stone, Kirk and Odgers (2015) conclude that

> 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.

Buses

Bus transport in Victoria has historically been undertaken by private firms, initially operating as independent commercial businesses and then under contract to the Department of Transport, currently operating through Transport Victoria. These contractual arrangements have been consistently problematic.

Most recently, Transdev's contract to run a third of Melbourne's city buses has been ended by the Andrews government in the wake of the company's chronically poor performance.

Conclusion

A range of measures have been used to partially or completely privatise public services such as transport. Australia has repeatedly adopted policies based on British models that have subsequently failed, or been wound back, in their country of origin. Examples include Public Private Partnerships based on the Private Finance Initiative, and compulsory competitive tendering.

Franchising of public transport services fits this pattern. Franchised rail services are the last remaining component of an attempted privatisation that has failed completely in relation to the rail track network and the London underground. It is unlikely to survive in its current form for more than a few years, and may be reversed completely in the event of a Labour election victory.

There is no convincing evidence that privatisation provides sustained benefits to public finances or to the users of public services. The only consistent finding is that privatisation benefits the financial institutions involved in the process and reduces pay and conditions for ordinary workers.

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