Moving in the Right Direction

Transport reform in Western Australia

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Project Western Australia Discussion Paper

Project Western Australia

The need for a new approach

The need for a new approach to policy formulation in Western Australia is abundantly clear. If Western Australia is to fully profit from the opportunities presented by its natural wealth and the rise of the Asian economies, then a new attitude is needed.

Project Western Australia is a forward-looking joint program of the Mannkal Economic Education Foundation and the Institute of Public Affairs, Australia's leading free market think tank. **Project Western Australia** is aimed at stimulating policy discussion and development.

The project

During 2007, research experts in each of these fields will conduct original and innovative policy research to provide a blueprint for forward-looking governments.

The need for **Project Western Australia** is clear. Without a comprehensive reassessment of public policy approaches, Western Australia may not prosper from its boom.

The challenges facing Western Australia are many. A few deserve to be highlighted. This first discussion paper looks at some key areas of transport policy and raises some potential reforms. Papers scheduled for release in the coming months are:

- The importance of property rights in Western Australia
- City and Urban Development
- Education

About the author

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Executive Summary

As Western Australia continues its rapid growth, the state increasingly needs the transport infrastructure and services that enables individuals to move around the city of Perth and minimise the costs of congestion to both the economy and to the quality of life.

Three public policy issues stand out as the ones within the transport sphere that demand the most urgent attention—the metropolitan rail network, infrastructure funding for road services, and the taxi industry.

Too often transport policy driven by vested interests such as rail industry unions or the owners of taxi plates. The guiding principle of *Moving in the right direction: transport reform in Western Australia* is the desire to place the consumer as number one. Whether a resident of Perth wishes to catch a train or taxi or drive their own motor vehicle, the reforms proposed here will make all three options just a little more attractive.

To address these three policy areas Project Western Australia makes the following key recommendations:

Project Western Australia—key transport recommendations

- Privatise Perth's metropolitan rail network
- Ensure that private sector funding (public private partnerships) is considered as an option to pay for any future major greater metropolitan road projects
- Allow greater competition in the taxi industry

Introduction

Perth is a prosperous city which provides its citizens with an enviable lifestyle.

However, like all cities, the provision of efficient transport infrastructure and services is fundamental to both Perth's (and Western Australia's) economic prosperity and quality of life.

Perth's population is rapidly approaching 1.5 million (approximately 74 per cent of the total WA population) and is projected to reach 2 million by 2030.

Population growth is a clear indicator of prosperity, but as population and the economy grow there are obviously also challenges presented. One of these is the need to maintain high rates of mobility for both people and goods. Already there are estimates that the aggregate cost of congestion in Perth will double from $0.9 billion in 2005 to $2.1 billion in 2020.

The focus of *Moving in the right direction: transport reform in Western Australia* is the need to provide transport infrastructure and services that enables individuals to move around the city of Perth and minimise the costs of congestion.

Three public policy issues stand out as the ones within the transport sphere that demand the most urgent attention.

Western Australian taxpayers have invested heavily in Perth's rail network in the past twenty years and it is essential that the maximum possible return on that investment is delivered. This means providing a market-driven rail system that provides a service that customers want to use. Enticing people to rail reduces road congestion.

Western Australian road users have often had to wait longer than they needed to for much needed road infrastructure improvements. Bickering between the state and Commonwealth about levels of road funding has often produced unnecessary delay. However, the refusal by the state government to give proper consideration to private sector funding of road projects has denied motorists an extra option for getting needed works done.

Perth's opportunity to gain the status of a truly 'leading city' is hindered by a number of factors including housing affordability, shop trading hours, the availability of a full range of hospitality and entertainment venues and, in the transport area, by the fact that Perth has fewer taxis per head than other Australian capitals.

Note: There are many issues involving freight transport that are also crucial for Western Australia. These issues include third party access to private rail lines in the Pilbara, the future of the grain lines, the operation of the east-west rail corridor, the development of port capacity and road links between ports and intermodal facilities. Rather than make this paper too broad, these issues will be considered as part of the on-going work of both the Mannkal Foundation and the Institute of Public Affairs.

Part one
Metropolitan rail reform

History and background

The railways came to Perth later than they came to the eastern states. While the first railways operated in Melbourne and Sydney in the 1850s, Perth's first railway (Fremantle-Perth-Guilford) opened on 1 March, 1881.

A by-product of this later development was that, whereas in other states rail tended to start as a private sector operation, in Perth services have always been provided by the state government, initially by the Department of Works and Railways and from 1890 by Western Australian Government Railways (Westrail from 1975).[1]

While there were never private companies running trains in Perth there were private trams. Indeed of the four Western Australian locations that had tram systems—Perth, Fremantle, Kalgoorlie and Leonora—all, except Fremantle, were originally private sector initiatives.[2]

In Perth, an Act of Parliament authorising the building of tram lines was passed by the Western Australian Parliament in 1885. However the first line did not begin operating until 1899 when a group of London investors backed Perth Electric Tramways Ltd and the company was able to build and commence operations on a line along Hay Street from East Perth to Thomas Street, West Perth. Tram services later extended to a number of other suburbs by Perth Electric and other companies.

The WA government decided that it wanted control of the network nationalising the Perth Electric network in 1912 and all others by 1914. The government never matched the initial private investment of the private sector and after years of deterioration the last tram line in Perth closed in 1958.

The Kalgoorlie Electric Tramways Limited which opened in 1902 had close links with the Perth Electric, but unlike Perth, the Kalgoorlie operation was to remain privately owned for most of its life. It was taken over in 1949 by the Eastern Goldfields Transport Board, which promptly closed the system in 1952.

Passengers waiting to board tram car No. 35 on route 30 to Claremont. c.1930

Despite its slightly different beginnings the history of the Perth suburban rail network followed a similar pattern to that of most other Australian capital cities. From strong patronage in the early-mid twentieth century there was gradual decline which in the case of Perth reached its symbolic low with the closure of the Perth-Fremantle line from 1979 to 1983.

However, from the 1980s onwards Perth has followed a different path. While Sydney, Brisbane and Adelaide have essentially muddled along with long-standing policy settings essentially intact, Perth is with Melbourne the only city to have undertaken significant change.

Where in Melbourne that involved radical change to the ownership structure, in Perth it has involved significant taxpayer-funded capital investment.

First, there was the electrification of the entire system announced in 1988 and coming on-line in 1991. This complete refurbishment of the system means that with the oldest infrastructure and rolling stock dating from the early 1990s Perth has the most modern system of any Australian capital city.

In the same period the government built the northern suburbs line (announced 1989, completed 1992) that provided a rail service as far as Joondalup.

The combined impact of the electrification and the building of the northern line was that the number of annual boardings went from under 10 million in 1990-91 to over 20 million by 1993-94.

The next substantial injection of capital into the rail system is the New MetroRail Project which is currently nearing completion. The scope of the project is:

Train travelling on the Joondalup Line (now Clarkson Line)

- Extension of the northern suburbs from Joondalup to Clarkson
- Extensive works between Perth and Kenwick
- A new spur line from Kenwick to Thornlie
- A new southern line from Perth to Mandurah, including two new underground CBD stations.
- The purchase of 93 new rail cars.

The cost of this suite of measures is significant—$1.618 billion.

There was a vigorous public debate about the relative merits of this expenditure versus other possible transport solutions. (There will be some discussion of the detail below.)

Since 1 July, 2003 responsibility for operating all of Perth's public transport has been with the Public Transport Authority (PTA). As well as operations this agency is responsible for the planning and delivery of new infrastructure projects.

The PTA has been a comparatively well run public sector agency, however, as many other jurisdictions have shown, it is hard to consistently maintain high standards in the public sector. Only the discipline of the profit motive can sustain the long-term customer focus that transport systems need.

Perth now has a unique opportunity—to have its modern rail infrastructure and rolling stock operated with the best private sector management.

That combination would almost certainly gain Perth the number one position in metropolitan rail in Australia.

Why privatisation?

For many people it is taken for granted that the delivery of public transport services is something that is done by government. And yet in many places around the world it is being recognised that involving the private sector can deliver many benefits.

Indeed, in one sense, privatisation has already come to Perth's public transport system. The integrated network of bus services under the Transperth banner are provided by three separate private bus companies under ten separate contracts and in terms of passenger growth the contracted out bus service has been outperforming rail. The ferry service across the Swan River is also provided by a contract with a private company. There are also numerous contracts in place for the provision of ancillary services such as facilities management and cleaning.

Privatising the rail network is just a logical extension of the current model. However, in another regard, it is a radical policy. Fixed rail tends to be the flagship part of any public transport network and so its transfer to the private sector would indicate a dramatic shift in the economic management of public transport.

It is often perceived that privatisations are only undertaken to deal with a crisis in a public sector entity. That is not the case with the rail services provided by Transperth.

According to a World Bank study, from the 1980s onwards Westrail 'was probably the most efficient of the government railways in Australia'. This is probably still the case, although the level of competition for the title is far from strong.

There are a number of areas of concern that privatisation would address:

1) Increase patronage

It is striking how in the past two years public transport patronage in Melbourne has grown much faster than in any other Australian city. Given the huge investment in Perth's rail system and the booming nature of the city the question has to be asked—why has the patronage growth in Perth failed to match that of Melbourne? It is particularly relevant given that fares in Perth are probably the cheapest in the country.

The opening of the new southern line and associated CBD works will deliver a significant one-off increase to patronage. The challenge is to ensure that once the existing excitement wears off the on-going service provided continues to maintain existing customers and attracts new users to the system.

2) Improve service delivery

With the massive capital investment into its modern fleet and infrastructure, the on-time performance of Perth's public transport system should be clearly the best in Australia and yet in 2005-06 only 87% of trains arrived within three minutes of schedule. However, to be fair to the PTA three minutes is a more rigourous standard than most Australian systems apply and in recent years the New MetroRail project has contributed to some disruption.

3) Instill financial discipline

In the three years from 2002-03 to 2005-06, total recurrent expenditure on the Perth system increased from $291.6 million to $514.2 million. While there was some legitimate component of gearing up for the cost of New MetroRail, it is still a cause for concern.

The fact that for most journeys Perth's public transport is cheaper for customers than that of the other major capitals means that taxpayers are contributing a greater share of recurrent funding to the Perth system, as well as contributing the massive amounts of capital that have gone into the rail network in recent years.

4) Avoid planning panaceas

There is a real concern that rather than focusing on rail as a customer-driven service that the WA government has been used it as a vehicle for planning and land use policies.

Land use policy in Western Australia was discussed in *Fixing the crisis: A fair deal for homebuyers*, the IPA's submission to the Inquiry into Housing in Western Australia. The submission found that:

> Over long periods of time, and in differing economic conditions, Western Australians have continued to express a strong preference for their own home, often in a new suburb, on a relatively large block of land.

Further, despite two decades of high investment in public transport, Perth still has one of the world's highest levels of car ownership and for most people for most journeys the private car will continue to dominate.

Where rail can gain market share is in trips to the CBD and surrounds for both employment and major crowd generating events.

The key question for a customer focussed railway is how to win converts from cars.

When the northern line was built in the early 1990s common sense applied and large carparks were built at stations in a bid to attract previous non-users to give rail a try.

In the intervening years between then and the planning of the southern line there had been a philosophic shift away from park and ride towards feeder buses.

Convincing motorists to forsake their car to give the train a go will be hard enough without effectively doubling the size of the challenge.

The new southern line will provide highly competitive journey times, however, there is no doubt these will be diluted for people who also use buses. No matter how well coordinated timetables are and how efficient are the interchanges.

The issue is not to stop people using their cars all together but to shift them out of their cars for the long distance journey to work that contributes to congestion. Rail provides the best way not to have to widen the Mitchell and Kwinana Freeways but discouraging people from driving to their local railway station does little to address any congestion problem.

A public sector agency can happily go along with the latest planning fad. A private rail operator with a strong incentive to grow patronage will want to ensure that potential customers are not being driven away by being forced to walk from their homes to a bus stop on a 40 degree summer's or a wet winter's day.

It will always be hard to assess how many customers will have been driven away by the planning fad but hopefully introducing pragmatic private operators will stop future attempts at social engineering.

5) Improved industrial relations

One of the key benefits of most privatisations is an improved industrial relations environment. In the case of rail it would mean direct negotiation between employer and employees and mean that rail workers do not have to balance their potential productivity-based pay rises off against public sector salary policies applying to nurses, teachers, police etc.

Summary

Perth is booming and needs more than ever to have a fully modernised transport network. A private operator of Perth's metropolitan rail network would ensure that the benefits that the massive capital injections into the network are locked in and further improved upon. The addition of a private operator will also mean there is the potential to be able to add capital themselves to future investments.

Privatisation should deliver better value for taxpayers and improved services for rail users.

Precedents for privatisation

Obviously, in considering whether to head down the privatisation path it is important to consider what the outcomes have been of other similar privatisations.

The three most relevant examples are the two WA transport privatisations of the past 15 years—Perth's metropolitan buses and Westrail Freight—and the example of Melbourne which in 1999 became the first Australian city to privatise rail operations when it franchised its trains and trams.

Despite considerable misinformation, all three demonstrate that positive outcomes can be achieved by increasing private sector involvement.

WA Rail Freight

Westrail Freight was sold in 2000 as a vertically integrated intrastate rail freight business. The value of the transaction was $585 million.

The purchaser was the Australian Railroad Group (ARG)—50:50 joint venture between Wesfarmers and Genesse & Wyoming. In 2006, ARG's ownership changed with the below rail business (WestNet Rail) being sold to Babcock & Brown and the above rail operation to Queensland Rail.

The current WA government has consistently criticised the privatisation. Minister for Planning and Infrastructure, Alannah MacTiernan said in 2003:

> The Westrail privatisation was a real doozey. It will go down in history as one of the great debacles of privatisation.[3]

Her views are directly contradicted by the most authoritative study of the outcomes of the Westrail Freight privatisation. Undertaken by the World Bank in 2005, the study found that found there had been increases in earnings since privatisation 'in direct contrast to pre-privatisation WestRail whose margins and operating statistics appeared to be in decline at the time of sale'. It also won interstate contracts. Overall, the World Bank concluded that the privatisation should be 'considered successful'.[4]

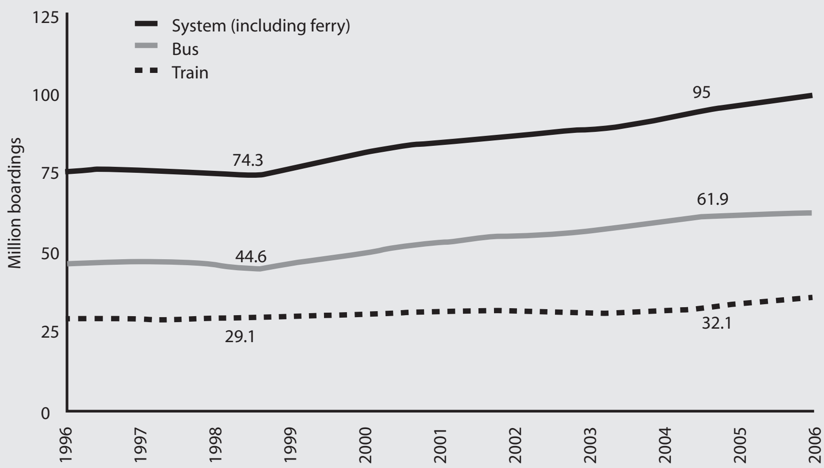
Perth's metropolitan buses

The first motor omnibus operated in Perth in 1903, running on a route from Victoria Park to the city (Barrack Street). It was the forerunner of a number of private bus companies that developed routes and operated services as the Perth suburbs expanded.

These companies competed for passengers on various routes, the most intensive rivalry being on the Stirling Hwy route between Perth and Fremantle.

In 1926 several small companies merged into a single company—the Metropolitan Omnibus Company. Over

Figure 1: WA Public Transport Authority growth, 1996-2006



Source: Public Transport Authority

the next 30 years, Metro (as it was popularly known) became one of the biggest bus companies in Australia and several other companies were established to serve new suburbs as Perth gradually grew.

In 1958 the state government nationalised the bus services as part of the same decision-making process that saw trams withdrawn from service. For four decades the government maintained its monopoly before, in the mid 1990s, the Court government decided to progressively contract out the operation of bus services by competitive tendering of a number of franchise areas.

It was a limited privatisation as the government retained ownership of the bus depots and the bus fleet. The buses still operate under the Transperth brand.

There are three bus operators in Perth:

- PATH (part of Australian Transport Enterprises)
- Southern Coast (part of Veolia Transport Australia)
- Swan Transit (part of Transit Systems Australia)

Under private operation patronage has grown more rapidly on Perth's buses than it has on the government operated rail system. A key advantage of private management has been improved industrial relations that have seen less industrial action and a more customer focused staff.

Melbourne's trains and trams

The largest privatisation of passenger transport services in Australia was completed in Melbourne in 1999. Two private operators each took over half of both the metropolitan train and tram networks.

In 2002, one of the operators departed and the contracts were renegotiated, resulting in single operators the whole of the trains (Connex) and trams (Yarra Trams).

The Institute of Public Affairs recently completed a study of the performance of Melbourne's privatised public transport system. *Victoria's public transport: assessing the results of privatisation* found that privatisation can be rated a reasonable success. Key outcomes have been:

- Patronage has risen strongly—37.6% on trains and 25.5% on trams. Some of the problems the system is now experiencing (e.g. over-crowding) are problems of success rather than failure.
- Some improvements in reliability and punctuality, more consistently in trams than trains.
- New services have been introduced, resulting in an 11.4% increase in the overall number of service kilometres.
- Commuters no longer experience the huge inconvenience caused by strikes and stoppages that historically plagued Melbourne's public transport.
- 65 new trains and 95 new trams have been introduced into the system.
- For taxpayers, it has not delivered the anticipated gains, instead producing a break-even outcome.
- Risk was transferred to the private sector, although some returned to government in the re-franchising
- The highest safety standards have been retained.

There seems little doubt that, on the basis of this performance, Victoria's state Labor government later this year will announce that private operation will be continued in Melbourne.

Undertaking privatisation

Having established that privatisation can potentially deliver significant benefits, it is also important to note that Western Australia has two significant advantages that have not been available in other jurisdictions such as Victoria.

Firstly, it can learn from the experience of others and secondly, it has a new network that does not need major additional capital expenditure.

A private operator should be sought through a competitive tendering process where tenderers make an offer, the financial component of which would be asking for the amount of subsidy they would require to operate the system.

While other larger systems (and Perth's buses) have been split into different franchise areas the Perth rail network is of a size that can be tendered as a whole.

The Western Australian government should set up a unit comprised of select personnel from the Department of Treasury & Finance, the Department of Planning & Infrastructure and the Public Transport Authority to prepare for the contracting out of the metropolitan rail system.

In order to make sure that the privatisation is done correctly it is important not to rush the process. It is recommended that the final part of the process not be undertaken until the second half of 2009 so that at least a full year's data from the operation of New MetroRail is available and also that the new Smart Rider ticketing system is bedded down. This time scale also has the added advantage of placing it in the aftermath of, rather than lead up to, the next state election.

The contract would be for a period of between 8 and 12 years.

The Public Transport Authority would be retained as a coordinating body. The PTA would still set multi-modal fares and could mandate and fund further extension to the network that the state government may decide are required.

In the same way that private bus companies provide services under the Transperth banner, the metropolitan passenger rail services would be provided under a contract that specified the service levels that needed to be provided. There would be an Operational Performance Regime which would provide benchmarked standards of reliability, punctuality and other key service criteria.

A key element of the privatisation will be ensuring that every aspect of asset management responsibility and risk allocation are clearly defined. As a general principle, the more risk that can be transferred to the operator the better, but only if there are clearly enunciated rules for what happens if a private operator fails to meet its obligations or gets into difficulty.

Part two
Private sector funding of road infrastructure

The funding shortfall

In 1969, expenditure on roads made up 12 per cent of the Western Australian state budget.

By 2006, this figure percentage had fallen to 4 per cent, as other funding priorities consumed an ever greater percentage of the state budget.

It is not as if the roads task has got any smaller—in the past four decades the road length for which the state government is responsible has risen from 10,000 km to almost 20,000km.

Main Roads WA estimates that the gap between road funding needs and the actual delivery of the required roads outcomes is almost $400 million in 2007/08.

There are three possible funding solutions for upgrading WA's key road network:

- Increased state funding
- Increased federal funding
- Public private partnerships (PPPs)

The Western Australian Government does not seem keen to increase its own road funding and while the Commonwealth will hopefully provide the state with a greater share of Auslink 2 funds, than it did with Auslink 1, it needs to be remembered that Auslink, the key commonwealth roads' funding program, only put funds into identified Auslink corridors which leaves out many important potential road infrastructure developments in WA.

Road PPPs do not necessarily mean that road users pay tolls. There can be 'shadow tolls' that the government pays to the private investor. PPPs to build roads and user tolls are related topics, but they can be considered separately.

Reasons for considering road PPPs in WA

In December, 2002 the Western Australian Government produced its policy position on Public Private Partnerships. Entitled *Partnerships for Growth: Policies and Guidelines for Public Private Partnerships in Western Australia,* it expressed a very similar policy for the use of PPPs as the ones articulated in other states.

Although the term 'Public Private Partnerships' is relatively new, governments in Western Australia have for many years been working with the private sector to deliver infrastructure and associated services. Examples include:

- Mining companies that have joined with government to create entirely new communities in remote locations;
- Property developers which have provided community facilities in new residential developments, ahead of the arrival of government infrastructure; and
- The engagement of private designers, builders and facilities managers for the construction and operation of government buildings.

Since the policy was announced PPPs have been used for the Exhibition and Convention Centre and the law courts, but not for roads. The minister responsible for roads, Alannah MacTiernan commented that:

> We put out a policy document on PPPs in 2003, in which we articulated the circumstances under which we would contemplate PPPs. We did not believe they had a role in certain core functions, but we did believe there was a place for them and they would be considered on a case-by-case basis.[5]

There are those who seem to believe that whatever the project is, it should be debt-financed by government. However, by having a policy of considering the suitability of PPPs for its capital works, a government is provided with a potential extra means of funding plus an extra discipline in assessing whether projects provide value for money.

Good PPP policy requires that all projects must offer value for money as a government investment, independent of the delivery method. Within the assessment process, the need to analyse whether a commercial rate of return can be delivered from a project to a private investor is a good way of assessing whether a project will deliver value-for-money.

The alternative proposed by critics of PPPs is to have projects debt-funded by government. In times of prosperity, like the present, when state governments are awash with funds due to the general prosperity and booming tax revenues, their economic management skills have never been severely challenged. However, it has always been a mistake to view benign economic conditions as prevailing indefinitely. Thus, the recent re-entry of some state governments into debt-financing to fund infrastructure is a worrying trend, especially as they are doing it a stage of the economic cycle where project costs are high.

One constantly hears people query why governments no longer pay for the amount of infrastructure they used to directly fund. The answer is pretty simple – the massive increase in government spending on recurrent programs. Those who would like to see more direct government funding of infrastructure projects should perhaps be forceful advocates of cutting recurrent government spending.

Until that happens, governments need to have the full range of funding options available to pay for capital works and that includes PPPs.

The biggest road projects currently in train in WA are:

- New Perth-Bunbury Highway ($630 million)
- Mitchell Highway extension ($171 million)

Without having completed a detailed assessment it is impossible to say whether these could have been delivered as PPPs, but one would like to think that this was at least considered as a possibility and that all future major road projects are also viewed as possible PPPs.

Tolls

It has been a constant mantra of the current WA Government that road tolls are not to be considered. Former Premier Geoff Gallop referred to 'our determination not to go down the path of boosting our revenue through poker machines and toll roads'.[6]

A position paper on a WA Government website makes it clear that this remains the position:

> Western Australia doesn't reap billions of dollars from the community in poker machine taxes and toll roads. This makes it tougher for WA, compared to other states, to balance the budget and deliver the key services.[7]

It is perhaps surprising that the state with the nation's most entrepreneurial reputation is the most reluctant to go down the path of the developing business of toll roads.

Toll road businesses in other states are doing very well. Sydney's Westlink M7 saw its June quarter revenue rise 20.7 per cent to $38.2 million compared to the corresponding previous period while Melbourne's CityLink saw revenue in the June quarter rise 9.7 per cent, to $85.7 million, compared to the previous period, with average daily traffic volume up by 3.7 per cent.

Public Private Partnerships interstate and overseas

The increasing use of private sector funds to finance key infrastructure is a growing worldwide trend. As the Reason Foundation stated in the United States context:

> …the major highway funding shortfall is a key reason governments are increasingly turning to long-term PPPs to deliver new transportation projects.[8]

Many European countries have also embraced PPPs in the process changing the way they set spending priorities and manage their roads.

Australia has a long history of private sector investment in roads, through public private partnerships (PPPs), with 11 contracts signed over the past 20 years. Currently there are nine road projects in operation, equating to over $12 billion of infrastructure being delivered by the private sector. Major completed road PPPs include the Western Sydney Orbital and Melbourne's City Link, while Queensland is now also embracing the model.

A recent review of Australian road PPPs found that continued investment by the private sector into Australian roads, and the Government's ongoing support of public private partnerships (PPPs), is critical to the nation's sustained economic prosperity.

Ernst & Young's inaugural review, *Private Finance and Australian Roads*, found that:

> PPPs have delivered much needed road infrastructure and are essential to the future economic growth of Australia. Even with all the criticism targeted at the Cross City Tunnel, the NSW tax payer has incurred no cost and Governments continue to achieve positive commercial and operation outcomes from PPPs
>
> The Australian toll road PPP market continues to evolve, particularly around risk allocation, payment mechanisms, revenue sharing and the approach to protection around competing routers. While recently completed transactions show private sector accepting more risk and receiving better value for money, there is scope for new payment mechanisms around availability, safety and congestion, as well as shadow tolls, to be considered if the model is to grow into its full potential.[9]

Incidentally, PPPs potentially have a role in rail as well as road. In New South Wales a private sector consortium will provide Sydney with passenger rail carriages for the next 30 years. The contract valued at up to A$8 billion has been awarded to the Reliance Rail consortium, which is comprised of Downer EDI, AMP Capital, ABN Amro and Babcock & Brown. Under the contract the consortium will design, construct and maintain a total of 626 carriages in the largest PPP contract in Australian history.

To date New South Wales has undertaken the two largest PPPs, while Victoria has been the state to most actively use the PPP financing method with 16 projects underway, ranging from the Melbourne Convention Centre (A$367 million) to the Eastlink tollway(A$2.5 billion). In total, Victoria's PPPs are valued at around A$4.5 billion and represent around 10% of the state's infrastructure budget.

Part three
Taxi deregulation

The availability, cost and quality of taxis is a key element of the transport mix in any city.

While all Australian capital cities have issues with their taxis, Perth's problems, especially in relation to taxi availability, are more critical than its interstate counterparts.

> **'Perth's taxi ratio the worst in nation'**
> *The West Australian*, 11th October 2006
>
> The truth behind Perth's late-night taxi crisis has emerged with new figures showing there is just one cab for every 1111 people—fewer taxis per head of population than any other major Australian city.
>
> The Australian Hotels Association and the Safer Northbridge committee claim the chronic shortage has forced a blowout in waiting times, with patrons forced to queue for up to three hours during peak periods in Northbridge and Fremantle.
>
> In Brisbane, the ratio is 888 people for every taxi, 900:1 in Sydney, 940:1 in Melbourne and 1097:1 in Adelaide. The Perth ratio will drop to one cab for every 1012 people in the metropolitan area when an extra 130 taxis are introduced before Christmas.

Along with the limits on retail trading hours and the proscriptive liquor licensing laws, the undersupply of taxis is a key contributor to why Perth sometimes struggles to reach the 'leading city' status to which it aspires.

Just as the policy on shopping hours has been determined by certain retail traders and the licensing laws by certain existing licensees, the policy on taxis has been determined by existing taxi licence plate holders.

History and background

The original Swan Taxis was established in 1928 and for sometime was one of a number of competing Perth taxi companies.

In the 1950s, it grew by amalgamation and expansion so that, by 1960, Swan Taxis Cooperative had purchased its last two major competitors and in doing so increased its fleet to almost 400 taxis.

Some years later Swan Taxis purchased White Top and Coastal Cabs of Fremantle, thus producing a situation where the entire metropolitan region, including the rapidly developing industrial area of Kwinana was now fully serviced by the Swan Taxis Cooperative. In a marketing ploy, Swan Taxis relaunched the Coastal Cabs name in Fremantle and Rockingham in 1998, as they had also done with Yellow Cabs earlier in the 1990s in Perth.

Even before it had achieved its industry dominance, Swan was seeking to restrict entry into the industry. The history section of the company's website records the following:

> In 1954 the then Minister for Transport decided to issue 150 taxi plates for the princely sum of seven shillings and six pence each. This large influx of additional and largely under utilised taxis on the road led to frustration in the industry which sometimes saw as many as 50 cabs queuing for business on city ranks.[10]

The company history also notes with delight the 1964 establishment by the state government of the Taxi Control Board (replacing previous regulation by the Police Traffic Branch) which it says was 'a popular step as it provided the industry with the opportunity to control its own destiny'.

And the industry certainly did control its own destiny, ruthlessly ensuring that the industry was run for its existing members rather than in the interests of potential new entrants or customers.

It did this by restricting access to licenses which meant that over time the number of taxis became less and less appropriate for a city of Perth's growing stature. For not only was the city's population growing faster than new licenses were being issued, it was also a period when disposable income was increasing, peoples travel needs were becoming more diverse, attitudes to drink driving were changing and tourism was opening up a whole new market of potential cab users.

Table 1: Metropolitan taxis, Perth

Conventional Taxis	923
Area Restricted Taxis (Armadale/ Gosnells, Kalamunda/Mundaring, Wanneroo)	14
Multi Purpose Taxis (wheelchair accessible)	32
Peak Period Restricted Taxis (Friday and Saturday Nights)	88
Leased Conventional Taxis	176
Leased Peak Period Restricted Taxis (Friday and Saturday Nights)	106
Leased Multi-Purpose Taxis (Wheelchair Accessible)	51
Leased Area Restricted (Armadale/ Gosnells, Kalamunda/Mundaring, Wanneroo	8
Total	**1398**

Source: Department of Planning and Infrastructure

The failure of the taxi industry to keep pace with the needs of a growing city reached its climax in a 14 year period when no new taxi plates were issued at all. In a period of growing population and growing demand taxi users and potential users suffered while the holders of existing licenses saw the value of those licences rise rapidly. Successive state governments were effectively increasing the wealth of a small section of the community at the expense of everyone else.

The prospect of a challenge to this cosy relationship was raised with the introduction of National Competition Policy (NCP) in 1995. The National Competition Council included taxis as an area that needed to be assessed by state governments. The Western Australian review found that:

> Restricting plate numbers leads generally to a sub optimal number of taxis in the market as complaints from the industry, if plate numbers are too high, are likely to be more vocal than those from consumers if there are too few taxis… Regardless of the sophistication of the models used, it is highly unlikely that the market optimal number of taxis will be reached in a regulated environment.

The review recommended that there be a taxi plate buyback. The Court Government took no action on the recommendation while the then Labor Opposition supported the concept of a buyback. The Macquarie Bank expressed interest in providing financing to fund what was estimated at being a $200 million buyback. There was strong opposition from both the Taxi Council of WA (representing 800 owners) and WA Taxi Association (representing 3000 drivers) and finally in August, 2003 they got their way with the Government dropping the buyback plan the day before a mass rally against the proposals was due to be held at Parliament House.[11]

The WA Government was not alone in its failure to deregulate—only the Northern Territory undertook significant reform (see below). The NCC has continued to argue that reform is needed. In a speech to a 2005 taxi conference Alan Johnston, a Director of the NCC argued that the taxi industry stood 'out like a beacon' among industries when it came to the need to deregulate and he believed that the industry and most states had been unable to establish that restrictions were in the public interest, rather they were in the interest of industry stakeholders such as plate holders.

While the WA Government backed down on major reform, Minister for Planning and Infrastructure, Alannah MacTiernan has continued to take more action on behalf of taxi consumers than most state ministers around the country have done in recent decades.

In December, 2003 the Taxi Act was amended to allow licenses to be leased rather than sold by tender and soon after 48 lease licences were advertised. It was then announced that a further batch of licences would be made available annually.

The Government announced that its leasing scheme had three objectives:

- To give drivers the opportunity to be owner-operators
- To meet increased public demand for taxi services and
- To reduce cost structures, therefore reducing pressure on fares.

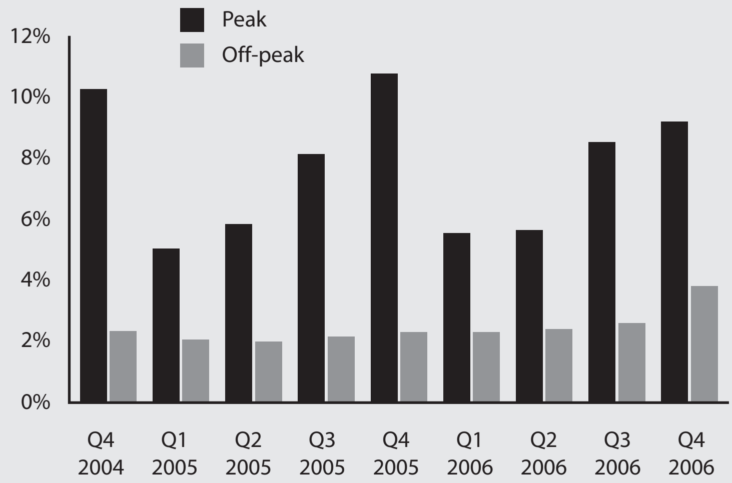
As a result of the Government's measures, between 2003 and 2006 there was a 27 per cent increase in taxi numbers meaning that, as of March 2007, there are 1,398 metropolitan taxis and 447 country taxis.

The Department for Planning and Infrastructure, which regulates the number of taxi licence plates, has produced a break down of the licensing arrangements for the 1,398 metropolitan taxis. (See Table 1.)

A limited number of new leased plates are made available each year. The current rates for conventional taxi plates (lease term 8 years) are $250 per week with 10 year terms and cheaper rates for other lease types.

The taxi industry regularly complains about the leasing of plates, but the Minister points out that they have

Figure 2: WA taxis, percentage of passengers not picked up



Source: *Talking Taxis*, Number 4, 2007

little to complain about as values have continued to increase from $202,796 to $229,936 since leasing was introduced.[12]

In an excellent speech Minister MacTiernan delivered at the Australian Taxi Industry National Conference in April, 2006 entitled 'Can we make a regulated industry customer driven?', she took on a number of the sacred cows of the taxi industry.

She began by criticising the Taxi Industry Association President for leaving the customer out of his list of drivers of the industry and said that 'the demand for preservation and indeed enhancement of plate values is putting the cart before the horse'.

Since that conference speech the Minister has also backed up her rhetoric to some extent by announcing in March this year that the Taxi Act would be amended to allow the issuing of up to 20 new taxi licence lease plates each month for 12 months. The aim is to get the job coverage rate at least back to 2003 levels.

As part of the amendments to the Taxi Act, the Minister also introduced provisions to make it a serious offence with a $5000 fine not to have issued plates attached to an operating vehicle. 'As of right' licensing would remove the need for this sort of draconian legislation.

The service quality figures are remarkably poor. (See Figure 2)

In making her March 2007 announcement of additional leased taxis the Minister acknowledged that even with her reforms 'Perth's ratio of taxis to population remains the lowest among Australia's major capitals'. She further commented:

> It is in the best interests of the industry, as well as the community, to have sufficient taxis on the road, otherwise the demand for deregulation will grow.[13]

Well the time has undoubtedly been reached when consumers of taxi services do deserve to experience the benefits of deregulation.

Deregulation precedents

Deregulation of taxi industries has been shown to have enormous benefits for consumers.

It has been undertaken in many cities around the world, in countries as diverse as the United States, United Kingdom, New Zealand, Japan, South Korea, Netherlands and Sweden.

Given its reputation as the home of big government, Sweden makes an interesting example. Its taxi industry was deregulated in 1990, with its government accepting that the best service for the lowest economic cost would be supplied by a deregulated taxicab industry subject to free market forces.

In the past thirty years deregulation or partial has occurred in many U.S. cities including San Diego, Seattle, Phoenix, Portland, Sacramento, Kansas City, Milwaukee and Indianapolis.

Dublin

In Ireland taxis had been regulated since 1978 and the restriction of the supply of licenses had driven up the price to 90,000 Irish pounds by 2000.

In that year the Irish High Court ruled that the existing regulation infringed the rights of people to enter a sector for which they had the training and skills and the right of the public to purchase the services of such persons.

The Irish taxi industry was forced to deregulate and in Dublin the results were particularly striking. Within two years the number of taxis on the road had trebled! Consequently passenger waiting times were drastically reduced—the proportion of people waiting for more than five minutes for a taxi fell from 75 percent in 1997 to 52 percent in 2001.

The price of a taxi license fell to approximately 5,000 Irish pounds and with overall market entry costs falling by 74 percent, the cost base for the industry was reduced which, in time, lowered fare rates.

There was also no drop in standards, or in the quality of service.

Despite the successes of deregulation, previous license holders have had some success in diluting its impact. Existing license holders will be compensated for the losses they incurred as a result of the fall in the price of licenses. Moreover, a new taxi regulator and Taxi Advisory Council have been established to oversee industry standards, license fees and stakeholder interests.

Darwin

As noted earlier, the prospect of deregulation in Australia was raised by the introduction of National Competition Policy (NCP) in 1995. The National Competition Council included taxis as an area that needed to be assessed

The Northern Territory was the only jurisdiction that actually went down the deregulation path, implementing its new policy on 1 January, 1999.

The number of taxis in Darwin rose from 87 prior to deregulation to a peak of 137 before plateauing at a figure slightly below that. After the first two years of the new system it was found that there had been 'reduced waiting times and improved service, with consequent reductions in complaints to the regulator'.[14] There were also beginning to be examples of fare discounting and niche marketing.

Undertaking taxi deregulation

In an ideal world the government would issue taxi licences to anyone who wanted one subject to suitability checks and the payment of a modest administrative fee.

Yet, given the lengthy history of taxi regulation getting to that ideal position is not a simple exercise.

What is clear, however, is that the fact that historically governments have pursued poor policies should not be a reason to continue to disadvantage consumers and potential new operators of taxi services today and into the future.

There are two extreme positions that could be adopted—full compensation to current licence holders and no compensation at all.

Governments are naturally reluctant to spend the significant sums of money required to buy back licenses at their full current value. In the cases of New South Wales and Victoria this cost would be approximately $1 billion each, while in WA it is still a very significant $200 million plus.

On the other hand, a decision to deregulate without compensation, while delivering a much better result for taxpayers, would clearly impose significant hardship on many taxi licence investors who would feel that they had invested in taxi licences in good faith and, while they may have no legal right to compensation, there is probably a moral obligation to ensure that they do not lose the total value of their investment in one fell swoop.

The move to deregulation needs to identify a position somewhere between these extremes. There are a variety of ways this can be done, through issuing extra licenses each year for a number of years and gradually reducing the cost at which they are offered.

As well as benefiting consumers deregulation would also be of massive assistance to drivers particularly those seeking to become owners. They would no longer need to take out a massive loan to fund a plate purchase.

As for those who argue that their taxi plate(s) are their superannuation policy, there are many other normal investments that do not rely on artificial regulation such as property or shares that would be far more suitable.

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