



Transport Research Centre
Macquarie University

**COMPETITION AND OWNERSHIP OF BUS AND COACH
SERVICES:**

AN INTERNATIONAL CONFERENCE

Thredbo Australia - May 1989

PAPER FOR WORKSHOP No.1: Experiences From Different Countries

"Buses in a Dry Climate"

by

Paul Amos and Margaret Starrs

Travers Morgan Pty Ltd
PO Box 1162
North Sydney NSW 2059

**Competition and Ownership of Bus and Coach Services
International Conference**

Thredbo 1989

BUSES IN A DRY CLIMATE

**Paul Amos BSc(Hons), MSc(Econ), MCIT
Joint Managing Director: Travers Morgan Pty Ltd**

**Margaret Starrs BEc, MTransEc, MCIT
Managing Consultant: Travers Morgan Pty Ltd**

1. INTRODUCTION

The Thredbo Conference has been planned to bring together a number of international commentators in the public transport field. They will no doubt discuss the changes to ownership and regulatory practices which have occurred in some countries as a result of greater weight given to the prescriptions of the so called 'economic rationalists', or 'free marketeers'. Changes have included deregulation, privatisation and contracting of services with the aim of reducing public sector involvement, increasing efficiency and improving service levels. As a result of some institutional changes a diversity of service types has been provided, and some operating conditions under which the services are provided have also changed, eg. labour practices.

For our overseas guests, the Australian system of government is federal in nature. The Commonwealth and state governments have powers defined in the Constitution, with the state governments having the residual powers. Transport matters within a state are the responsibility of that state, with the Constitution requiring free trade and commerce between the states. The Courts have generally interpreted this provision to mean that transport services between states cannot be regulated.

There are six states and two territories. The discussion in the paper is restricted to the most common practice with respect to transport operations within the six states. Arrangements within the territories are often different due to their direct funding by the Commonwealth (federal) government. Local governments are not recognised by the Australian Constitution. Their legislative authority and responsibility come from the state governments. In all metropolitan areas, except Brisbane, there are many local governments (for example 36 in Sydney) and no metropolitan or regional governments as is common in many other countries. State governments largely fulfil the role of metropolitan governments.

In Australia there has been little change to regulatory and ownership practices in recent years, while other countries have been making changes, some radical. Our contribution to the Conference is to explore the institutional setting for urban public transport in Australia. We make slight mention of non-urban public transport services where there may be some impact on urban ones. The paper addresses four major institutional factors: regulatory and ownership responsibility, financing of urban public transport, urban concentration and the industrial relations system. Few of these factors appear to provide a climate which encourages change.

2. OWNERSHIP AND REGULATION

As noted above, Australia has three levels of government (federal, state and local) with the responsibility for urban public transport generally lying with the states. (For a short time in the 1970s, the federal government took an active interest in urban public transport as part of its urban and regional development policies and programmes, and provided some capital works funding). This is in contrast to funding for roads (including urban roads) where the federal government makes significant amounts of money available, often with strings which enable it to pursue its objectives. These objectives can be quite different from those of any one state.

Although some differences exist between the states, the most common situation is that a state government provides most urban public transport services. But significant private bus operations exist in Melbourne, Sydney and Brisbane. Publicly operated modes included in the various major cities can be train, bus, tram and ferry. Urban passenger railways are owned and operated by the states, as are most non-urban railways. In most cases services are provided by state owned businesses set up to provide some autonomy and flexibility of operation. In practice, they are little different from government departments and are used to pursue regional economic and other political objectives. Any major changes in service levels, fares, manning levels, etc. are not simply management matters but major political issues.

The state governments have regulatory and licensing powers over transport services within their borders. So a state is generally the **owner**, the **operator** and the **regulator** of urban public transport services. Regulatory and licensing powers are used to "protect" state owned and operated services. For example, private bus services that do exist are not permitted to provide service in competition with a publicly-owned bus service or indeed rail service. This is perhaps best illustrated by private bus services in the western suburbs of Sydney which, apart from school services, are largely restricted to feeding radial rail lines. In more recent years, some competition has been permitted between operators (both bus and rail) on long distance passenger services, but this has yet to affect urban public transport services (see Section 4).

All state owned urban public transport services are heavily subsidised with cost recovery rates around the 20-40% mark, higher for buses and lower for rail services. Subsidy levels are high and cost recovery rates are low by world standards. In contrast, only in Melbourne do privately operated bus services receive **significant** direct government subsidy for route services (smaller amounts are available to some operators in Brisbane and Tasmania). In Sydney, school transport subsidies may financially assist other services but are not a direct funding mechanism. Other than in Melbourne, private bus services generally offer lower service levels than public sector buses (particularly in the evenings and at weekends), to maintain viability. In Perth and Adelaide private buses were "taken over" by the publicly operated system several years ago.

All these factors combine to make a very different institutional setting for the provision of urban public transport services than in many other countries. In most other countries there is a mix of responsibilities between different levels of government and this appears to create the kind of friction which can induce change. For example in the UK the central government was able to impose its policies for improved efficiency on local authorities through its regulatory and financial participation in public transport services. In Australia, even if the federal government were to believe that the states "waste" too much money on urban public transport services, there is no direct mechanism to apply financial pressure for change by the states (see Section 3).

In the circumstances it is somewhat ironic that one of the major pieces of evidence used by the UK government to support its case for improved efficiency via privatisation and deregulation was an indication of the much greater costs of public than private sector bus operations in the major cities of Australia (UK Department of Transport 1984).

In the USA which has a federal system of government similar to that in Australia, no one level of government has responsibility for urban public transport services. Local, regional, state and federal governments can all be involved in one way or another. They are all likely to pursue different objectives which can create a climate for change.

Recent events in New Zealand appear to mirror the UK experience. A UK-style deregulation is proposed in 1990 by the central government for the regional and local government public transport operators. The NZ experience appears

also to support the contention that friction between levels of government creates pressures for change. Its absence in Australia in the area of urban public transport makes change less likely.

3. FINANCIAL ARRANGEMENTS

Virtually no direct financial support for public transport by the federal government occurs for urban public transport services operated by the states in Australia. There is indirect funding through general purpose grants to the states (the federal system has the Commonwealth government being the major collector of tax revenues and the states the major service providers). The relative level of general purpose grants received by each state is determined on the basis of the fiscal equalisation principle. The application of the principle enables each state:

"... to provide, without imposing taxes and charges at levels appreciably different from the levels imposed by the other States, government services at standards that are not appreciably different from the standards provided by the other States." (Commonwealth Grants Commission, 1988, Vol. 1, p. 3).

Urban public transport services in major cities are included in the assessment made to determine relative levels of general purpose grants to the states, based on fiscal equalisation. General purpose grants comprise a significant share of each state's total revenue, although the proportion varies from state to state depending on each state's revenue-raising ability.

The procedure used for assessing the funding needs of urban public transport is known as the 'modified budgetary impact' method. It starts from the actual operating deficits of each state (including subsidies for privately operated bus services) and adjusts them for the effects of differences in the policies pursued by each State. These are decisions taken by a state which make its deficit different from other states, eg. different fare levels, service levels, operating efficiency.

For example, if one state had a lower fare level than the average of all other states, the deficit on which its funding needs are assessed would be modified downwards. A state with lower than average cost of service provision due to

greater efficiency would have the deficit on which its needs are assessed modified upwards. The procedure therefore attempts to be 'policy neutral', neither encouraging nor discouraging efficiency but making sure that each State has sufficient funds to provide an average service level at an average fare level for an average level of efficiency (but taking account of natural disabilities faced in each State).

It should be noted that there is absolutely no requirement for the money to be spent on the average service/fare level assessed or even on public transport at all. The procedure is designed to give each State a 'fair share' of tax revenue. What states do with the money is then up to them. It tries to ensure that those states which do improve their efficiency and thereby reduce their deficits are not then penalised by receiving lower grants; and that conversely, those states which have lower efficiency levels and hence higher deficits are not rewarded by receiving the extra amount. There is no built-in incentive to promote higher levels of efficiency by states in general.

Indeed, there are some who believe that policy-neutrality is unlikely to be achieved in practice. If one State has a higher deficit than others the procedures generally presume that this is due to 'natural disabilities' unless a specific efficiency difference can be demonstrated. It is argued that this incidence of the burden of proof means that in practice it is more likely that virtue will be penalised and fecklessness funded, than the converse. As one of the authors of this paper has been closely involved in trying to avoid this outcome, we leave it to others to consider whether the attempt has been successful.

In the 1970s, subsidies for public transport services accelerated greatly. It was widely believed by many commentators that states would have to take action to reduce deficits to prevent financial disaster. In the 1980s subsidies have continued to grow, but generally at lower rates than in the 1970s. Some cost cutting has occurred and the "financial disaster" averted, or some would say become accepted as normal.

4. URBANISATION

State governments, although controlling very large states, rely on votes in the major cities to remain in power. In four states, 62-73 percent of the population

live in their capital cities. Only in Queensland and Tasmania is the population more decentralised with about 40% in the respective capital cities. In all states except Tasmania, one major city dominates the state's urban public transport system. The highly concentrated and urbanised population appears to contribute to high levels of political interest in, and high subsidies to public transport. As a corollary, rural public transport has a generally low profile with state governments.

The provision of urban public transport services is a major function of state governments, and voters/riders are sensitive to changes in service and fare levels. They are also aware of service levels within the urban area and are quick to notice what they perceive as inequity if one area receives better service than another. The fact that demand or costs are higher in one area relative to another is not considered as important as the equity of common service levels. Equity also drives federal/state financial relations (as noted in Section 3) and the industrial relations system (see Section 5 below) in Australia.

In the larger capital cities, trips to work can be long and the costs of provision high. Fares reflecting costs would also be high, and sometimes beyond the means of users. This is contributed to in no small way by state government housing policies that have encouraged the poor and the carless to live in outer areas where land is relatively cheap. Some recent moves have been made to urban consolidation rather than fringe development but the impacts on urban development have been minimal to date.

The importance of urban public transport fares to state politicians in an electoral context should not be underestimated. In the 1976 NSW election a 20 percent reduction in fares was promised by the then opposition, who duly won the election and reduced fare levels. The fare reduction was a failure in economic and financial terms: there was little increase in demand and revenue fell, as could be fairly safely predicted from evidence on demand elasticities. The political assessment of the move was completely the reverse as the promised fare reduction was seen as a major contributor to electoral success.

A contributing factor to the deregulation of bus services in the UK was the poor service and increasing cost of service in rural areas. Central government subsidies for public transport were provided to all areas, whether urban or rural. In Australia, passenger train services in non-urban areas are provided by state

owned railways, and bus services are regulated by states. The original aim of the regulation was to protect rail passenger services from competition from bus services. The situation now is that some bus services are publicly operated (if they were introduced to replace more costly rail services), the number of rail services to be protected has rapidly decreased, but the bulk of services are regulated and provided by privately owned bus companies.

Interstate bus services are not regulated and compete with rail services. Since the early 1980s there has been a large growth in interstate bus services (BTE 1985). They have been successful in increasing market share and generating new business. In more recent years two states, Queensland and NSW, have deregulated some intrastate bus services, partly as a response to the success of the interstate operators. In general, the freeing up of bus services has led to better service levels, and some minor reductions to rail services. Rural transport issues also occupy the minds of state governments but not to the same extent as those in urban areas.

The changes aimed at improving efficiency and service levels in rural areas have been successful and their impacts may have some influence on urban transport policies; but the effects are likely to be less and to take some time to implement. The urban electorates are the major share of the votes in each state (and particularly the major proportion of marginal electorates) and the issue of public transport is too volatile to expect major changes that could have adverse effects on some parts of the electorate. The size of effects and their distribution is more difficult to estimate in urban areas so that the political risks attached to making changes are higher.

5. INDUSTRIAL RELATIONS

The Australian industrial relations system is based on different premises than those in most countries where collective bargaining occurs. The system is one of compulsory arbitration with fixed awards for certain types of work no matter what the industry or firm. The system is centralised, legalistic and adversarial. Arbitration tribunals exist at both the state and federal level with most unions being registered with a state system and the federal system. The system relies on the achievement of consensus between disputing parties for its continuation (as with collective bargaining), but when a consensus cannot be reached a solution is imposed by an arbitrator. This availability of tribunals has led to

their use by employers and employees as a substitute for resolving conflicts themselves (Hill et al 1984).

The number of unions registered in the system is large. There are over 300 unions, with just under a third having less than 500 members (Dabscheck and Niland 1981). Through the registration process, the industrial relations system gives legal status to unions and protects them from membership encroachment by other unions. The large number of unions in one work place does not encourage work place negotiation, and contributes to rigid demarcation of work and disputes when work practice changes are contemplated. Both unions and management rely on the tribunals to avoid responsibilities that would be considered normal in countries with a collective bargaining system.

Since 1984 an "Accord" (with various versions) has existed between unions and the federal government, with employers being either in or out of the Accord depending on which employer group is considered. It has resulted in centralised wage fixing aimed at minimising wage increases. The Accord is symptomatic of the relatively large and direct role played by Australian governments in industrial relations.

The industrial relations system in Australia therefore introduces rigidities which make change difficult. As in other areas of transport, publicly provided urban transport services are characterised by out-moded work practices and inefficient labour use. The second version of the Accord tied wage increases to improvements in the general level of productivity. The most recent version of the Accord makes pay increases dependent on work allocation/job restructuring. This area is being addressed in some industries at the current time and offers some hope that the influence of existing rigidities will be reduced. A recent strike in NSW was caused, inter alia, by transport operating authorities attempting to introduce promotion by merit.

Despite the uniformity fostered by the industrial relations system, publicly and privately operated bus services are operated under different awards. Labour productivity is much higher in the private sector due partly to award conditions and partly to much greater flexibility in labour use. This incongruous dual system has been in place for many years and has done little to prompt more efficient use of labour in the public sector. When states have absorbed privately operated bus services, employees have generally received large pay increases

immediately, and have had less efficient work structures adopted not long after. In Melbourne where the privately operated bus system is large and directly subsidised by the state government, attempts were made by the public sector bus drivers' union to obtain members in the private bus sector. This was seen as an inter-union dispute by the arbitration tribunal which protects the membership of one union from another. In 1982 the publicly owned operator in Tasmania sought permission to employ part-time drivers but was refused by the tribunal, although the practice is permitted in private bus operations (covered by another union and a different award).

As part of the restructuring process under the Accord, union amalgamations are being encouraged. It is hoped that restructuring will be assisted, that demarcation disputes will reduce, and the relations between management and unions will be better with a smaller number of unions in one work place. But this will not necessarily be the case depending on which unions agree to amalgamate. At the current time it is not the two unions which cover bus drivers that are discussing amalgamation, but the public bus drivers' union (ATMOEA) and one of the rail unions (ARU).

Moves to improve labour efficiency may result in industrial disruption which affects service provision. Users and non-users alike can be adversely affected, particularly in the two largest cities. In these cities, public transport services have a large share of the market for downtown work trips (up to 80 percent of trips). As with changes in fare and service levels, politicians are particularly sensitive to the effects of public transport strikes and generally aim to minimise their number. On the other hand, it is not unknown for governments to adopt confrontationist stances to encourage strikes, if the political pay-off is perceived to be greater than that from maintaining service. Either way, this highly charged political environment is hardly a good environment for efficient management.

The industrial relations system thus provides a considerable hurdle to implementing new policies as well as a constraint on achieving labour cost savings following implementation.

6. CONCLUDING REMARKS

We have discussed four institutional factors which limit change to urban public transport systems in Australia: regulatory and ownership responsibility, financing of urban public transport, urbanisation, and the industrial relations system. In our view, they combine to create formidable barriers to change in many of the directions we are sure will be discussed at this Conference. We certainly do not raise them to be discouraging of change, but to emphasise the need to discuss not only what a better system would look like, but also the many and tortuous steps which are needed to get there. Big challenges require big efforts.

REFERENCES

Bureau of Transport Economics (BTE) (1985). **Australian Long Distance Coach Industry Review**, Occasional Paper 74, AGPS, Canberra.

Commonwealth Grants Commission (1988). **Report on General Revenue Grant Relativities 1988**, 2 Vols., AGPS, Canberra.

Dabscheck B and J Niland (1981). **Industrial Relations in Australia**, Allen & Unwin, Sydney.

Hill JD, WA Howard and RD Lansbury (1984). **Industrial Relations: An Australian Introduction**, Longman Cheshire, Melbourne.

UK Department of Transport (1984). **Buses**, Cmnd 9300, HMSO, London.