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"The Fall and Rise of Private Passenger Companies in Public Transit-
The South Australian Experience"

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THE FALL & RISE OF THE PRIVATE PASSENGER COMPANIES

IN PUBLIC TRANSPORT

THE SOUTH AUSTRALIAN EXPERIENCE

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I will comment upon our own local scene in South Australia from the time when privately owned public transport services, responsible at the time for about a third of all metropolitan bus transport, were deliberately desecrated in 1974, not for any justifiable social or economic reason, not because services were not being effectively operated, but solely because of a misplaced ideological philosophy espoused by the then Labour Government, a Government with too ready access to Federal funds to fuel their ambitions of an all embracing metropolitan public transport service in which the private sector would play no part.

Now with nearly \$1 billion of accumulated losses later (the price we apparently pay in a democracy for politicians' foibles) the community is the recipient of never ending reports as to how the State Transport Authority might reduce its ever increasing yearly deficits.

Whilst I do not want to dwell in too much depth on the debacle of 1974, I would hope that there are lessons to be learnt which will not be repeated from ill considered political decisions. It is in fact interesting to reflect upon the mountain of reports gathering dust in the Department of Transport's Library in Adelaide, no doubt all prepared by competent experts both in and outside the Public Service but reports which, in many cases, are too difficult to implement because of political philosophies, vested interests or Union pressures.

The most recent Fielding Report of December, 1988, released publicly in March of this year, recommends some interesting and innovative proposals to take Adelaide's metropolitan transport into the last decade of this century at the same time reining in the growing yearly operating deficit.

I regret that some of the important fundamental recommendations on which, in my view, the whole of the balance of the report stands, will not be implemented by the present Government.

It seems to me that the private passenger industry, not only in Australia but indeed in other parts of the western world, has been subject to periods of intense growth coupled with varying degrees of prosperity followed by longer periods of containment by Governments, usually on politically motivated or ill-considered philosophical grounds.

This has certainly been the situation in South Australia over the last 60 years. Perhaps if ever proof was needed of the risks inherent in being a metropolitan private bus operator one only has to view the drama presently being played out in Victoria where historically the private sector has accounted for about 21% of the total metropolitan transport task. (60 million passenger journeys in 1986-87).

Is a 1989 Labour Government in Victoria about to repeat what occurred in Adelaide in 1974? I sincerely hope not.

In Adelaide in the 1920's there was significant but unregulated growth in privately operated passenger bus services in the metropolitan area. One could even say that the operations were disorganised and the competition so fierce that the bus companies were finally contained because of their own inadequacies.

The Government of the day's desire to protect the revenue earning potential from its own bus, tram and train services was also an important factor in the subsequent control imposed. In any event, through the formation of the Transport Control Board in 1929, the State's railways, tram and bus systems were generally protected from the growing road freight and passenger transport threat, to the extent that metropolitan public transport undertaken by the private sector diminished significantly, although some of the then existing private operators were granted ongoing licences.

I would suggest that the licences may well have been granted somewhat grudgingly because in virtually all cases the services operated by the private sector were peripheral to the main transport task, were mostly from the outer suburbs with low patronage or potential or were cross-suburban services offering no real threat to the Government services of the day. Nonetheless as a result of the initiative shown by those remaining private operators, there developed, particularly through the period of the post-War population explosion in the outer metropolitan areas, significant and mostly well conducted private operations generally complimentary to the then existing Government passenger services.

By the late '60s and early '70s private services accounted for about one third of total metropolitan bus traffic. In fact in the 1972-73 financial year, the private services carried 16.6 million passengers over 464 kilometres of licensed routes. Not an insignificant achievement for the 14 licensed services then operating, bearing in mind the lack of enthusiasm by successive Governments to provide any worthwhile encouragement to the private companies, inspite of the fact that their operations were no drain on the public purse.

I think it is also true to say that during that period there was general harmony between the Government Passenger Services and the licensed private operators. The private sector was not seen then as any real threat, no doubt because of the in-house control exercised over the private services.

I guess the only real problem facing the private companies at that time was that the Government of the day, through the MTT in fact, also controlled the scale of fares charged by the private companies. These fares, in retrospect, should have been set by an independent body and not the MTT.

The Flexibility of the Private Operators

Historically in Australia, as in most parts of the world, private passenger route service operators rely very heavily on tour and charter work to supplement their route service income. In fact tour and charter has always been the 'icing on the cake' because commuter services with their morning and evening peaks do not usually provide a sufficient level of income to sustain their operations and consequently operators, both public and private, have had to find other daytime and weekend uses for their vehicles. This poor utilisation problem confronts all public and private transport commuter operators to this day.

During the '50s, '60s and early '70s the South Australian private operators were able to build up their fleets and business with varying degrees of success depending on the area they served, providing increased frequencies and operating services which were of a generally comparable standard with those being operated by the Government.

The flexibility of the private company employees in driving, cleaning buses, changing tyres, perhaps undertaking mechanical repairs in off-peak periods was also a major factor in being able to keep the lid on operating costs and generally speaking, because the private sector was not unionised, there were no demarcation problems. This preparedness by staff to do whatever had to be done was an overriding factor in the success of the private operators and to some degree still is.

The Whitlam Era and Inflation

The '70s was a period of historically high inflation following the election of the Whitlam Labour Government which unleashed on the community pent up ideological philosophies and which was anxious to make its legislative mark after two decades of Liberal and Country Party Government at the Federal level.

Similarly in South Australia, there had been a change of Government from the even longer era of Sir Thomas Playford's Liberal regime with the advent of the Walsh and then the Dunstan Labour Governments and again a new wave of political ideologies and promises to be fulfilled in a period of rampant inflation.

Increasing public transport fares become a sensitive political issue and consequently the Government of the day, keen to promote growth in public transport in place of the motor car for work related trips, deliberately held down the fares of the Government transport services and as a consequence private bus fares were similarly constrained. For the Government services, of course, the Treasury met the growing shortfall in revenue to match the rapidly increasing operating costs but no such financial assistance was offered to the private sector.

The Demise of the Private Operators

An impossible situation arose in the late 1973 and early '74 where due to the fare freeze by the Government, the private operators were left with no effective alternative but to sell their services to the Government or face bankruptcy. They were driven into a corner by the transport policies of the Labour Government and the financial largesse being handed out by the then Federal Government for all sorts of State services whether economical or otherwise.

I still maintain 15 years later that it was a totally unnecessary decision taken by a Government believing it should not be seen to be subsidising private bus companies, although I would have thought in logic it was more a question of subsidising the passengers. Perhaps the strategy it adopted was a deliberate plan, aided and abetted by certain Transport Unions with a vested interest, to see the private sector out of public transport.

The Development of the STA

When one bears in mind that in 1969-70 the MTT bus and trams were just about breaking even, and in fact recorded a loss that year of only \$6,358, it makes one wonder whether political parties really appreciate the extent to which their pet theories can create a crushing financial burden for future generations, whose taxes have to meet increasing yearly operating deficits.

In the six financial years from '68 to '74 the MTT Bus and Tram Divisions lost \$4.3million. In the next three years following the takeover of the private services that loss had increased to \$27 million. So much for a metropolitan transport monopoly. There must be a lesson in that for all of us today.

It is interesting to reflect that at that time there was considerable comment on the possibility of the MTT as it then was, breaking even or perhaps making a small yearly profit from its operations. Now 15 years later the State Transport Authority recovers 25% of its total operating and servicing costs and the apparent generally acceptable and accepted target in public transport is to meet 33% of total operating costs.

What's gone wrong with our political parties, which in the case of Adelaide, is reconciled to losing up to \$150 million per annum on public transport, justifying such losses on the basis that public transport is in part a social service?

A Metropolitan Monopoly

The State has maintained its virtual total monopoly on metropolitan public transport over these last 15 years. The limited number of private services licensed to operate from outer metropolitan and near country areas, are really of no economic threat to the STA's current operations, although the STA's transport unions become paranoid at the thought of having to meet any competitive threat from the private sector.

Unfortunately there is no co-operation extended by the Government bus administrators to those of us who still operate private services to ensure that our timetables are complimentary. There is no system in place to enable passengers to transfer from our buses to theirs and vice versa using a transferable ticket. As far as the STA is concerned, we just don't exist.

Industrial Muscle

While I have no particular criticism to make as a private operator of the services which the STA now provides, other than to point out how costly they are to the community, there are too many industrial disruptions as a result of the monopoly position which exists and the past continual giving in by sympathetic Labour Governments to their Transport Unions' voracious appetites for even more benefits.

The monopoly position which the STA enjoys has undoubtedly encouraged these Unions to seek employment and service benefits which are by general industry standards over-generous, and which I doubt would exist to the degree that they do if there had been competition in the public transport marketplace.

The South Australian Bus and Coach Association's offer in December, 1987, to operate late New Year's Eve services which STA drivers refused to provide, met with a deathly response from the Minister of Transport and it indicates one of the difficulties facing the private sector.

Despite the fact the STA drivers steadfastly refused to operate the special after midnight services, the question of providing alternative transport services for the public appears to have been of no importance to the Government or the Union. We had the spectre of the drivers' Union all of a sudden concerned for their members' safety on these late night services. The real truth was that they were looking for increased penalties wages which the STA quite properly would not provide.

However, the STA did operate late New Year's Eve services in 1988 following the offer from the private sector to help the Government out. This time the drivers had the help of an unlikely ally in the South Australian Brewing Company. I assume they paid the additional wages required by the drivers. The previous year's safety issue didn't rate a mention at all.

I believe the experience in South Australia mirrors that of many other public transport monopolies where the Unions involved become too powerful and thus too demanding and service levels deteriorate.

I want to emphasise how necessary competition is in Government services as in the private sector. My concern is that unless there is some inbuilt incentives brought about by competition, then Australia and the taxpayers, already severely over governed, will continue to contribute millions and millions of dollars annually to prop up Government services, which through restricted work practices, perhaps too much employment security, and a lack of what I would call esprit de corps, will see a continuation of a top heavy, non-commercial approach to providing a public service. It does not need to be. I am sure with vision, and less political interference, that those who are in charge of these operations, could do a much more effective job than they are doing now with one hand and sometimes both hands tied behind their backs.

I would have thought that the landmark successful Privy Council Appeal by Hughes and Vale, challenging State Governments' right to restrict the private carriage of goods and passengers across State borders, would have galvanised the State owned public transport systems into immediately becoming more competitive. It has in fact taken over 20 years for most of them to climb out of the cosy, monopolistic situation in which they had been cossetted for so long. It was only the competition from the private sector that really started bringing the railway systems of Australia into the 21st Century.

Australia National have proved to be more aggressive and entrepreneurial through the setting of some commercial trading objectives for their future operations by successive Federal Governments'. Regretfully the State railway systems were in such a comatosed state, it took many billions of dollars of continuing losses before urgent action was commenced. Even then to reverse the situation, particularly in Victoria where the featherbedding within the State rail system had become an art form, the employee resistance to change was very evident and serious.

Privatisation and the Future

This now brings me to the present time and, I hope, from the very costly mistakes of the past, we are both wise and strong enough politically to wipe aside ideological hang-ups from a bygone era in our Transport Planning which have cost us so dearly.

Over the last two or three years, there has been much written and spoken on the question of privatisation. It has become an emotive subject and used to advantage during the last State election campaign by the ALP and their unions in a fairly dishonest way.

For example, the Premier, John Bannon, was reported in the News of Tuesday, 27 August, 1985, as saying, "Privatisation is a disaster policy. Bus fares would jump by 300% were the Liberal Party's privatisation policy to be implemented." He went on to say, "We have calculated that if the STA is sold, the average bus fare would jump from 70c to \$2.30. At that rate you would eliminate the operating deficit but you would also eliminate most of your passengers."

For a Premier with such undoubted intellect, those comments were singularly inappropriate, although I suppose that during the course of a political campaign, truth is often a victim of political rhetoric.

I do not believe that the Liberals had or have any intention of selling off the STA nor would they have raised fares to the levels suggested by the Premier when they gained office. His comments made great headlines although they did nothing to further a rational objective debate on privatisation now being implemented by the same Labour Government in a number of ways that do not make the headlines.

The US Experience

"The tremendous drive for privatisation of so many previously owned Government sacred cows throughout the world arises from the recognition that the disciplines of the competitive market can be employed in the provision of public services", so says Wendell Cox, Principal of the Wendell Cox Transportation Consultancy in the USA (who I'm glad to see is present at this Conference), quoted in a fascinating chapter of the US publication "Urban Transport"-The Private Challenge to Public Transportation.

He goes on to say, "Indeed, it has become clear to many in Government that without competitive market disciplines, costs inevitably escalate ahead of inflation and quality public services are difficult to maintain. Disillusionment with non-competitive public service delivery is widespread."

"I repeat, the purpose of privatisation is to provide a quality service to clients and taxpayers and to do so cost effectively."

Perhaps we can find a less emotive word than privatisation which more precisely describes what we would seek to achieve. (Perhaps commercialisation would be more appropriate).

I quote some further examples of the new thinking in America detailed in this book.

1. Realising that public responsibility for a service does not necessarily imply public operation of that service, some transit agencies are contracting out their low density services to private companies. In addition to providing substantial cost savings for the agencies these new transit providers perform an even more important role by increasing the variety and quality of service available. They can attract more commuters out of their cars and into mass transit.
2. The most transit dependent city in the United States, New York, now allows private firms to operate express bus services. These firms not only provide a higher quality of service to the City operated vehicles but do so at a profit and without Government subsidy. Even those areas of New York well served by subways are asking to add the new private express bus service as well.

These examples indicate that privatisation has a variety of meanings but that none imply an end to public responsibility, rather they suggest new ways of implementing this responsibility. The point is that Governments can ensure the existence of a particular service but not actually operate it.

Policy on Fares

One of the problems for transport operators is the tendency of Governments, for political reasons, to hold fares down far below the increases in the Consumer Price Index. For example, in the USA in 1967 the average bus fare was 22.4 cents. By 1980 this had risen to 37.5 cents, a 67% increase. During this same period, the Consumer Price Index rose by 144%, more than twice as fast as fares and by comparison, transit operating expenses rose by 319%, roughly five times faster than fares. We have experienced a similar situation in Adelaide.

There has been an idealistic reluctance to raise fares which stems from a confusion about the new societal goals. Fares were kept low for everyone to be assured that the poor could afford public transport, thus subsidising rich and poor alike.

Imagine that the great society programmes had been concerned with the rising price of food over this same period and decided to subsidise food prices for everyone in order to assure that the poor could afford a wide range of food. Such an indiscriminate food subsidy programme would be obviously nonsense but no-one thinks it strange that we do it in this transit industry. A better solution is to target subsidies to the needy. There are now some transit agencies that follow this user-side subsidy approach.

The UK Experiment

The transport privatisation programme in Great Britain, in what traditionally has been a highly unionised Government operated industry, indicates that both managers and workers in these monopoly organisations have embraced the new direction being taken, and I quote from the 1988 January/February issue of the US Trade Journal 'Mass Transit'.

"Privatisation confounds the critics. British bus passengers are getting a healthier industry since the routes free-for-all became law a year ago, says Transport Secretary, John Mitchell. Privatisation of the National Bus Company (NBC) is going well and Mitchell envisages that de-regulation will be extended to London buses by the early 1990's. It reveals a success story that has confounded critics who said that bus privatisation in Britain could not be made to work.

It was the simultaneous change to a de-regulated local bus scene which led the British Government to decide that National Bus should be sold off not as a single unit - as has happened with British Telecom and British Gas - but in the form of separate subsidiaries. "It was clearly right" that NBC should be privatised in parts if the bus market was to become "truly competitive".

Interestingly, and perhaps significantly, it was local managements who were the first in line to submit buy-outs for their companies after NBC's disposal programme had been approved in May, 1986.

By the beginning of October, 1987, 45 out of the 72 subsidiaries had been sold, with the whole or majority shareholding going to the management and/or employees in 27 instances. In almost every case provision has been made for employees at every level - drivers, bus mechanics, clerical staff - to take a stake in the business.

Meanwhile Transport Secretary Mitchell says "Comparing the position today with that of a year ago is to compare a thriving, competitive industry, organised to meet customers' needs, with one in which 50 years of regulation and State control had led to stagnation, rising costs and rising subsidies."

Governments as Facilitators

It seems to me that there is no God-given right for Governments of any political persuasion to necessarily always be the service providers. Undoubtedly, Governments have a responsibility to facilitate the range of services which a modern community is entitled to, including transport, but it does not have to provide them all itself, particularly if they can be done as well, better or cheaper by the private sector.

In the case of passenger transport, Governments should oversee the transport task, let services out by contract, or allow private contracted services to operate in competition with public services. The Authority lays down the reasonable operating standards to be provided and the extent of the services to be made available and then calls tenders for that work so that the disciplines of the marketplace come into play.

What is wrong with that? If that programme is going to save the taxpayer millions of dollars, then surely we have an obligation as a society, no matter what our individual political background or ideology, to adopt that approach, and use the funds thus saved for other pressing community needs of which there are so many and which may well be more suited to public ownership.

Private Transport Monopolies

I would see no virtue in privatising a Government transport service just to have a private monopoly instead of a public monopoly. However if, for example, the STA in Adelaide was broken up into, 10 smaller regional operating companies, I would suggest that then we would see the necessary economics and employee commitment appearing which would result in a much smaller transport deficit, whether Government or privately owned. The English experience certainly appears to confirm this and particularly the management and employee buy-outs which could happen here. Big is not necessarily beautiful or more efficient.

I realise there will be many hurdles to jump and many vested interests to satisfy before we see that situation emerge but that does not mean we should give up trying to change the current policies.

There are examples from all over the world to indicate that competitively-based services whether through Tender or by Contract can be operated at some 65% - 70% of those operated by a public service monopoly provider.

Cost Comparisons

Some years ago a very significant survey was undertaken in New South Wales by Travers Morgan, researching the cost of operating large private passenger companies servicing the outer suburbs of Sydney as compared with the then State Government bus services. The results of the survey indicated that the then UTA cost per kilometre was in excess of \$3.20 whereas for the private sector the cost was about \$1.60 for identical services.

A somewhat similar variation applies in South Australia, although the stated STA per kilometre bus cost is only about \$2.31. From my own experience, I would suggest that the private sector could operate a similar standard of service with similar type buses to the STA at about 50-60 cents per kilometre less than the STA or at about 65-70% of the STA costs.

The experience in South Australia, particularly since the monopoly situation arose in 1974, is very little different to that which has happened in many other Australian States and countries by well-meaning although I would suggest, misguided politicians.

Solving the Peak Travel Problem

It is now accepted by all transport professionals that there is no point in a public transport authority providing sufficient buses to cover its twice daily peak time requirements, then lay over perhaps half that fleet for the rest of the day. That is an expense no longer affordable in either capital or labour.

The action that should now be taken is to contract out those peak hour services by promoting car pools, van pools, taxis, private buses and the like, because, in fact, the overseas experience has been that "such alternative services are not competitors who skim the cream off the public operations, rather they should be seen as friends who actually help skim the deficit."

Fielding recommends this for Adelaide but such a reasonable proposition is not acceptable to the present Government. In fact, Dr Derek Scrafton, our Director-General of Transport, has on a number of occasions publicly promoted the view that some of the peak commuter services should be operated by the private sector as Express Services, perhaps at premium fares using tour and charter coaches which at that time of day are generally not otherwise being used by the private sector.

We just do not seem to have the political will to give such innovative ideas a try. In fact Dr Scrafton given a free hand could fix most of our transport problems but regrettably a prophet in his own land is too seldom heeded.

Co-operation and Private Involvement

The comprehensive metropolitan transport system which has been developed over the last 15 years in Adelaide cannot, of course, be destroyed, nor should it be. Nonetheless, I am of the view that it is time for the Government of the day to consult objectively with the community, the STA, its Unions, and the private sector, on the substitution of some STA services by the private sector to provide the degree of competition which would help provide a better long term and less costly transport solution for us all.

For example, in outer metropolitan areas, the private sector could contract a public transport task at a far lesser cost, thus saving the Government and therefore the taxpayer, a significant and unnecessary recurring cost each year, particularly as it is acknowledged by all the expert reports that these types of services are proportionately much more expensive for Government to operate.

There is no real reason why the STA could not even lease some of their buses out to the private sector and let them operate such services and contract out some of their maintenance services.

The fundamental truth is that the incentive and initiative inherent in individuals wanting to run their own businesses, to be their own masters, provides the powerhouse by which our society has and will continue to develop. It is the 70% or more of industry and commerce in the hands of private enterprise which has always provided the real wealth for the community and we should capitalise on this essential fact.

Our Day Will Come -

If the experience in other countries of the world is any example, I am confident that the private sector will again one day play a meaningful role in the provision of public transport in Adelaide not only through the use of more private buses, but through other demand-responsive type services, such as taxi cabs and community owned buses.

