

Workshop on PUBLIC PRIVATE PARTNERSHIPS

Melbourne passenger rail

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Connex in Australasia

- is the leading private passenger land transport provider in Australasia;
- has operations in: **Melbourne** (trains); **Sydney** (buses, lightrail, monorail); **Brisbane** (buses); **Perth** (buses); **Auckland, New Zealand** (trains); and **Noumea, New Caledonia** (buses);
- has more than 3,600 staff;
- operates more than 850 vehicles;
- carries more than 170 million passengers;
- provides more than 27,000 passenger services per week;
- has an indicative turnover of approximately \$610 million

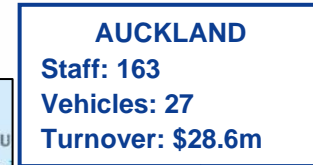
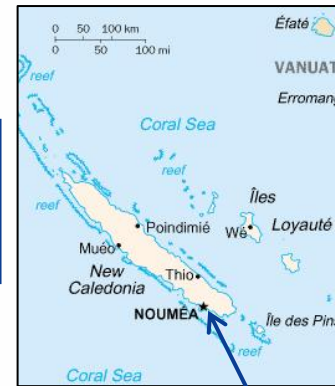
These figures assume a full year operation of all businesses – the expanded Melbourne contract started in April, the Auckland contract in August and the Perth and Brisbane contracts in October 2004



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Where Connex operates in Australasia



* Sydney figures include buses, light rail and monorail



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Melbourne - History

- In 1999 the State of Victoria awarded two train franchises to Connex and National Express and two tram franchises to Yarra Trams and National Express through a tender process;
- The operators experienced contractual and financial difficulties due to over-optimistic forecasts, flaws with the contracts and deficient ticketing system;
- The operators entered renegotiation of the franchises with the State;
- In December 2002, Connex and Yarra signed Interim Operating Agreements reducing the term of the franchises from 2014 to the end of 2003 or 2004;
- The negotiation between National Express and the State failed and National Express decided to terminate their franchises;
- Early 2003 the State entered direct negotiations with Connex and Yarra for one train and one tram franchise; on 19th February 2004 two 4.5 to 6 year partnership agreements were signed by Connex and Yarra/Govt



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What have we learnt

- Process of corporatisation **then** privatisation is complex and expensive.
- Management of such processes should **not** reside in finance agencies – must be in operating agency with on-going interest.
- Giving sufficient time for planning then implementation of process is critical to success.



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What have we learnt (cont.)

- Do not disaggregate systems designed/built to be operating homogeneously.
- Make absolutely sure that the commercial operation you are tendering is sufficiently well defined and that all critical elements are known – no surprises.
- Government needs to be very sure that it is prepared to accept the loss of control that is inevitable.



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What have we learnt (cont.)

- Ticketing system (revenue generator) is crucial
- The privatised element is usually only a “part” of a much bigger system you want to operate efficiently.
 - How do you manage interface/overlaps?
 - How do you manage common elements?
 - marketing
 - ticketing
 - system-wide policies (fare evasion)
 - route/mode coordination



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Where to from here

- Push for privatisation/PPPs varies widely
 - differing jurisdictions
 - differing models
- Overall – steady upward trend but not a tidal wave!
- 45% of the \$7 billion public transport market in Australia/NZ open to private sector



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Where to from here (cont.)

- Real question – what is the capacity/appetite of private companies for future large scale privatisation?
- Reality – Connex is one of few truly international operators – remarkable growth helped by Veolia as parent – diversified.
- Likelihood is that there will be relatively few international bidders, therefore need to look to “home grown” variety.
- PPPs will be more attractive than full scale privatisation to both parties



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Where to from here (cont.)

ISSUES THAT ARISE

- Lack of qualified/experienced managers on both sides of contract divide.
- Shrinking maintenance capacity.
- Managing political/public expectations as to improvements that can be expected.
- Attempts by (previous) government operators to 'pass the buck' to incoming private operator
 - operational performance
 - infrastructure investment



Where to from here (cont.)

ISSUES THAT ARISE

- Ultimate political responsibility will always rest with government.
- The contracting/franchising via franchise or limited term contract is a passing of temporary custodianship – the risk transfer and obligation to invest must recognise this reality.



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Where to from here (cont.)

- Public transport systems are complex, technically challenging and extremely dynamic.
- Rigid 'front end' contracts, applied inflexibility are a recipe for disaster.
- The contractual framework for private involvement must encourage/demand a mature, sophisticated partnership approach between both parties.
- Dispute resolution procedures must be fair, quick and transparent.



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Foundations of the Melbourne contract, 2004-

- *One train, one tram*
- Metlink
- Contract length
- Asset sale
- Managing risk
- Vertical integration & asset maintenance
- Revenue allocation
- A true partnership



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Summary of roles/responsibilities

Key service area	Train franchise	Tram franchise
Operations	Connex	Yarra Trams
Customer service	Connex	Yarra Trams
Revenue protection	Connex	Yarra Trams
Infrastructure maintenance	Mainco	Yarra Trams
Rolling stock maintenance	Alstom Melbourne Transport; Siemrail Vic	Alstom Australia; Siemrail Vic
Revenue allocation	Metlink	Metlink
Marketing and customer info	Metlink	Metlink
Long term system planning	DOI	DOI



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Conclusion

- 'British style privatisation' was a dismal failure in Melbourne
- Significant benefits can be achieved via private operation of public transport systems **if** done correctly.
- The latest Melbourne example is a good one in many respects.
- Single source negotiation **can** deliver better outcomes than competitive tender
- The PPP must be built upon role clarity and sensible (not ideological) risk allocation
- **Trust** between the parties is critical, and the contractual base must be both pragmatic and **flexible**.



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