VEOLIA TRANSPORT

26 February 2009

Ms Jeanette Radcliff
Committee Secretary
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Ms Radcliff,

Veolia Transport Australasia (Veolia) welcomes the Senate Rural and Regional Affairs and Transport Committee's Inquiry into Commonwealth and State Investment in Public Passenger Transport Infrastructure and Services. Public passenger transport is a vital community service fulfilling critical social, economic and environmental functions. Public transport enables people to participate meaningfully in society and to access essential services. It enables us to get to and from work, it connects us with family and friends and it provides an environmentally sustainable alternative to using private vehicles.

Australia's public transport networks have suffered from decades of under-investment as policy makers have focussed on building cities around the motor car. Today, we can see the disadvantages of this approach – in pollution, traffic congestion and social isolation. While Governments at all levels are now paying more attention to passenger transport issues, and increasing public investment in infrastructure and services, there is much more that can be done.

This submission focuses on three elements of the Inquiry's term of reference:

d. measures by which the Commonwealth Government could facilitate improvement in public passenger transport services and infrastructure;
e. the role of Commonwealth Government legislation, taxation, subsidies, policies and other mechanisms that either discourage or encourage public passenger transport; and
f. best practice international examples of public passenger transport services and infrastructure.

We have separated our submission into three sections to highlight the most critical policy issues facing the public transport sector. These issues are:

1. Investment in infrastructure;
2. Accountability; and
3. Commonwealth taxes and emissions trading.

Veolia is part of a worldwide passenger transport business. We believe that our operations are world's best practice, notwithstanding the limitations of local infrastructure and industry frameworks. If the Committee has any questions regarding Veolia's submission or about Veolia's Australasian transport operations, please contact Mark Paterson Head of Corporate Affairs on (03) 9610 2611

Again, thank you for your interest in passenger transport and for the opportunity to contribute to this Inquiry.

Yours sincerely

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Key Points

- Australia's passenger transport infrastructure has suffered from decades of under-investment. Urban passenger transport networks now face 'capacity constraints', with peak hour services struggling to meet growing demand. More investment is needed in capacity building passenger transport infrastructure, such as new rail lines, improved signalling systems, new trains and buses and more dedicated bus lanes. Both State and Commonwealth Governments, along with the private sector, must work together to address these infrastructure needs.

- State Governments have traditionally played the roles of both regulator and operator in the provision of public transport services. This model has had mixed success. Contracting private operators to provide services, with clear and transparent contract obligations, has important community benefits in terms of efficiency, customer service and accountability.

- Commonwealth Government policies have a significant role in influencing travel behaviours. A number of Commonwealth policies provide incentives for commuters to choose private vehicle travel instead of public transport – including the Fringe Benefits Tax regime and the proposed Carbon Pollution Reduction Scheme. These policies appear to be in conflict with other stated Commonwealth Government objectives – such as the goal of reducing greenhouse gas pollution.

Introduction

Veolia Transport S.A (Veolia Transport) is a division of Veolia Environnement S.A., the world's leading environmental services company. Veolia Environnement, which is listed on the Paris and New York stock exchanges, has operations on every continent. With more than 319,000 employees globally, Veolia Environnement recorded revenue of 32.6 billion Euros in 2007.

Veolia Transport is a world leader in the operation and management of public and private transport systems. It manages over 2.5 billion trips per year globally, thereby decreasing traffic congestion, combating climate change and avoiding over 3.6 million tons of Co2. Founded in 1912, Veolia Transport recorded revenue of AUD $9.4 billion in 2007. Veolia Transport's core values of customers, innovation, performance, team work and responsibility are integral to how it operates across the globe.

Established in 1997, Veolia (formerly Connex Group Australia) is the largest private provider of passenger transport in Australasia. It currently operates commuter rail in Auckland and Melbourne (operating as Connex Melbourne), buses in Brisbane, Perth, the south west region of Western Australia and Sydney. It also operates the light rail and monorail systems in Sydney.

Veolia is responsible for more than 245 million passenger journeys per annum, served by 4,300 employees and using more than 1,170 vehicles. Veolia's success is based on its expertise, decentralised organisation structure and partnership approach with not only its clients, but also with other key stakeholders including unions. In 2008, Veolia recorded revenue in excess of $950 million.

For more information about Veolia, please visit www.veoliatransport.com.au.

Victoria

In a contract awarded by the Victorian Government in 2004, Connex Melbourne operates the 15-line Melbourne metropolitan train network. Connex has been a key player in Melbourne's rail operations since 1999 when it won a contract to operate six lines in Melbourne's eastern and north-eastern suburbs.

More than 350,000 passengers per week day use the system – this equates to 203 million passenger journeys per annum. The network is of a radial nature with lines converging on the central business district. Services operate from early morning until after midnight. More than 2,500 staff work for Connex in the Melbourne train network.

New South Wales

Veolia has a strong presence in New South Wales where it manages two businesses - Veolia Transport NSW Pty Ltd, which is one of the State's biggest bus companies, and Veolia Transport Sydney Pty Ltd the operator of the Sydney monorail and light rail.

Veolia Transport NSW operates 64 route services and 324 designated school services within three contract region areas - 10, 11 and 13- centred on Sydney's southern, south western and western suburbs. It has a fleet of 264 buses and carries over 12.5 million passengers per annum.

Veolia Transport Sydney is contracted to Metro Transport Sydney to operate the city's light rail and monorail systems. More than 6 million passengers use the two systems each year. The light rail line extends from Central Railway Station to Darling Harbour and Star City Casino, before travelling to inner western suburbs. The Monorail runs aboveground in the heart of the city of Sydney.

Western Australia

Veolia Transport operates in Perth and the surrounding areas, and also in the South West region of Western Australia.

Operating as Southern Coast Transit (SCT) in Perth, Veolia Transport is one of Perth's biggest bus companies. Veolia operates in the Fremantle, Rockingham and Mandurah regions to the south of Perth. It also operates the popular free CAT services in Perth's CBD. Veolia has more than 600 staff, operates more than 20 million route kms and carries more than 17 million passengers per annum.

In the south west region of Western Australia, Veolia Transport operates as South West Coach Lines and Bunbury City Transit. Combined Veolia operates more than 80 vehicles and carries more than 1 million passengers per annum in the burgeoning south-west region of WA.

Queensland

Veolia Transport Brisbane is one of Brisbane's largest bus companies and operates services in the Redland Shire and Brisbane City. With over 140 vehicles Veolia Transport Brisbane operates 29 separate bus routes, both local and to Brisbane, including a 24 hour service on Fridays and Saturdays from Brisbane to Cleveland.

It covers six million kilometres per year and carries in excess of two million passengers, operating services every day of the year including 40 dedicated school services each day.

Veolia Transport Brisbane is a TransLink operator, conducting public transport services on behalf of the Queensland Government.

Auckland
Veolia Transport Auckland operates the commuter rail service in partnership with the Auckland Regional Transport Authority (ARTA). Veolia's contract has been extended to March 2014.

Both Veolia and ARTA are committed to increasing and enhancing passenger rail services in the Auckland region. The Auckland train network carries more than 7 million passengers per annum, serviced by more than 300 staff.

Infrastructure

Public transport use is booming around the country. For example, Veolia's Melbourne rail operation (Connex Melbourne) has experienced patronage growth of 46 per cent over the past three and a half years and 79% since 1999. This growth has been driven by a number of factors – including community concern over urban congestion, increased petrol prices, increased environmental awareness, and Connex's successful marketing and promotional strategies. Projected population growth figures will add further demand to the Melbourne train system over coming decades. Patronage growth has brought additional challenges, however including the serious issue of meeting the high levels of demand for public transport during peak periods.

Sir Rod Eddington has highlighted the pressures that continued growth will place on urban infrastructure. In his "East West Needs Assessment Study" into transport in Melbourne, Sir Rod was emphatic in stressing the need to expand the capacity of Melbourne's urban transport network:

> With at least 4.5 million people expected to call Melbourne home by 2031, there will be more cars making trips on the roads, more people using public transport, more commuters needing to get to work each morning, and more and more goods moving through the city. For Melbourne to remain an attractive, liveable and successful city, it needs a transport system that can keep up with this growth.[1]

The problem of "keeping up with growth" is not confined to Melbourne. In fact, the number of passenger rail journeys across Australia grew from 604.9 million in 2002-03 to 643.4 million in 2005-06.[2] The Melbourne rail network is now carrying more passengers than ever before (203 million in the y/e September 2008). Due to continued growth in 'urban sprawl', with the development of new communities on city fringe areas, the length of public transport journeys are also increasing. The total passenger kilometres travelled on rail across Australia in 2005-06 was 11.9 billion - up from 11.2 billion in 2003-04.[3] In Melbourne, the situation has changed significantly since the railway boom times of the 1940s and 1950s:

> The distance people travel on the train has also increased as the city has grown. Today, the average journey length is around 18 km; in 1930, it was less than 11 km. The result is that when the number of passenger kilometres run today is compared to that of the 1950s, the load being carried by the system in 2008 is far greater.[4]

With more passengers, travelling longer distances, "overcrowding" on peak hour services has become a major concern for patrons. Indeed, the limited capacity of networks to carry more passengers during peak hours stands as a major impediment to future growth, particularly for passenger rail. Again, the Eddington Inquiry stressed the need to plan for growth:

> Given Government policy and recent changes in community travel behaviour, it is important that (when planning the future rail network) the ability to meet public transport patronage objectives is not constrained by capacity limitations.[5]

[1] Sir Rod Eddington, *Investing in Transport: East-West Needs Assessment*, March 2008, p7.
[2] Bureau of Infrastructure, Transport and Regional Economics, *Australian Transport Statistics*, June 2008, p14
[3] Ibid
[4] Sir Rod Eddington, *Investing in Transport: East-Weeds Needs Assessment*, March 2008, p74.
[5] Sir Rod Eddington, *Investing in Transport: East-West Needs Assessment*, March 2008, p76.

Veolia supports the Victorian Government's planned urban rail improvements, as outlined last December in the *Victorian Transport Plan*. The East West Rail Tunnel will enable a doubling of capacity in rail pathways into and through the City. Together with the Tarneit connection, the East West Rail Link will more than double the capacity of both the Northern and Caulfield groups of lines, the lines serving four of the five growth areas of Melbourne. Furthermore, it will provide capacity for an additional 40,000 commuters to enter and leave central Melbourne each hour, equivalent to the construction of 20 new freeway lanes. The Victorian Transport Plan also identifies a substantial train acquisition program which will not only deliver more capacity, but help availability of the existing fleet through improved train reliability.

Given the enormous scale, and significance to the economic prosperity and liveability of Melbourne, Australia's second largest city, Veolia argues that the Commonwealth Government should contribute to the delivery of these projects. Veolia commends the Commonwealth Government for its commitment to urban infrastructure through the Building Australia Fund and the establishment of Infrastructure Australia. Veolia strongly recommends that urban passenger transport is given appropriate weight within Infrastructure Australian's priority list, with projects such as the East West Rail Tunnel and Tarneit connection receiving Commonwealth funding contribution from the Building Australia Fund. The use of private finance to supplement Government contributions should be considered wherever possible. For example, opportunities may exist to link private commercial developments to new public transport infrastructure.

While investing in expanded infrastructure is critical, the passenger transport industry recognises that it must also seek to maximise the efficient use of existing infrastructure. Veolia, for example, has worked in partnership with the Victorian Government to increase the number of services in peak times through timetabling refinements. Veolia has also cooperated with the Victorian Government in the introduction of off-peak fare initiatives. Encouraging commuters to travel outside the busy peak hours, and thus spreading demand more evenly across the day, is a low-cost option for reducing peak hour overcrowding.

Accountability

Traditionally, State Governments have delivered urban passenger transport services directly through Government departments. Today, however, most of these agencies have either been 'corporatised' or operations have been outsourced to the private sector, as with Melbourne's heavy rail and tram services. The Australian experience with State Government-owned and managed transport operators has been mixed. Essentially, transport authorities can be caught in a conflict of interest when performing the dual roles of operator and regulator. Government-owned operators are also under no competitive pressure to perform efficiently and provide high-quality services that meet the requirements of their customers. The corporatised or departmental model has the potential to fail on three fronts – customer service, efficiency and accountability. The performance of transport agencies in NSW over recent years has amply demonstrated the worst aspects of this model.

The NSW Independent Pricing and Regulatory Tribunal (IPART) released a paper in December 2008 outlining a new model for the delivery of rail services in Sydney. While the terms of reference for the report precluded a discussion of outsourcing operations to a third party, IPART made it clear that the current model in NSW is failing. The IPART report stated that current governance arrangements:

> are not specific, detailed or transparent enough. As a result, the Government has not effectively set CityRail's strategic direction, set the performance standards it requires CityRail to meet, evaluate and hold CityRail accountable for its performance, or create effective incentives for it to improve this performance. The lack of transparency and accountability has undermined IPART's ability to create effective incentives through its fare determinations.[6]

Conversely, IPART noted the benefits of the Victorian model in earlier review of the CityRail regulatory framework:

> IPART notes that the agreement between the Victorian Government and Connex provides for:
>
> - transparency in terms of the level of service to be provided and the drivers of operating costs
> - accountability in terms of government knowing what it is 'purchasing' and commuters
> - knowing the level of service they should expect
> - discipline on government by clearly identifying government policy and the associated costs of this policy
> - efficiency in service provision in terms of Connex being provided with incentives to reduce inefficiencies
> - reducing the fiscal impact on government in terms of deficit funding
> - improving service performance by reducing train delays and cancellations.[7]

The lack of accountability inherent in the NSW model, and the dangers that accrue from a lack of transparency, have most potently been exposed by the Independent Commission Against Corruption's (ICAC) investigations into procurement practices within RailCorp. The ICAC investigation found that RailCorp employees had "improperly allocated almost $19 million to companies owned by themselves, their friends or their families, in return for corrupt payments totalling over $2.5 million."[8] In total, the ICAC made 96 findings of corrupt conduct against 31 people, and referred a potential 663 criminal offences to the Director of Public Prosecutions.

[6] IPART, *Improving CityRail's accountability and incentives through an effective service contract*, December 2008, p1.
[7] IPART, Review of the CityRail regulatory framework, October 2007, p19.
[8] ICAC, *Investigation into bribery and corruption at RailCorp*, Report Summary, December 2008, www.icac.nsw.gov.au

The performance of the Sydney Ferries Corporation (SFC) equally demonstrates the potential for this model to deliver poor service standards. While public transport patronage has grown around the country over the past five years, growth on Sydney Ferries has been stagnant. The failures of Sydney Ferries were laid out in extensive detail in the Special Commission of Inquiry into Sydney Ferries, completed in 2007 by Bret Walker SC. According to Mr Walker,

> There is little doubt that, overall, SFC's performance has been less than satisfactory. It has consistently spent more than it has earned or received, it has not achieved much by way of productivity gains from its workforce, it is beset by cultural problems and it does not yet have in place all the management tools needed to efficiently run its operations.[9]

Mr Walker was clear about the underlying governance issues contributing to these failures:

> Sydney Ferries Corporation does not have a contract with Government which sets out the terms by which it should operate. With or without a contract, as a State Owned Corporation, SFC cannot be subject to any meaningful penalties for non performance or poor performance nor are there any real financial incentives to perform well. Governments generally do not and should not sue another agency of Government to enforce good performance or sanction performance.[10]

Mr Walker clearly saw the benefits of a competitive model in delivering better services, increased accountability and improved efficiency. Mr Walker recommended that

> Processes should be started as soon as possible to offer a comprehensive service contract, including fleet replacement responsibilities, to the market. If bids from the market compare favourably with the financial and quality performance of SFC as a State Owned Corporation providing the same service, the best (and not necessarily the cheapest) bid should be accepted by Government. If bids from the market do not compare sufficiently favourably with the prospects offered by SFC, SFC should continue to provide the service subject to a statutory contract.[11]

Similarly, competition has brought the benefits of innovation and efficiency to the provision of bus services around Australia. Progress in this regard has been hampered, however, by natural barriers to entry for new market participants, and (in some instances) a preference within transport authorities to conduct negotiations with incumbent operators rather than go to competitive tendering. While Veolia understands some of the difficulties in applying the competitive tendering model to local bus services, such as claims to legal 'grandfather rights', these difficulties can be overcome, and they should not be used as a justification for the maintenance of inefficient operating practices.

Of course, competitive tendering processes and service models such as franchising are constantly evolving. Veolia's experiences in Victoria have shown how operators are under constant pressure to perform and reach service benchmarks. Equally, Governments are under pressure to ensure that taxpayers are getting the best possible deal from their contractual arrangement with transport operators. The extension of competitive processes to the provision of public transport services should be pursued across all jurisdictions to achieve better value-for-money for public transport users and taxpayers alike.

[9] Bret Walker SC, *Report of the Special Commission of Inquiry into Sydney Ferries*, October 2007, p1.
[10] IBID
[11] IBID, pp1-2.

Commonwealth Taxes and Emissions Trading

At the Commonwealth level, there appears to be a significant conflict between the Commonwealth Government's stated policy objectives in climate change and urban transport, and the impact of Government taxes and regulations. These are most evident in the application of Fringe Benefits Tax and the proposed Carbon Pollution Reduction Scheme.

The benefits of public transport in reducing greenhouse gas emissions are obvious. The International Association of Public Transport has noted that

> Taking an average occupancy of 25% for public transport, the primary energy (and GHG emissions) consumption per passenger per kilometre of public transport is only one third when compared to the private car, even with the many recent improvements in automotive technology. In peak hours when most transportation problems in urban areas occur, public transport has an advantage of as much as 10:1 over the private car.[12]

Greater use of public transport will be essential to reduce Australia's transport-related greenhouse gas emissions. As this submission has argued, more investment is needed in urban passenger transport infrastructure to ensure supply can meet increasing demand, especially in peak hour. More can also be done, however, to encourage 'modal shift' away from private vehicles to more sustainable options such as walking, cycling and public transport. The Commonwealth Government has an important role to play in encouraging sustainable travel behaviours, particularly through taxation policies. Tax concessions for motorists, most notably the concession for salary-packaged cars in the Fringe Benefits Tax regime, effectively act as financial incentives for people to use more fossil fuels. By providing a tax advantage to motorists, the FBT regime contributes to the problems of greenhouse gas emissions and urban traffic congestion in our cities.

Passenger transport operators such as Veolia have also been dismayed by the Commonwealth Government's proposed Carbon Pollution Reduction Scheme, which will further benefit motorists at the expense of public transport passengers. Provisions for a petrol excise 'offset' will effectively defeat the purpose of including the transport sector within the Carbon Pollution Reduction Scheme. A more sensible approach would be to apply the same price signals to motorists and public transport users alike – by either removing the petrol 'offset' or providing equivalent compensation to the public transport sector – within a coordinated Government framework designed to reduce transport-related greenhouse gas emissions.

A 2001 report into emissions trading and the transport sector, prepared by the Allen Consulting Group for the National Transport Commission, found that the application of a price signal to the cost of petrol would have a relatively small impact on greenhouse emissions due to the inelastic nature of demand in the transport market. Nevertheless, the report recommended including transport in an emissions trading scheme, arguing that

> it is important that transport and other energy sources are treated in a broadly similar fashion by potential greenhouse policy instruments. For consistency, it would be simplest to include the transport sector in an emissions trading regime covering at least all fossil fuel combustion activities. This would raise the cost of vehicle use modestly, particularly for passenger transport.[13]

[12] International Association of Public Transport (UITP), *A low carbon future with public transport* (UITP position paper), January 2007, see www.uitp.org

[13] Allen Consulting Group, *Greenhouse Emissions Trading: Implications and Opportunities for the Australian Transport Sector*, December 2001, pii.

The report also argued that emissions trading should not be seen as a panacea for reducing transport-related greenhouse gas emissions, and should be supported by a range of other complementary policy measures. These measures could include:

- accelerated fuel saving and emissions control technologies for new cars through voluntary action (such as industry covenants) or, if necessary, through regulation (such as average fleet efficiency regulations);
- reform of Fringe Benefits Tax to remove perverse incentives relating to passenger vehicle purchases and use;
- introduction of a special sales tax differential for new cars (operating alongside the GST) favouring more energy efficient vehicles, supported by improved efficiency labelling;
- use of policies to encourage accelerated scrapping of fuel inefficient vehicles; and
- changes to existing registration fees to make them sensitive to vehicle use (such as through distance-based third party insurance).[14]

The report argues that these complementary measures are vital, as

> such an approach would help reduce both greenhouse emissions and urban congestion, and provide a better match between policy tools and policy objectives, recognising the limitations of increases in fuel prices.[15]

Not only has the Commonwealth Government put forward an emissions trading model that shields motorists from the effects of the price signal while penalising public transport users, it has also failed to make progress on important complementary measures highlighted in the Allen Consulting Group paper, such as Fringe Benefit Tax reform. A serious policy framework for addressing transport-related greenhouse gas emissions would acknowledge the role of public transport and encourage modal shift to sustainable transport options, while expanding the capacity and reach of public transport networks.

[14] Ibid.
[15] Ibid, piii.

Conclusion

Public transport connects people, and is essential to the efficient functioning of our cities. It is an efficient way of moving people, helping to reduce our total energy consumption. The development of more comprehensive, effective and customer-focussed passenger transport networks is a matter of national interest.

Veolia contends that there are a number of policy issues that need to be addressed by both the Commonwealth and State Governments in order to grow the public transport sector and maximise the benefits of public transport to the Australian community:

- Investment in infrastructure – particularly in projects that will increase the capacity of urban passenger transport networks;

- Greater separation of regulators and operators – particularly through the use of private sector contracting models to ensure greater customer focus, efficiency and accountability;

- Tax reform – particularly through reform of the 'perverse' Fringe Benefit Tax concession for salary-packaged vehicles; and

- Changes to the proposed Carbon Pollution Reduction Scheme – so that it provides appropriate pricing incentives to drive changes in consumer travel behaviour that are consistent with the Commonwealth Government's stated objective of reducing greenhouse gas emissions.