
11 Social dimensions

Governments have used the provision of rail services to promote a number of non-commercial objectives relating to passenger and freight transport. These include safety, congestion, the environment, employment and regional development. The reform of Australia's railways does not preclude governments from pursuing clearly specified and funded non-commercial objectives. However, consideration needs to be given to the most effective and efficient way of achieving desired outcomes. If governments do choose to subsidise railways, procedures and funding need to be managed in a commercial manner and costs made transparent.

The reduced demand for labour by railways is largely due to technological change and competition from road transport. As a consequence, direct intervention by government is likely to be a costly and ineffective way of influencing the level of employment in railways or achieving general employment objectives. Instead, governments have a key role to play in facilitating adjustment within the industry to reduce unnecessary transitional costs and to help people and regions adjust to change.

As part of this inquiry, the terms of reference require the Commission to 'have regard to the established economic, social, regional development and environmental objectives of government'. In addition, the *Productivity Commission Act 1998*, requires the Commission 'to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission'.

Participants have raised concerns regarding the effects of rail reform on the provision of non-commercial services (particularly in urban areas), employment levels and regional development outcomes. This chapter describes the current role of governments in providing non-commercial rail services (section 11.1). Section 11.2 considers the rationale for subsidising railways and the scope for minimising the cost of such subsidies. Section 11.3 addresses some of the specific concerns raised by participants regarding the provision of non-commercial rail services. Section 11.4 then discusses the impacts of reform on railway employment and regional areas in Australia.

The Commission's concurrent inquiry, *The Impact of Competition Policy Reforms on Rural and Regional Australia*, considers structural adjustment issues in regional Australia in greater detail (PC 1999).

11.1 Government payments to railways

State governments make considerable payments to railways from their annual budgets to fund the provision of non-commercial rail services.¹ These services are widely known as community service obligations (CSOs). As well as recurrent payments to cover operating expenses, governments in some instances provide capital grants for the purchase of infrastructure such as rollingstock and track.

There are difficulties in accurately determining the cost of providing subsidised rail services in most jurisdictions from publicly available information. In some instances subsidy payments are presented as a consolidated payment for all transport modes. In many cases it is unclear how the cost of the service was calculated, especially the treatment of capital assets.

Government payments for urban and non-urban passenger services are usually a combination of general subsidies for all passengers, as well as additional concessions for targeted users. Payments for freight services include subsidies to train operators as well as payments for the retention of non-commercial branch lines.

For example, the NSW Government paid over \$1 billion to purchase rail services and infrastructure in 1997-98 (table 11.1). Payments made to railways included explicit CSO payments, deficit funding and capital grants. Explicit payments were made to the State Rail Authority of New South Wales (SRA) (for urban and non-urban passengers), FreightCorp (for the haulage of some grain, minerals and general freight in regional New South Wales) and Rail Access Corporation (RAC) (for track infrastructure on a number of regional branch lines). In addition, SRA received a capital grant of \$356 million and recorded an operating deficit of nearly \$33 million in 1997-98.

¹ Transport subsidies are not restricted to railways. Governments subsidise a range of transport modes including buses, ferries, trams and regional aviation. The Commonwealth Government no longer subsidises rail directly although it does reimburse some pensioner discounts.

Table 11.1 State Government payments for community service obligations^a, 1997-98

<i>Rail service</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>
	\$m	\$m	\$m	\$m	\$m
Urban passengers					
Explicit payments and deficit funding	462.5 ^b	201.2 ^d	327.5 ^e	87.2	174.5 ^g
Capital grants	356.2 ^c	172.7 ^d	0 ^f	0 ^f	0 ^f
Non-urban passengers					
Explicit payments and deficit funding	71.2	—	59.8	13.7	0 ^h
Freight					
Explicit payments	90.0	6.5	158.8	0 ^h	0 ^h
Track					
Explicit payments	177.0
Total payments	1 156.9	380.4	546.1	100.9	174.5

^a No rail CSO payments were made by the Tasmanian Government in 1997-98. ^b The entire operating deficit for SRA in 1997-98 (\$38.2 million) has been allocated to urban passenger services. ^c All capital grants to SRA have been allocated to urban passenger services. ^d This figure represents the total cash payment to the PTC for all passenger services (trains, trams, buses and non-urban passengers) in 1997-98. Around half the passenger services provided in 1997-98 were by rail. ^e QR received \$7.8 million in concession payments for urban passenger services. These funds were recorded as sales revenue by QR. ^f No capital grants were made by the State Government for urban passenger services in 1997-98. Costs associated with the maintenance of capital are included as part of the explicit payments. ^g Includes payments to TransAdelaide (economic entity) for urban trains, buses and trams. Around 22 per cent of the journeys provided by TransAdelaide in 1997-98 were by rail. ^h No payments were made by the State Government for this service in 1997-98.

... included as part of payments for the provision of subsidised passenger and freight services.

— included as part of the consolidated payment for urban passenger services.

Sources: SRA 1998; FreightCorp 1998; RAC 1998; PTC 1998; V/Line Freight 1998; QR 1998; Westrail 1998; TransAdelaide 1998.

The NSW Minerals Council suggested that the NSW Government was partly funding certain rail freight CSOs through cross-subsidisation from coal operations:

Additional CSO funding is provided by monopoly rent from coal access charges. This is described as an 'adjustment component' of access charges under clause v(e) of Schedule 3 of the [access] Regime.

... An analysis of the accounts suggests that the adjustment component is being used to cross-subsidise RAC's operations. (sub. 39, p. 17)

However, RAC disputed this suggestion:

... the export coal adjustment component is not and has never been used by RAC to cross-subsidise loss making operations as suggested by the NSW Minerals Council. (sub. DR102, p. 34)

The Commission has not sought to verify the claims made by the NSW Minerals Council. However, the situation does demonstrate how a lack of transparency in the manner by which governments specify and fund non-commercial services can create perceptions of unfair treatment on the part of commercial (unsubsidised) customers.

The Victorian Government paid over \$380 million to purchase rail services and fund infrastructure in 1997-98. Payments made to the Public Transport Corporation also included explicit payments, deficit funding and capital grants. V/Line Freight received \$6.5 million in payments for subsidised freight operations.

In Queensland and Western Australia, non-commercial services are funded through explicit payments to Queensland Rail (QR) and Westrail, respectively.

In South Australia, urban rail passenger services in Adelaide are provided by TransAdelaide. In addition, TransAdelaide also provides urban bus and tram services. Total contract payments to TransAdelaide for all services were \$174.5 million in 1997-98.²

Long distance passenger services (the Indian Pacific, Ghan and Overland trains) are provided by Great Southern Railway (GSR). With regard to passenger subsidies, GSR stated:

Great Southern Railway now operates without any Government subsidy. The Commonwealth and certain States continue to pay reimbursement for pensioner discounts and other concessions, however this has now declined to about 10 per cent of income. (sub. DR95, p. 2)

In Tasmania no rail CSO payments were made by the Government in 1997-98.

11.2 Subsidising railways

Government subsidies to railways represent a significant use of the community's resources, exceeding \$2.3 billion in 1997-98 across jurisdictions (table 11.1). In New South Wales and Queensland, payments to railways represented around 5 per cent and 4 per cent of total government outlays respectively (NSW Government 1998b; Queensland Government 1998b).

² Published payments to TransAdelaide are consolidated across all transport modes with no individual costing for the provision of urban rail passenger services.

In some instances users make virtually no contribution to the cost of their rail services. For example, with respect to some branch lines used for transporting grain in New South Wales, RAC commented:

Certainly without below rail CSOs that very extensive network of grain branch lines in New South Wales wouldn't exist. We get about 95 per cent of our revenue off a typical branch line from the CSO and only about 5 per cent through access fees. (trans., p. 1106)

Similarly, in the case of urban and non-urban passenger services, government subsidies often cover most of the cost of providing the service. Fare structures are determined by government and prices paid by passengers cover only a small proportion of the cost of service provided. The difference between the cost of service and passenger fare is broadly consistent across jurisdictions. For example, in Queensland, the average government payment (subsidy) per urban rail passenger journey is over five times the average fare paid by passengers (box 11.1). In Western Australia, the average government payment per urban rail passenger journey is over four times the average fare paid by passengers (Westrail 1998).

Box 11.1 Government subsidies for urban rail passenger services in Brisbane

In Brisbane, urban rail passenger services are provided by the State-owned statutory corporation, Queensland Rail (QR). In 1997-98, QR provided around 41.5 million passenger journeys and collected approximately \$60.6 million in farebox revenue, \$7.8 million in concession payments and \$319.7 million in community service obligation payments from government. From this information it can be estimated that:

- the average fare paid by passengers per journey was approximately \$1.45.
- the average subsidy (including targeted concessions) per passenger journey was approximately \$7.90.

Source: QR 1998.

Governments may justify some subsidies on the basis that rail is disadvantaged relative to road transport. Under existing arrangements, some of the costs of road transport (such as air pollution and damage to roads) are not fully reflected in road user charges. Subsidies to railways may also be justified as promoting social objectives, including income redistribution, access for disadvantaged groups and regional development.

This section focuses on the merits of subsidising railways to promote non-commercial objectives as well as some issues arising from such a policy. Consideration is also given to the most effective and efficient way of minimising the cost of subsidies while achieving the desired outcomes.

Participants' views

Participants generally supported governments subsidising railways for a variety of reasons, including a lack of competitive neutrality with road, accessibility for disadvantaged groups and regional development. In addition, People for Public Transport and the Bicycle Federation of Australia raised the issue of the relationship between energy use and transport as worthy of consideration by governments (subs. 14 and 31).

In regard to urban passenger services, the Australasian Railway Association (ARA) commented:

Australia's urban and commuter railways generate significant social benefits by providing an efficient mass transport alternative to cars, helping to reduce road congestion and accidents, fossil fuel consumption and greenhouse gas emissions, particularly in urban areas. (sub. 51, p. 8)

And the South Australian Local Government Association (SALGA) noted:

Well patronised urban passenger rail services will lead to reduced greenhouse gas emissions, reduced fossil fuel use and improved air quality for all. (sub. 57, p. 2)

The importance of maintaining transport services, including rail, to regional Australia was raised by the Local Government and Shires Associations of New South Wales:

Intrastate and interstate passenger services are also vital. These services provide important passenger transport links for rural and regional centres, particularly for the aged, disabled, youth and those with limited means. These links are becoming more critical with the ongoing rationalisation and centralisation of services forcing people to travel greater distances. The closure of a number of branch lines and service cuts are a major concern to many councils in regional Australia.

Intrastate and interstate [are] also critical freight links that are important in maintaining and developing our regions. Regional development is a matter of utmost concern to rural councils. (sub. 71, p. 2)

And the SALGA:

Government policy should also focus on balancing regionalism with national benefits. Healthy regional economies benefit the whole of the Australian economy. Thus, improved rail services in the regions should be encouraged to support the local economies and, moreover, would alleviate the negative impacts of excessive road transport. (sub. 57, attach. 1, p. 2)

In addition to maintaining transport services in regional areas, RAC acknowledged that subsidies for railways in New South Wales were essentially an indirect assistance measure for the rural sector (trans., p. 1107).

External costs of road transport

As noted in chapter 5, the overall objective of reform is to have an efficient transport system. Achieving this objective requires that the fares and charges for transport reflect all the *economic costs* imposed by individual use. This includes recognising and dealing with any external costs generated by transport, regardless of mode.

In some instances it would appear that the level of subsidies to railways greatly exceeds that necessary to correct for distortions in the road sector. The question arises as to whether such subsidies are required at all to meet economic objectives. Chapter 10 considered the merits of subsidising railways on the basis of a lack of competitive neutrality between road and rail transport. It was found that a more commercial approach to the provision and pricing of roads (that encompasses external costs such as pollution, noise and congestion) was more efficient than linking rail subsidies to those of the road sector.

If this approach was fully implemented, there would be no *economic reason* for subsidising railways to compensate for a lack of full cost recovery in road transport.

Social objectives

In some instances governments may choose to subsidise transport to promote purely social objectives, generally relating to equity. Social objectives, by their nature, are broad and governments can use a variety of instruments to promote them including:

- the tax and welfare system;
- the provision of social services, such as education, health and law and order;
- financial grants from the Commonwealth Government to State, Territory and Local Governments;
- direct assistance to rural and regional industries; and
- subsidising transport, including railways.

FreightCorp stated that subsidies for rail freight were justified for two reasons:

They contribute to the survival of small, often isolated rural communities and meet community needs by reducing the reliance on road transport. (FreightCorp 1997, p. 29)

However, it is often difficult to determine the precise reason(s) (and hence difficult to justify a specific subsidy level) why most governments are subsidising railways.

The Commission is unaware of any Australian published material that link subsidies to railways to specific social objectives (section 11.3).

Most governments do not appear to have clearly specified social objectives relating to subsidies provided to railways.

Determining the most appropriate way of achieving social objectives from the range of options available, requires clearly specified goals and knowledge of the cost effectiveness of each option in achieving these goals. In addition, it is important that the option(s) chosen are provided in the most efficient manner.

This approach ensures that the community receives value for money and maximises the ability of governments to promote social objectives within resource constraints.

Subsidising transport

It may be the case that after careful assessment of the alternatives, governments decide that subsidising transport is their preferred way of promoting social objectives.

Within transport, there are a number of alternative modes that governments could choose to subsidise. As such, a rigorous and consistent approach to assessing the merits of subsidising alternative transport modes is needed to determine the most effective and efficient means of promoting social objectives. As noted by the Victorian Government, while railways have a role in Australia's transport system, they are better suited to providing some types of transport services than others (trans., p. 939). It is unlikely that railways will be the most effective and efficient transport mode to promote social objectives in all cases. For example, Jones et al. questioned the effectiveness of subsidising railways to promote income redistribution objectives:

Rail's low market share, and the fact that other forms of public transport (such as buses and coaches) might offer cheaper and more flexible alternatives, limits the effectiveness of subsidising rail services as a means of income redistribution. (Jones et al. 1998, p. 53)

The most effective and efficient transport mode for passengers or freight may also change over time due to factors such as improvements in technology and supplier responsiveness to the preferences of users. As noted by the Independent Pricing and Regulatory Tribunal (IPART) with respect to the provision of trains and buses for long distance travel:

It appears that the level of service superiority previously held by trains over coaches has narrowed and is negligible when assessed in conjunction with operational flexibility, lower capital costs and the commercial viability of coaches. (IPART 1997, p. 20)

Evaluating the cost effectiveness of alternative transport modes is important in deciding how best to provide subsidised transport services.

Subsidising railways

If governments choose to subsidise railways rather than another mode, they then need to determine the most appropriate way of providing the assistance. As discussed in chapter 6, there is scope for minimising the cost of rail subsidies to taxpayers through tendering and greater private sector participation. Any such subsidies to railways need to be specified in contracts that articulate clearly the services required and the level of the subsidy.

Passengers

Subsidies for rail passengers are commonly provided as general subsidies for all users, with additional concessions for targeted user groups. Targeted concessions are usually provided on the basis of social objectives, such as income redistribution and improved access for disadvantaged people. The use of concessions for urban rail passengers to promote social objectives was considered in detail by the Industry Commission's (IC) (1994b) report, *Urban Transport*. A finding of this report was that the effectiveness of such concessions can be increased by making them available to people who satisfy eligibility criteria, rather than be restricted to those who have access to particular transport providers.

The franchising of urban passenger services in Melbourne provides a recent example of where steps have been taken to minimise the costs to taxpayers of a general subsidy (chapters 3 and 7).

Freight

Adoption of the Commission's reform package for regional railways is consistent with minimising the circumstances in which subsidies for rail freight would be

necessary. Evidence from recently privatised railways, including Tasrail and Australia Southern Railroad, indicates that under private ownership, railways can successfully compete in Australia's transport markets with little, if any, subsidy from government (chapter 7).

By adopting the Commission's reform package, the need for subsidies to regional railways is likely to be significantly reduced.

Even so, some existing branch lines in regional networks may still prove to be non-commercial and require government support if the government decides they are to remain open.

The characteristics of non-commercial branch lines (few commodities and low traffic volumes) indicate that if governments choose to support their retention, the cost of the subsidy can be minimised through a franchise agreement or negotiations with potential purchasers if the network were to be privatised. Given the limited volumes of freight transported over these lines, access and interface issues with other networks or operators is likely to be minimal.

For vertically separated railways, as in New South Wales, governments have the option of subsidising the track infrastructure, train operations or some combination of the two. With regard to the appropriateness of below track subsidies, RAC commented:

The present CSO line approach is the model preferred by all parties in NSW because it recognises that rural freight usage is insufficient in most sectors to meet the fixed common costs of providing access. It allows RAC to charge train operators, particularly freight operators, affordable access fees which make a contribution to fixed costs. Other previous funding approaches did not address this issue and attempted to transfer the infrastructure shortfall to freight rates or to passenger fares with all the attendant distortions. (sub. DR102, p. 36)

QR (sub. 59, attach. 2) also supported the concept of below track subsidies, especially on very low volume lines. It considered the provision of subsidies to train operators to be inefficient on the grounds that:

- it places the risk of third party volatility on the last remaining operator, who has no ability to manage the risk; and
- any potential for increasing traffic on the line is diminished greatly by the barrier to entry posed by the existing operator's access to subsidy funding.

However, the economic characteristics of non-commercial branch lines indicate that few efficiency gains are likely to be achieved by promoting competition between train operators on subsidised track (chapter 6). As such, subsidies can be provided to one train operator and their costs minimised through a franchise agreement. As argued by Jones et al.:

Subsidies paid to train operators (rather than infrastructure managers) enable governments to have a role in deciding precisely which services are provided, and can be combined with a franchising or competitive tendering process to ensure that state-supported services are provided efficiently. (Jones et al. 1998, p. 55)

This approach does not exclude the franchisee from allowing other train operators access to the track.

In addition to minimising the cost of the subsidy, its transparency could also be enhanced by directly subsidising the operators rather than indirectly by lowering track access costs.

This approach for subsidising rail freight has parallels with current funding arrangements in New South Wales for urban rail passengers. The Government directly subsidises SRA (the predominant train operator) rather than the infrastructure provider (RAC).

Subsidisation of track infrastructure in regional areas is unlikely to be the most effective and efficient way of achieving social objectives. If governments choose to subsidise regional railways, these payments can be minimised through franchising or negotiated as part of the privatisation of regional railways.

An alternative to directly subsidising rail freight operations is to redirect the assistance to the users themselves. This can be done through a system of freight rebates. Such a system currently operates in Queensland for the movement of stock and fodder during drought periods (box 11.2).

Box 11.2 Drought assistance in Queensland

In Queensland, the Department of Primary Industries is responsible for administering freight subsidies as part of the Government's Drought Relief Assistance Payment Scheme. The scheme provides subsidy assistance to primary producers for the transport costs of fodder, stock drinking water, livestock returning from agistment and restocking.

The scheme operates as a rebate system where users receive a discount from the Department on eligible transport costs. They have the option of choosing between rail, hired carrier or private vehicle, with different rebates applying to different transport modes.

Source: Department of Primary Industries 1999, DPI Assistance Measures, <http://www.dpi.qld.gov.au/ruraldev/welcome.htm> (accessed 11 June 1999).

11.3 Improving the provision of non-commercial rail services

The preceding section examined the merits of subsidising railways to promote non-commercial objectives. This section outlines the reforms governments have implemented to improve the effectiveness and efficiency by which railways are used to promote non-commercial objectives and addresses some of the specific concerns raised by participants.

Recent reforms

Reform of the procurement of non-commercial rail services has generally been addressed through a 'whole of government' approach to procurement. These reforms have occurred within the context of what is termed the purchaser-provider framework. More detail on the purchaser-provider framework are provided in appendix I.

A key element underpinning the reform process has been a shift towards the development of contractual arrangements between the government and railways. These formal agreements set out the non-commercial services required and explicit government payments, thus avoiding the need for cross-subsidisation and deficit funding.

Victoria and South Australia have refined further the manner in which railways provide non-commercial rail services. In Victoria, the Government has increased the level of private sector participation through franchising rail passenger services (box 3.5 and chapter 7). This required the Government to articulate clearly the level

and quality of services required and the prices that will be charged. The level of subsidy was determined through a competitive bidding process.

In South Australia, the Government in 1994-95 created the Passenger Transport Board (PTB) to coordinate the provision of urban passenger services in Adelaide (chapter 3). TransAdelaide provides urban rail passenger services under contract to the PTB but there is currently no tendering of the service.

Despite such reforms, the Rail Tram and Bus Union (RTBU) was critical of the ability to successfully apply the purchaser-provider framework with regards to railways:

The 'purchaser-provider' model proposed by the Industry Commission in 1991 was generally rejected. This is because it is highly impractical to expect the main purchasers of public transport — the departments of transport, education and social welfare — to be able to adequately negotiate with rail operators, let alone run a tendering process for the provision of rail, bus and ferry concessional services. (sub. DR114, p. 40)

Successful implementation of the purchaser-provider framework is not an easy task. It requires a range of policy formulation, negotiation and tendering skills. In many instances more planning and effort is required by purchasers to improve the provision of non-commercial transport services. However, current deficiencies do not necessarily mean that the purchaser-provider framework cannot be implemented successfully. Rather, they highlight those areas requiring further improvement to ensure that the benefits of the framework are fully realised.

A number of specific concerns were raised relating to the current arrangements for providing non-commercial rail services. These related to the specification of policy objectives, the types of rail services required to achieve these objectives and the transparency of the costings of these services.

Specification of policy objectives

As discussed earlier, participants generally supported subsidising railways for a variety of economic and social reasons.

However, in response to the Draft Report, some were critical of the level of attention given to the specification of policy objectives. McKillop argued:

The Draft Report ... gives inadequate attention to these issues, particularly the established economic, social, regional development and environmental objectives of governments. (sub. DR90, p. 1)

And the Wimmera-Mallee Rail Services Association:

The draft report does not give much attention from the user's point of view re provision of social and economic benefits through rail services in regional areas. (sub. DR115, p. 1)

The terms of reference require the Commission to have regard to the established economic, social, regional development and environmental objectives of governments. However, in addressing its terms of reference, the Commission has not sought to question or redefine such objectives. Instead, it has examined the manner in which governments promote stated objectives, including whether they have clearly defined such objectives and developed indicators to monitor performance.

Available evidence indicates that few jurisdictions have made public, even in general terms, the overall objectives they seek to meet from their transport systems. Most jurisdictions have published transport plans or strategies that contain some reference to expected transport outcomes, such as public transport patronage numbers or vehicle kilometres by private cars (Victorian Government 1998; NSW Government 1998a; WA Government 1995). However, these plans appear to place the greatest emphasis on the services to be subsidised, without clearly articulating the underlying purpose of providing the service.

A lack of clearly defined transport objectives can mean that purchasers are not in a position to judge the merits of the range of services which could be purchased. Importantly, accountability (of the purchaser) is weakened when the purchaser is responsible for promoting vague or incomplete policy objectives.

Specification of services

Participants raised concerns regarding the quality and appropriateness of rail services subsidised by governments. As with the specification of objectives, some participants were critical of the level of detail given to the specification of services in the Draft Report. The RTBU argued:

The Draft Report failed completely to look at how urban public transport could be expanded to meet major social needs for better transport, less congestion and less pollution in our cities. This is because of the extremely narrow commercial focus of the PC and its acceptance that the car will dominate urban transport, while rail, bus and ferry services will be residual. (sub. DR114, p. 41)

A number of participants also cited individual projects and requirements (including Friends of the Belair Line (sub. DR89) and the Bicycle Federation of Australia (sub. DR111)) that could be undertaken to promote non-commercial objectives.

The Commission has investigated the underlying principles and processes used in specifying the provision of non-commercial transport services, but has not examined the merits of individual projects. This role is most appropriately undertaken by purchasing agencies.

Available evidence suggests that there is a lack of consistent and transparent evaluation of the types of transport services purchased to promote non-commercial objectives.

Michael (1994) argued that the services purchased by government are not always the most appropriate from the government's perspective:

The Australian emphasis, however, has not been to pursue CSO policy from the perspective of the policy-maker, but rather from that of the management's needs of individual State-owned enterprises. (Michael 1994, p. 4)

IPART recommended a review of support for Countrylink in New South Wales on the basis that there is currently no definite link between the services provided and stated policy objectives (box 11.3).

Box 11.3 Regional passenger services in New South Wales

Countrylink was established in July 1989 to operate regional passenger services in New South Wales. In 1997-98, the Government subsidised Countrylink by some \$71.2 million to:

- provide concessions for the elderly, students and disadvantaged people to achieve equity goals;
- provide services to particular regions to achieve access and mobility goals;
- offset negative congestion and environmental, health and safety aspects of private road transport; and
- offset cost disadvantages associated with government provision of services.

In September 1996 the Premier of New South Wales requested that the Independent Pricing and Regulatory Tribunal (IPART) review the pricing policies of Countrylink. IPART released its report in February 1997.

One of IPART's recommendations was that the Government review support for long distance passenger train services compared to alternative travel. Two important considerations underpinning this recommendation were that:

- overall, the mobility disadvantage of Countrylink passengers appeared to be overstated; and
- there were divergent views on the value of the externality benefits generated by Countrylink.

Source: IPART 1997.

Many bicycle groups indicated that governments did not appear to be undertaking an adequate assessment of the benefits and costs associated with improved integration of bicycles and trains. They argued that environmental outcomes (among other things) could be improved through better integration of the needs of cyclists and travel on rail transport (box 11.4). According to the Bicycle Federation of Australia:

... our mode of transport, and even when combined with others — often ends up at the bottom of the heap. (trans., p. 88)

Box 11.4 Railways and bicycles

The Commission received numerous submissions from bicycle groups from all states in Australia (for example, subs. 22, 28, 31, 33 and DR111). The general theme of the submissions was that benefits could be derived from better intermodal integration of railways and bicycles. Benefits cited included improved environmental outcomes (air quality and noise levels), reduced congestion levels and a more energy efficient transport system.

Japan and the Netherlands were presented as examples of countries that had achieved such integration. The current situation for bicycle users in New South Wales, Victoria, Western Australia and South Australia was also detailed.

The Bicycle Federation of Australia (DR111) argued that to achieve the benefits of greater integration of bicycles and trains governments needed to:

- make bicycle parking mandatory in all stations and in a fixed proportion to station patronage;
- adopt the newly revised Austroads bicycle security planning guidelines for long term bicycle parking; and
- begin planning for bicycle hire facilities at all major stations.

In commenting on the integration of railways and bicycles, the State Rail Authority of New South Wales indicated that it was encouraging commuters to store their bicycles at stations:

... what we're seeking to do is certainly bicycle storage at stations, and in fact encouraging this; the problem in Sydney is getting enough critical bicycle mass to really get that going. (trans., p. 283)

In most systems bicycles are allowed on metropolitan trains free of charge during off-peak periods. However, in peak periods restrictions and additional fares may apply.

The Commission also received complaints that the quality and choice of transport services to regional areas had suffered as a result of reform to Australia's railways. The Commonwealth Department of Agriculture, Fisheries and Forestry (AFFA) noted:

One consequence of reform at this [State] level has been the withdrawal of rail freight and passenger operations from many 'thin' routes servicing rural and regional areas, following assessment of the financial performance of those services. Typically this has left businesses and consumers with fewer transport options. (sub. 84, p. 6)

The Wimmera-Mallee Rail Services Association argued that the replacement of train with bus services was unacceptable in the case of V/Line country services:

People of all ages found the buses did not meet their needs for comfort, ease of entry, freedom to move about, access to on-board food and toilets, overall time of journey (eg. Dimboola-Melbourne half to three quarters of an hour more due to changeover at Ballarat) and safety. (sub. 26, p. 1)

As discussed in the preceding section, a more rigorous and consistent approach to assessing the merits of the services provided to promote non-commercial objectives, using techniques such as cost-benefit analysis, can address the concerns of participants. Public consultation and disclosure of any such analysis strengthens the purchaser's accountability to the government and community.

Transparency

Despite the reforms initiated by governments, in many instances there still appears to have been little improvement in the transparency of the information provided to the community on the cost of providing non-commercial rail services. As noted earlier, payments for non-commercial services are still often consolidated across transport modes and it is unclear how services are costed. The ARA stated:

However, procurement of these [non-commercial] services must not disguise inefficiencies. These services must be managed commercially by rail authorities, but with transparent CSO payments from government. (sub. 51, p. 8)

And AFFA stated:

... where governments choose to retain subsidised passenger rail services in non-metropolitan Australia, they should provide direct funding for these subsidies rather than using freight costs to cross-subsidise these services as has been the case in the past. Such community service obligations should be transparent[ly] funded from the budget of the relevant government department. (sub. 84, p. 3)

Reinforcing the need for transparency, Kennard argued:

... I feel that the public needs to be better informed about the costs of train operations and also comparative costs covering various forms of transport, road (car and truck) and rail. Too little is known and understood about the nature and the extent of capital and real operating costs. (sub. 12, p. 1)

An accurate costing of subsidies for rail services involves an *economic costing* of each service, based on the *opportunity cost* of the resources used in production. Economic costing covers all variable operating costs, such as labour and fuel, plus a rental charge based on an appropriate rate of return on the assets used in production. As an example, the planned total cost for providing Citytrain (urban passenger) services in Queensland was \$454 million in 1997-98. This cost comprised around \$200 million in working expenses (such as labour and fuel) and \$254 million (around 55 per cent) in capital expenses (depreciation and return on assets) (Queensland Rail, Brisbane, pers. comm., 29 April 1999).

The difference between the economic cost of the service and the payments made by users accurately represents the cost to the community of providing non-commercial transport services.

Accountability of purchasers would be enhanced if information provided to the community on subsidised transport services were based on economic costs and disaggregated across transport modes.

RECOMMENDATION 11.1

Governments need to address the deficiencies in the application of the purchaser-provider framework to rail and should enter into transparent contractual arrangements with clearly specified non-commercial objectives.

11.4 Employment

There have been large reductions in employment in railways, with full-time employment falling from 88 500 to 36 500 between 1986 and 1998 (chapter 2). Chapter 12 discusses future employment prospects in railways.

Participants have raised concerns regarding the negative effects of rail reform on workers in relation to privatisation and the contracting of services previously done ‘in-house’ by government railways; the difficulties faced by redundant railway workers in finding new employment; and the negative effects on regional communities from job shedding programs undertaken by railways.

This section considers these concerns regarding job losses and regional adjustment, and the role of governments in rail reform and meeting employment objectives.

Privatisation and the contracting of activities

One of the features of Australia's railways is the greater level of private sector participation in the industry through privatisation and the contracting of activities.

Concerns have been raised by participants, including the RTBU, regarding changes to the wages, employment conditions and bargaining rights of rail workers under privatisation (box 11.5).

Box 11.5 Rail Tram and Bus Union concerns about privatisation

One element of the rail reform process in Australia has been the privatisation of formerly government-owned railways. Examples include the separation and transfer of Australian National to private ownership in 1997-98 and the recent sale of V/Line Freight in Victoria.

In Australia, the *Workplace Relations Act 1996* is a central piece of legislation influencing labour market arrangements. In addition, Australia has ratified international conventions regarding the rights of workers. One such convention highlighted by the RTBU is the International Labour Organisation Convention No. 98, concerning the rights of workers to organise and bargain collectively, ratified in 1973.

The transfer from public to private ownership has resulted in changes to both the number of workers employed by these railways and the manner in which wages and conditions are determined.³

Labour market outcomes after privatisation have differed across jurisdictions. For example, in Tasmania, a new set of wages and conditions for workers employed at Tasrail (formerly part of Australian National) were negotiated within the context of individual Australian Workplace Agreements. On the other hand, in Victoria, a proviso on the purchase of V/Line Freight was the certification by the Australian Industrial Relations Commission of a replacement Enterprise Agreement (sub. DR114).

³ In July 1999, the Full Bench of the Federal Court upheld a previous decision by the Court that when an organisation takes over an obligation to deliver services 'outsourced' by a State government department, the organisation was bound by the awards to which the State was bound when it delivered the services.

Participants argued that competitive tendering and contracting (CTC) has a negative effect on labour, particularly through lower wages and conditions of workers, and eroded job security. The Australian Services Union noted:

These two issues [the outsourcing of activities and competitive tendering and contracting], seek to undermine job security and standards of living of members of this Union and cause a reduction in jobs available to Australians — along with reduction of employment opportunities for regional Australia, which in turn has an affect upon services to regional and country Australia, which places pressure upon other community services such as schools, hospitals, banks to name a few. (sub. 78, p. 2)

Inglis commented on the loss of job security associated with CTC:

I deplore wholeheartedly, the system of contracting jobs for a period of time, and getting people with no railway experience ... The railways in each State, promised job security, which in turn bred loyalty and efficient performance of jobs. (sub. 38, p. 4)

The RTBU cited research by the ACTU which argued:

CT results in casualisation of the workforce, loss of jobs and working conditions, and is particularly disastrous for the employment conditions of women and other disadvantaged groups. (sub. DR114, p. 27)

In addition, a report commissioned by the Public Transport Union argued that the social costs of outsourcing RAC's maintenance work exceed the financial benefits (box 11.6 and chapter 3).

However, as noted by the RTBU (sub. DR114), outcomes for workers from these reforms is broader than just wages and conditions of employment. It includes other factors such as job security, professional development, worker morale, occupational health and safety and family life. For example, in commenting on the outcomes for labour after the privatisation of Tasrail, the Australian Transport Network argued that:

... we have created a number of family supporting good paying jobs, provided promotional opportunities, and given our employees a sense of pride in their accomplishments. (HORSCCTMR 1998a, p. 1195)

The effects of CTC on labour were considered in detail in the IC's (1996) report, *Competitive Tendering and Contracting by Public Sector Agencies*. That inquiry included an examination of the scope of CTC at all levels of government in Australia, its costs and benefits, and employment effects.

Box 11.6 Track maintenance in New South Wales

In New South Wales, under the separation program of the former State Rail Authority, it was intended that track maintenance services required by the Rail Access Corporation (RAC) would be made fully contestable by June 2000. However, as contracts were progressively opened to tender, the inability of the incumbent government provider, Rail Services Australia, to win maintenance contracts with RAC led to the State Government imposing a moratorium on the contracting out of track maintenance until July 1999.

In support of the moratorium, the Public Transport Union commissioned a report, *Back on Track*, which argued that the social costs of outsourcing RAC's track maintenance requirements outweigh the economic benefits gained. The social costs from outsourcing rail track maintenance included the loss of employment that would occur within Rail Services Australia and the public risks associated with the outsourcing of track maintenance.

The Government has since partially lifted the moratorium by allowing competition for the provision of maintenance services on the Bondi Junction to Waterfall line in Sydney and the Hunter Valley coal lines (some \$65 million in maintenance contracts).

Source: PECO 1998.

An important finding was that protecting the employment of public sector employees by not engaging in CTC provided no long term guarantees for their job security. This has particular relevance for Australia's railways given the strong (privately provided) competition from alternative transport modes faced by the industry. As noted in chapter 7, when well designed, the application of CTC in rail transport can lead to improvements in efficiency. CTC therefore provides one mechanism for railways to compete better in Australia's transport markets, potentially enhancing the job security for workers in the industry.

Labour adjustment

The costs and difficulties associated with railway workers adjusting to losing their jobs in the industry depend upon the ease with which individuals can relocate to alternative employment, either within the same region or other regions. The ability to relocate is influenced by several factors including:

- the availability of suitable alternative employment;
- the transferability of skills where individuals seek employment in alternative occupations and the ability to undertake retraining, where necessary;
- the costs of moving — substantial costs may be involved, particularly for families;

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- government impediments to mobility — some government taxes (such as stamp duty on the purchase of residential property), charges and regulations discourage labour mobility; and
 - emotional attachment to a particular location — people dislike moving away from friends, family and a familiar environment.

The Bureau of Transport and Communications Economics (BTCE) (1990) undertook a survey of redeployed and redundant railway workers as part of its assessment of social impacts resulting from railway restructuring. The main findings from the report were:

- of those workers that accepted a redundancy package, and did not retire from the workforce, 56 per cent found alternative employment;
- 44 per cent remained unemployed after redundancy and two thirds of these for at least 13 months. Lowly skilled employees accounted for over 56 per cent of the unemployed; and
- 89 per cent of the unemployed workers had not applied for available government retraining schemes.

The RTBU argued that given the current restructuring occurring in the industry and the large number of railway workers who have lost their jobs, the study by the BTCE be updated (sub. DR114).

Workforce characteristics also provide an indication of the ability of incumbent employees to adjust to structural change. Data obtained from the ABS *Labour Force Survey* indicated that most railway workers are less ‘mobile’ than workers in other industries (appendix J). This is in part explained by the fact that the majority of railway workers are older males with less than half having completed the highest level of secondary school.

Specific assistance for railway workers?

The large reductions in employment combined with past difficulties redundant railway workers have faced in finding alternative employment may give rise to calls for specific assistance to railway workers and their families. Assistance packages aimed at specific industries have included the Labour Adjustment Package (LAP) for textiles, clothing and footwear and passenger motor vehicles. The RTBU argued that because many of the reductions in railway employment were attributable to government policies, the introduction of a LAP for rail workers would be appropriate (sub. DR117).

In considering specific assistance in these circumstances, it is important to note that *all* government policies can generate winners and losers. While participants generally highlighted those policies which they believed lowered output and employment in the rail industry, it should also be recognised that governments are also substantial purchasers and subsidisers of railway services. It is therefore difficult to determine the net effect of all government policies on railway employment. This is especially true when considered within the context of forces external to the industry, independent of government policy. These include increased competition in the final markets served by railways, such as Australia's black coal industry, and continual improvement in the operations of road transport (chapter 3).

The introduction of specific assistance for railway workers can create important equity considerations. Factors which are driving change in railways are also driving change in a range of other industries across the Australian economy. These factors extend beyond changes in government policy to changes in technology and increased competitive pressures. It would appear inequitable to provide specific assistance to railway workers compared to workers in other industries also made redundant for similar reasons. As such, general — rather than industry-specific — assistance for railway workers is preferable in equity terms.

The Commission also notes that the results from past specific assistance programs have not been encouraging. The IC found that the LAP program for textile, clothing and footwear workers produced poor labour market outcomes (compared to general assistance programs) despite good participation rates in the program by workers (IC 1997c).

The advantage of relying on general support programs is that they aim to address the training and income maintenance needs of the unemployed regardless of the particular combination of circumstances that may have caused their job loss. Generally available assistance for displaced workers includes:

- welfare assistance, such as the Commonwealth Newstart Allowance;
- the provision of information by the Commonwealth Government about job vacancies, careers and assistance; and
- education and training policies at the Commonwealth and State levels to improve the ability of railway workers to transfer employment opportunities elsewhere.

The European Union has adopted a similar approach in establishing a Social Fund that provides financial assistance for projects aimed at reducing structural adjustment costs for workers across all industries facing structural adjustment pressures (box 11.7).

Box 11.7 **The European Social Fund**

The European Social Fund (established under the Treaty of Rome) is one of three Structural Funds designed to strengthen the economic and social cohesion of the European Union. The objectives of the Social Fund are:

- promoting the development and structural adjustment of regions where development is lagging behind;
- assisting regions seriously affected by industrial decline;
- combating long term unemployment;
- providing support for workers having to adjust to industrial changes; and
- promoting the development of rural areas.

In promoting these objectives, the Fund provides financial assistance towards the running costs for vocational training schemes, guidance and counselling projects, job creation measures and other steps to improve the employability and skills of both employed and unemployed people.

Source: EU 1997.

Governments therefore have an important role in ensuring the effectiveness of general support programs for redundant workers. Such programs need to be adequately funded and reviewed regularly to ensure that unnecessary economic and social costs from structural change across all industries are minimised.

Regional issues

As noted in chapter 2, evidence indicates that employment in railways outside Australia's capital cities has fallen more rapidly than within capital cities. Participants expressed concern over the negative effects of these job losses on local communities. The Australian Services Union commented:

We all see what happens when jobs are lost to a town, the town's growth slows, it stagnates and then we have pressures upon the town to maintain infrastructure services such as schools, hospitals and roads, where they may be in demand to go to perimeter areas of capital cities, for instance, the movement of hospital beds and such. (trans., p. 553)

With regards to the reform and sale of Australian National (AN), the SALGA noted:

... the economic effect the downsizing and lack of Government support for the rail industry had on the operation of Australian National and its eventual sale. This is highlighted in the case of Port Augusta where the quantified effect has been calculated at \$90m over the past three years; and the effect this will have on communities which have in the past relied heavily on the industry for employment, both directly and through related industries. (sub. 57, p. 1)

During this process, the Commonwealth Government allocated \$20 million in 1996-97 towards the Rail Reform Transition Program.⁴ This program involved facilitating business and job creation in those areas affected by the privatisation of AN (box 11.8). The Tasmanian Government supported the operation of the program:

The Commonwealth Rail Reform Transition Program considerably offset the negative impacts of the sale of Tasrail. (sub. 81, p. 3)

The Commission recognises that the reduced demand for labour by railways has serious implications for some rural communities. However, no definite conclusions can be drawn without a detailed study covering issues such as the significance of railway employment, overall industry structure and unemployment rate in the affected region.

Box 11.8 Rail Reform Transition Program

In 1996 the Commonwealth Government began a series of reforms to Australian National (AN), culminating in its separation and privatisation in 1997-98. To assist local economies to adjust to the changes that were created by the eventual privatisation of AN, the Government allocated a total of \$20 million over two years from 1996-97.

The objective of the Rail Reform Transition Program was to support measures which would encourage job creation through economic development of the regions most adversely affected by the privatisation of AN. The funds available were not directed specifically towards railway workers. Instead, funding was available for projects that offered suitable potential to create, directly or indirectly, sustainable employment opportunities in the affected regions.

Source: Sharp 1997.

⁴ In the same financial year the Commonwealth Government also announced an *Assistance to Depressed Regions Programme* to support strategies to improve the skills base of regions experiencing adjustment pressures, high levels of unemployment or that are disadvantaged by their remoteness.

In the first instance it is important that the resources invested in general assistance programs are targeted at those areas — whether they be metropolitan or rural — with high levels of unemployment and difficulty in adjusting to structural change.

A case for additional assistance in a specific regional area can be made only if it has substantially greater difficulty than others in adjusting to changes in the structure of its local economy. However, even if a robust case could be made, it can be very difficult and potentially quite costly to structure a program to improve the economic and social fortunes of the affected region. Any such program would need to be carefully targeted and only short term in nature so as to ensure that it did not develop into a poorly targeted, long term assistance measure.

Reform of railways and employment objectives

The concerns raised by participants regarding the negative effects of rail reform on employment may give rise to calls for the slowing or suspending of reform in the industry. However, maintaining inappropriate employment levels could adversely affect the competitive position of rail in some of its major markets, such as the carriage of export coal from mines to ports. Rail freight charges comprise 15 to 30 per cent of the free on board cost of New South Wales coal exports (chapter 2). Railways therefore can influence the competitiveness, and hence output and employment of Australian coal mines.

The NSW Minerals Council commented:

Ultimately, mines close or reduce production and manpower because the cost of production is higher than sales revenue. The unnecessarily high cost of rail transport is a contributing factor to costs. (NSW Minerals Council submission to the Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia, sub. 62, p. 7)

Reduced output by coal mines would in turn reduce the demand for rail services and hence erode job security within the rail industry.

In the case of non-bulk freight, rail already faces strong competition from road transport. Avoiding reforms to improve the efficiency of rail services would erode the competitive position of rail in the face of continual improvements in efficiency by road transport operators. Conversely, improving the efficiency of railways can benefit both the railways and the industries and regions they serve:

Reduced transport costs mean that regional products effectively become cheaper in their final markets, increasing the competitiveness of producing areas. (The Chamber of Minerals and Energy of Western Australia submission to the Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia, sub. 29, p. 4)

Improving the productivity of Australia's railways can also deliver broader benefits to the community. Rail Services Australia argued that rail reform in New South Wales has increased the ability of the Government to provide other goods and services to the community:

These savings are in fact annual savings and we anticipate that over a billion dollars in savings — that's present-day dollars — will be delivered to the people of New South Wales over the course of the first 6 years of rail reform. That's money that governments can spend on schools, police, hospitals or, if they choose, on rail. (trans., p. 364)

Secure employment in the rail industry can best be promoted by an efficient industry capable of competing with alternative forms of transport, especially road transport. As argued by the European Commission:

Vigorous action to restore competitiveness is the only way to stable employment; although jobs in the railways will be less numerous in future, they should be more secure in a healthy industry. Moreover, a certain number of jobs will be created when new entrants find and exploit new markets. (EC 1996, p. 31)

Ongoing improvement to the productivity of Australia's railways is the key to allowing the industry to achieve its output and employment potential.