Public Values in a “privatized” Public Transport system

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Abstract
This paper addresses private sector involvement in the delivery of public transport. It is part of a larger project to investigate the question: What should government control in a “privatised” urban public transport system in order to safeguard the public interest?

The paper will outline the evaluative framework being prepared to analyse three case studies of cities that have pursued the privatisation of public transport provision. Public values we expect governments to protect in transport will be identified. The paper investigates various methodologies to evaluate social benefits in a privatised public transport model and adapt them to provide a Public Value evaluative framework to compare the ability to innovate and more effectively deliver on those public values.

The framework enables different examplars to be compared on their ability to deliver various social benefits. The public values are: social inclusion, economic development, safety and congestion, environment, public administration, quality, and value for money.

Introduction
Urban public transport systems are under stress due to the continued growth of cities, and competition between cities. Growing pressures include increased congestion, the demands of mobility, environmental constraints and greenhouse gas reduction targets. These pressures are being experienced during a period of fiscal constraint that limits public funding availability. In response to these demands, there is a trend in many cities is to increase the role of private operators and increase competition. This is done to reduce costs and raise the efficiency of the service. Privatisation models range from deregulation, to competitive tendering and performance-based contracts.

The privatisation of public transport provision means considerable public funds are spent on engaging private operators to run public transport. Yet we do not ask ourselves obvious questions about how this approach impacts on service outcomes that people really care about.

Public Value theory has developed as a response to the need to understand and measure what people care about in relation to service provision. Public Value theory looks at issues like what governments should take responsibility for, what outcomes people want, how the public sector creates and implements public values, and whether the public interest is protected. The central argument in Public Value theory is that the public interest cannot be reduced to singular, economistic measures (Alford & O’Flynn, 2007; Talbot, 2008).

This paper proposes that we can draw on theorizing and research about public values to develop ways to answer the questions we should be asking about whether public transport delivers. Using a number of readily available existing indicators of public values we can create a Public Value Framework that we can use as a mechanism for examining how privatization affects the embodiment of public values in the provision of public transport.

The paper is the first part of a larger project that poses the question of what government should control in a “privatized” urban public transport system in order to safeguard the public interest. The study will include case studies in three different cities - Melbourne, Bordeaux...
and Amsterdam - examining whether and how public values are affected in the privatisation of public transport services.

**Public Value – a paradigm shift**

The provision of public transport is essential to support economic and social activities in the modern city. It generates recurring public values, which governments seek to protect through public intervention - through direct service provision, regulation and financial subsidy (Veeneman & Koppenjan, 2010; Veeneman & van de Velde, 2006). Public values can also conflict when it comes to implementation. For example, it is possible to cut costs to the point of deteriorating service quality, or to introduce high frequency commuter routes at the expense of routes that provide mobility to isolated and disadvantaged groups.

Public Value theory provides a paradigm shift in our understanding of public management (Collins, 2007; O’Flynn, 2007; Stoker, 2006). Public Value recognizes the importance of relationships between providers, users, manufacturers and public authorities. It provides for a more complete understanding of the complexity of relationships than the purchaser/provider split mediated by a contract that underpins much of the literature. Stoker argues that a new public management paradigm and public value management in governance is emerging, “In its definition of the public interest, approach to service delivery, and commitment to a public service ethos” (Stoker, 2006:43). O’Flynn (2007) also argues that Public Values Management is a new paradigm, challenging existing models and providing a paradigm shift from both the traditional model of public administration and New Public Management (NPM). Public Value management has emerged as a response in the mid-1990s to New Public Management. It was a reaction to overdependence on applied private sector management concepts and techniques in the public sector to improve the performance of those organizations (Collins, 2007; O’Flynn, 2007; Stoker, 2006).

Public Value asserts the need for public agencies to work with citizens to co-create and articulate public values, and asserts the need to establish legitimacy and trust for public policy. Public Value recognizes that public authorities operate in an adaptive and fluid system that is qualitatively different from simple market forms, and should not simply follow private sector business principles. Public Value management reclaims the centrality of public sector managers in realizing public values. This is in contrast to the NPM model, where managers create value by mimicking organizational and financial systems used by private business.

Moore’s work on Public Value recognizes three aspects of performance for public agencies, which he defines as a strategic triangle:

- “be aimed at creating something substantively valuable (i.e. constitute public value);
- be legitimate and politically sustainable (i.e. attract sufficient ongoing support – and concomitant resources – from the authorizing environment, that is, from political and other stakeholders taken as a whole, with due recognition of their differential power); and
- be operationally and administratively feasible (i.e. doable with the available organizational and external capabilities needed to produce it)” (Moore, 1995:71).

Moore proposes that Public Value is both a practice and a normative objective. It is a practice whereby providers work with users to produce outcomes that genuinely meet users needs. It also provides the underlying normative objective for public officials, both public sector managers and politicians. This collaborative form of governance is what Moore calls ‘co-production’ (Moore, 1995). In this model, users and providers work cooperatively to make public institutions work. Stoker argues that a new context of networked governance prevails and that Public Value Management is more suited to networked governance than either traditional public administration or the New Public Management (Stoker, 2006).

Analysis of public management tends to use three key approaches:

- the traditional bureaucratic command and control paradigm;
- a competitive market-based NPM paradigm; and
- the emerging public value management paradigm.
Traditional
In Traditional Public Management politicians make policy that public managers implement (O’Flynn, 2007; Stoker, 2006; Talbot, 2008). According to Stoker, traditional public administration draws on the Weberian view of the world in which three institutions provide order to the governance process: political leadership, political parties and bureaucracy. Elections provide the crucial mechanism with political leaders competing in the democratic process (Stoker, 2006). Traditional Public Management assumes a hierarchical bureaucracy with a command-and-control mechanism for provision of services.

NPM
New public management (NPM) is the approach that has characterized much public policymaking in the English-speaking world in recent years (Dunleavy et al, 2005). It has pushed technical efficiency as the goal of public bodies at the expense of democratic processes and social values. NPM proponents argue that public sector bodies are subject to being captured by those who work in or are regulated by them. The NPM response was competitive tendering. It used economic markets as the new model for relationships in the public sector. Public managers would focus on output targets rather than orient themselves towards the changing nature of political legitimacy (Blaug et al, 2006; Dunleavy et al, 2005; Stoker, 2006).

Public Value
Public value management provides a renewed emphasis on relationships between service providers and government. It recognizes the role public sector managers can play in maintaining an organization’s legitimacy in the eyes of the public. Rather than a return to monopolistic public services, public value embraces notions of valued public services, outsourcing and efficiency. It calls for more political accountability to citizens and politicians. Public value management avoids top-down models that focus public managers on meeting centrally driven targets and performance management (Alford & O’Flynn, 2007; Blaug et al, 2006; O’Flynn, 2007; Talbot, 2008).

Using Public Value to assess impact
Veeneman and various collaborators have drawn together a diverse series of indicators of public value to assess the impact of privatization on transport provision (Veeneman & Koppenjan, 2010; Veeneman & van de Velde, 2006; Veeneman, van de Velde, & Schipholt, 2006). They use indicators that are measurable and recognize the public values found in a public transport system.

In studies of privatization and competition in Dutch public transport, a number of recurring public values were identified by Veeneman et al. They comprise: social inclusion, economic development, safety and congestion, public administration, quality, and value for money (Veeneman & Koppenjan, 2010; Veeneman & van de Velde, 2006). Veeneman et al identified public values as those constantly emphasised and articulated in the political arena. People vote for parties that promote certain values or provide different strategies to implement those values. Emphasis and implementation can shift between governments and over time.

Veeneman et al found that the public values defended by government and used by government to justify funding of public transport are relatively constant (Veeneman & Koppenjan, 2010; Veeneman & van de Velde, 2006).

Indicators of public value of the kind identified by Veeneman et al can form the basis of a Public Value Framework that we can use as a mechanism for examining how privatization affects the embodiment of public values in the provision of public transport.

Restoring the political
Interest in Public Value management theory arises primarily from the critique of NPM (Stoker, 2006). Public Value management shares with traditional public management theory the belief that the public sector is fundamentally different from the private sector, and rejects NPM’s assumption that democratic governance resembles consumer choice in the market. Stoker stresses an expansion of the scope and role of the ‘political’ as central to the public value...
approach. Hence public value management contrasts with both traditional public management and NPM, both of which emphasize the role of politicians and political processes to initiate service provision and then step aside to allow the bureaucracy or outsourcing to deliver the service.

Rhodes and Wanna have argued that public value management in fact strengthens the role and authority of public sector managers at the expense of politicians and political parties, “We argue against downgrading the ‘primacy of party politics’. We criticize the notion that public managers should play the role of Platonic guardians deciding the public interest” (Rhodes & Wanna, 2007:407). However this critique seems unfair as the political process not the public servant ultimately defines public values. As Moore noted in his seminal work on Public Value: “In the end none of the concepts of ‘politically neutral competence’, ‘policy analysis’ and ‘program evaluation’, or ‘customer service’ can finally banish politics from its pre-eminent place in defining what is valuable to produce in the public sector. Politics remains the final arbiter of public value just as private consumption decisions remain the final arbiter of private value” (Moore, 1995:38).

Public values exist in a state of dynamic interaction. Public values do not belong to a managerial class or to a political party. Both political parties and managers have to make a case on which public values they are promoting and which values they are creating. Public values are defined and redefined in social and political interaction. In particular, governments, political parties and citizens seek to clarify what role they want governments to take and in turn that is mediated by the public service.

For Stoker, the five apparently indispensable elements of a public service ethos are: a performance culture; a commitment to accountability; the guarantee of universal access; responsible employment practices; and a contribution to community wellbeing (Stoker, 2006). Public value emerges from this public service ethos in its broader interaction with networks and communities. As Stoker noted, public values arise from the dialogue established by ethical people working both within networks and partnerships and with their wider communities.

This dialogue and interaction with the political means public values that inhere in the public realm in both government processes and outputs are irreducibly plural. This presents potentially an intractable problem of how to measure public values. Talbot provides a relatively simple device of recognizing ‘competing values’ and applying them to the measurement of organizational success in public services (Talbot, 2008). “The common ‘solutions’ to these multiple values is either aggregation and/or choice – so, for example, political parties represent both aggregation of some values within each party and choice between them” (Talbot, 2008:3).

Comparing indicators
In preparing a Public Value Framework, a review of existing transport benchmarking projects was undertaken to examine the indicators used. These included the following three studies:


The Australian Industry Commission inquiry report Urban Transport (1994) presented a rather disturbing picture of the state of public transport in Australian cities. The Commission found the problems with Australia’s urban transport systems included: high costs, increasing road congestion in the larger cities; poor public transport quality, particularly in terms of reliability and frequency. As a result, the Industry Commission identified a need for greater competition and contestability in the provision of public transport services to improve the attractiveness of the services, increase innovation and provide for greater economic efficiency.

The inquiry identified a number of economic indicators and performance outcomes for the sector. The Industry Commission identified many problems in the provision of public transport...
in Australia. However its use of indicators was quite narrow and centred on economic efficiency and service quality.

In Europe there had been similar debates on the efficiency and quality of public transport services and a trend towards greater competition and greater contestability. The *Managing and Assessing Regulatory Evolution in Local Public Transport Operations in Europe* (MARETOPE) was a European Commission research project which assessed 31 European cities and their experience of regulatory change in a period of increased privatisation and contestability for service contracts. This study provided a cross section of experiences of competition and private sector involvement in public transport provision. Its focus was on economic efficiency, and the indicators were economic and financial measures, which covered the industrial performance of the public transport operators, network coverage and patronage.

MARETOPE found that a limited competition model, but not a deregulated public transport, provided most improvements in cost efficiency and quality standards (MARETOPE, 2003). It found outsourcing provided the most effective pressure to improve overall efficiency. The MARETOPE study furthermore found that a “deeper involvement of the operators was needed to cope with a ‘new mission’ of public transport in the improvement of urban living conditions” (MARETOPE, 2003:28). This new mission acknowledges the limitations of its own economistic methodology, which focused on economic efficiency and performance and not on broader values and objectives or on the importance of relationships between operators, public authorities and other stakeholders.

The *Urban Transport Benchmarking Initiative* was a European Community initiative creating benchmarks for the performance of public transport, cycling and walking in 26 European cities for the three years from 2003 and 2006. The Urban Transport Benchmarking Initiative developed a number of common indicators of readily available measures. The indicators were consistent with a previous European Community project *Citizens’ Network Benchmarking Initiative*, which established indicators based on which transport services people want, and how well the system meets those requirements.

This approach is similar to the Public Value framework proposed for this study. It moves away from the idea that a good performance measurement system would be one which focuses attention on a small number of economic output measures. As with a Public Value approach, it demonstrates the need for more diverse and numerous measures, since the effect of public transport policy and implementation produce quite a large number of important effects on society.

In the literature, the indicators that have been most commonly used to assess the operational performance of privatized public transport are financial efficiency, and service quality indicators (Eboli & Mazzulla, 2009; Hensher & Stanley, 2003; Hensher, Stopher, & Bullock, 2003; Hensher, et al., 2007; Litman, 2010, 2011; Stanley, Betts, & Lucas, 2005; Vuchic, 2005). The expectation is that competitive markets will provide improvements in financial efficiency and will therefore drive down the cost of the service. Measuring service quality has developed alongside the tendering of services to ensure that the objective of securing financial efficiency is not the sole measure of tendering services. Improvements to quality by improving comfort and convenience will influence choice and modal shift towards public transport travel, and therefore increase the number of discretionary passengers who could otherwise drive (Litman, 2011). While these indicators are important they are too narrow to assess fully what public values are produced in the provision of public transport services.

A public value framework accepts the public values of economic efficiency and quality, but stresses the importance of broader social objectives, relationships and the political. As Blaug et al noted, “What is unique about the public value approach is that it does not cast existing performance management frameworks into the dustbin, but suggests instead that the act of measurement can either fail to capture adequately what value is created or lead to the destruction of public value” (Blaug et al, 2006:8).

Performance measures need to be broad and fit for purpose.
Building relationships
We used to think the answer to protect the public interest was to better identify what should go into contracts. We have moved beyond that, it is about relationships. Yet we want to protect relationships from the danger of regulatory capture. In the literature there is now a recognition that the relationship between operators and public authorities needs to develop beyond the contractual requirements of financial efficiency and service quality. It is also recognized that contracts are invariably incomplete. Service improvements therefore depend on deeper relationships (Hensher, 2010; Hensher et al, 2007; Macário, 2007; Stanley & Longva, 2010). Hensher suggests that an emphasis should be on building deeper and longer relationships between public authorities and operators and that government should seek value for money arrangements which he defines as: “provide a good quality, integrated and continually improving transit service for a fair price, with reasonable return to operators that gives value for money under a regime of continuity” (Hensher, et al, 2007:412).

Hensher identified that contracts in the bus industry remain inevitably incomplete as circumstances continue to change, and found that a trusting relationship was needed to provide clarity on the specifications and obligations of the contract in its practical application (Hensher, 2010). However, Hensher is unclear about the nature and basis of this relationship. Unless there is clarity on the public values that this trusted relationship is based on, the risk is that there will be regulatory capture by interest groups who act for their own self-interest rather than the public interest. In arguing for trusted relationships, it becomes imperative to define shared public values and be clear on how they are strengthened through this collaboration.

The call for a model of deep relationship does not make it clear whether the relationship is between operators and regulators or more broadly with other stakeholders, nor does it clarify the objectives of this relationship. It also remains silent on the role of politics in setting transport objectives. Public Value theory engages with these omissions and provides a tool to manage the relationship that reveal the achievement of public value goals. Public Value provides a framework for assessing the role of private operators and competition in achieving social outcomes, so that selected market forces can help to ratchet up public sector performance.

Innovation
Public values arise from relationships and these relationships drive innovation in the provision, quality and enhancement of public transport. Innovative generally demands close cooperation between clients, public authorities, project managers, contractors, technology providers, and operators. Private operators can bring skills, experiences, and technologies – in short innovation – and not just economic efficiency. “Organisations rarely innovate alone: they do so in association with others, including their suppliers and customers” (Dodgson & Gann, 2010:17). Roy Rothwell has argued that firms adept at innovation strategies are highly integrated, with partners - including lead customers - demanding and co-developing innovation. He called this cooperative relationship an “integration and networking” model (Rothwell, 1992; Rothwell & Dodgson, 1991).

Public transport studies have identified increased innovation with the introduction of competition amongst operators (Hensher, et al, 2007). Dodgson and Gann have noted the challenge of innovation for the public sector, “The privatisation in many countries of previously publicly held assets in energy, transportation, and telecommunications has removed a direct lever governments once possessed to improve innovation. Instead, new regulatory authorities have been established and their roles in supporting innovation in the private sector have to be explored and extended” (Dodgson & Gann, 2010:127). In a study of competitive tendering in Holland, Veeneman and Koppenjan found that the competition between operators created many, often small, innovations in processes, technologies and practices” (Veeneman & Koppenjan, 2010).

Public Value Framework
The public value indicators chosen are a range of readily available measures either collected by transport authorities or which are available to the researcher. They allow for a straightforward comparison to be made between cities. The public values include those
identified by Veeneman and Koppenjan's in their work on Dutch public transport services (Veeneman & Koppenjan, 2010) with the addition of the public value of the environment. This was added because public transport provides more efficient use of energy and space and is increasingly valued for contributing to a cleaner environment. Many of the indicators have been drawn from the previous studies discussed in this paper, especially the European Commission’s Urban Transport Benchmarking Initiative.

In the framework there is an indicator for public participation and the policies of political parties as important indicators of public values. This is important as Public Value management has a strategic role for public servants, politicians and citizens in both defending and developing the services.

The public value of innovation sits alongside each of the public values. This is because innovation is how new ideas, technologies and practices are brought into implementation, and therefore innovation can impact on all the various public values. In understanding the role of innovation there is a further need to assess the growing importance of relationships and networks in meeting the challenges and improving the performance of public transport provision. A key element in this research is to examine how public values are sustained and promoted in the contracting-out of public transport services, whether it is through contracts or the more complex relationships, which generate shared values.

Value for money is used as the public value, rather than economic efficiency. In part it provides a proxy measure for economic efficiency. This is because of the difficulty of comparing the cost per passenger of public transport services across different cities. There are considerable differences in the size and geography of different cities, the composition of the network and the method by which costs are calculated. For example, there are considerable differences in running costs of a train network compared to tram or bus services. Furthermore, the economic efficiency of outsourcing generally has been realised in the first round of contracting. Savings cannot be readily identified and few are realisable in subsequent years. The following indicators provide measures that compare various areas of performance, service improvements and innovation during this period of increasing competitive pressure on the operators.
## Table 1 Public Value Framework

<table>
<thead>
<tr>
<th>Public Value</th>
<th>Objective</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>Social inclusion</td>
<td>Accessibility for disabled</td>
<td>Proportion of low floor vehicles</td>
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<td></td>
<td>Affordability for less well off</td>
<td>Availability and extent of concession tickets</td>
</tr>
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<td></td>
<td>Service provision</td>
<td>Increase in service levels in last 5 years</td>
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<td></td>
<td>Availability across city</td>
<td>Assess service levels in outer areas</td>
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<tr>
<td>Economic development</td>
<td>City development</td>
<td>Area of city and number of residents</td>
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<tr>
<td></td>
<td>Quality of city living</td>
<td>Length of network by mode</td>
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<td></td>
<td>Mobility within city</td>
<td>Number of vehicles by mode</td>
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<td></td>
<td></td>
<td>Length of bus lanes and segregated right of way for trams.</td>
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<tr>
<td>Quality</td>
<td>Quality vehicles and infrastructure, comfort and cleanliness; simple transport information. Quality indicators</td>
<td>Observe conditions of shelters and vehicles: they are clean, comfortable, have good information and are wheelchair accessible.</td>
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<tr>
<td></td>
<td></td>
<td>Compare satisfaction surveys.</td>
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<tr>
<td>Environment</td>
<td>Integration with other sustainable transport modes</td>
<td>Observe provision of bicycle facilities</td>
</tr>
<tr>
<td></td>
<td>How many vehicles in the city's bus fleet can be described as: powered with liquid petroleum gas (LPG), powered with compressed natural gas (CNG), powered with Bio fuel, other fuels Powered with ethanol Powered with electric Powered with another sustainable fuel (please state)</td>
<td>Number of vehicles</td>
</tr>
<tr>
<td>Value for money.</td>
<td>Increase in patronage last 5 years</td>
<td>Increase in person trips per day by mode</td>
</tr>
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<td></td>
<td>Reliability of services</td>
<td>Percentage of late arrivals</td>
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<td></td>
<td>Service intervals by mode in peak hour</td>
<td>Proportion of &lt;15 minutes services</td>
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<td></td>
<td>Average cost on public transport</td>
<td>Cost of weekly tickets</td>
</tr>
<tr>
<td>Safety and congestion</td>
<td>Average speed buses/trams/trains in peak hour</td>
<td>Km per hour</td>
</tr>
<tr>
<td>Public administration</td>
<td>Number of injuries or deaths on road system</td>
<td>Road toll within city</td>
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<td>-----------------------</td>
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<tr>
<td>Public participation</td>
<td>Observe public participation practices</td>
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<tr>
<td>Legitimacy</td>
<td>Compare political party policy positions on public transport including outsourcing and role of private operators</td>
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</table>
Conclusion

Much of the literature on the privatisation of public transport has focused on economic efficiency and quality of service. Private operators and competitive pressures have been used to drive efficiency and quality. However, public values are broader than just the provision of efficient and quality services. These two are public values, but they do not adequately cover all the other public values that governments are trying to realise in the provision of public transport.

The Public Value Framework returns to the question what people value from a public transport system, and the role of public authorities and broader political processes in the provision of public transport. The Public Value Framework provides measurements of the performance of private operators and competition in creating public value.

Increasingly in the literature there is an emphasis on trusting relationships and their importance to innovation. This results from an increasing realisation that contracts do not cover the complexities and demands present in an urban transport system (Hensher, 2010; Hensher et al., 2007; Stanley & Longva, 2010). Public values provide the basis from which to understand and develop such relationships. Fully realising public values involves public authorities, through a dialogue with stakeholders, identifying the values they need to pursue and the strategy to further foster these values.
Bibliography


