

INSTITUTIONAL FRAMEWORK AND REGULATION ON NATIONAL / REGIONAL / LOCAL LEVEL

Point of view of an operator

Managing public transport: the three options

	Public management	Delegated management	Deregulation
Definition of the public service mission	Public authority	Public authority	Law of the market
	↓	↓	↓
	Public corporation	Contract	↓
	↓	↓	↓
Managing the public service	State company / «in-house» company	Private companies	Private companies

Contracting services

- **Double target:**
 - Developing PT's market share
 - Controlling operating (investments) costs = +/- 20 %
- **Triple approach** for the authorities
 - **Privatizing** the company + services requirements
 ex.: Görlitz → 10-year contract + fixed subsidy
 Czech Republic: local and regional transport
 - **Tendering out services** + contract for a limited duration
 ex.: Scandinavia, France
 - **BOT contract** for main projects (rail lines) + long term contract (15–30 years)
 ex.: "Concession contracts" in France
 PPPs in UK




Delegated management, an international solution

- A **public authority** (local, regional, national)
- delegates the **operation** of transportation services
- to a **private** company
- after a **competitive tendering**
- through a **contract** with public service **specifications**
- and with a **limited duration**
- ➔ **Customer orientation** / reactivity
- ➔ **Improvement of the quality of service**
- ➔ **Cost control** / efficiency
- ➔ **Tailored solutions** based on the operator's proposals

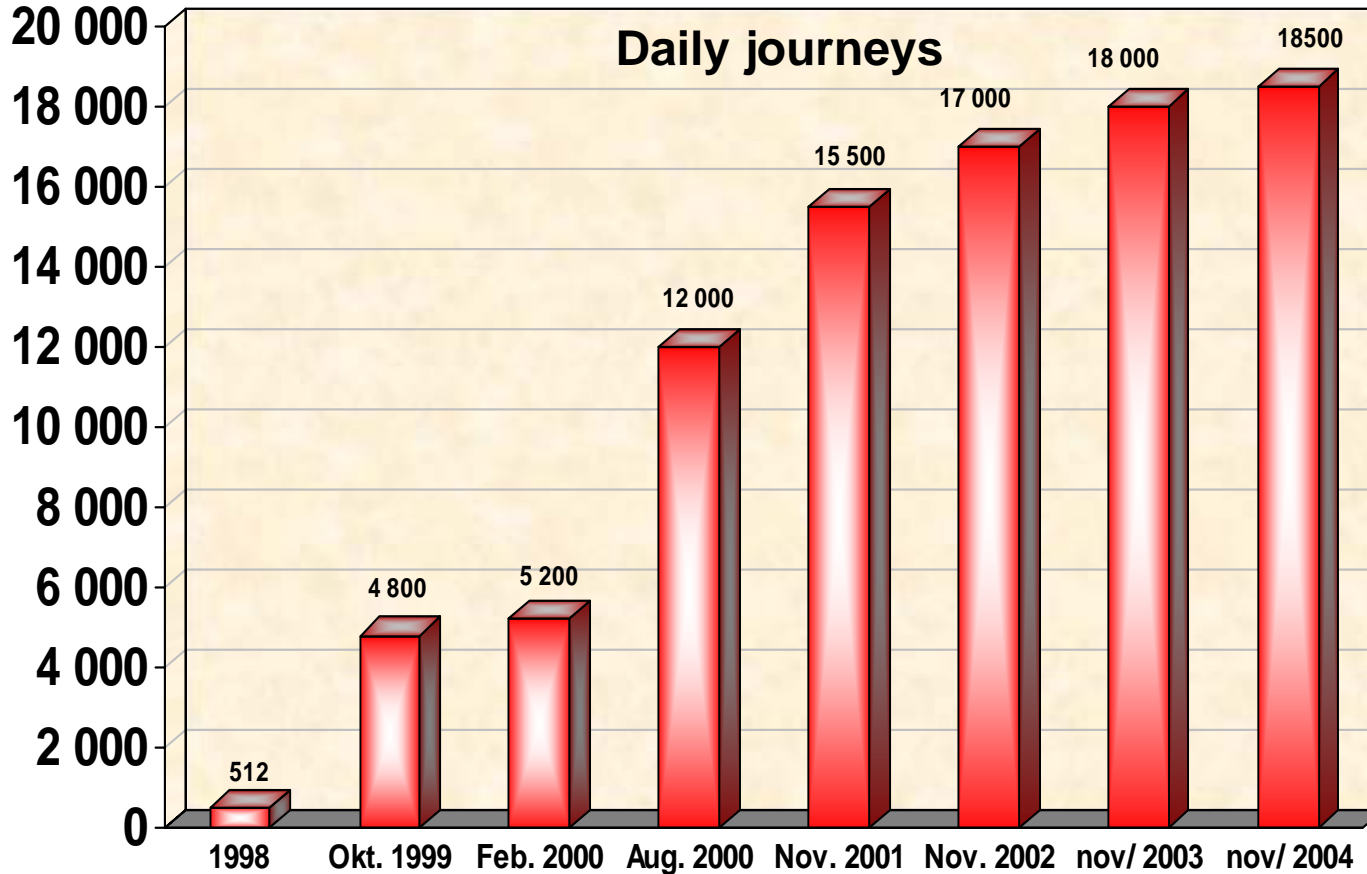


The organization models

LEVEL OF TASKS AND AUTHORITY	“TWO LEVEL MODEL”	“THREE LEVEL MODEL”
<ul style="list-style-type: none"> • STRATEGIC LEVEL : transport policy, budget, etc. 	<p>PUBLIC ORGANIZING AUTHORITY</p>	<p>POLITICAL AUTHORITY</p>
<ul style="list-style-type: none"> • TACTICAL LEVEL : fares, specifications, marketing, etc. 		<p>ORGANIZING AUTHORITY</p>
<ul style="list-style-type: none"> • OPERATIONAL LEVEL : operation, sales, maintenance, etc. 	<p>OPERATOR</p>	<p>OPERATOR</p>

The ridership issue (1)

Patronage increase



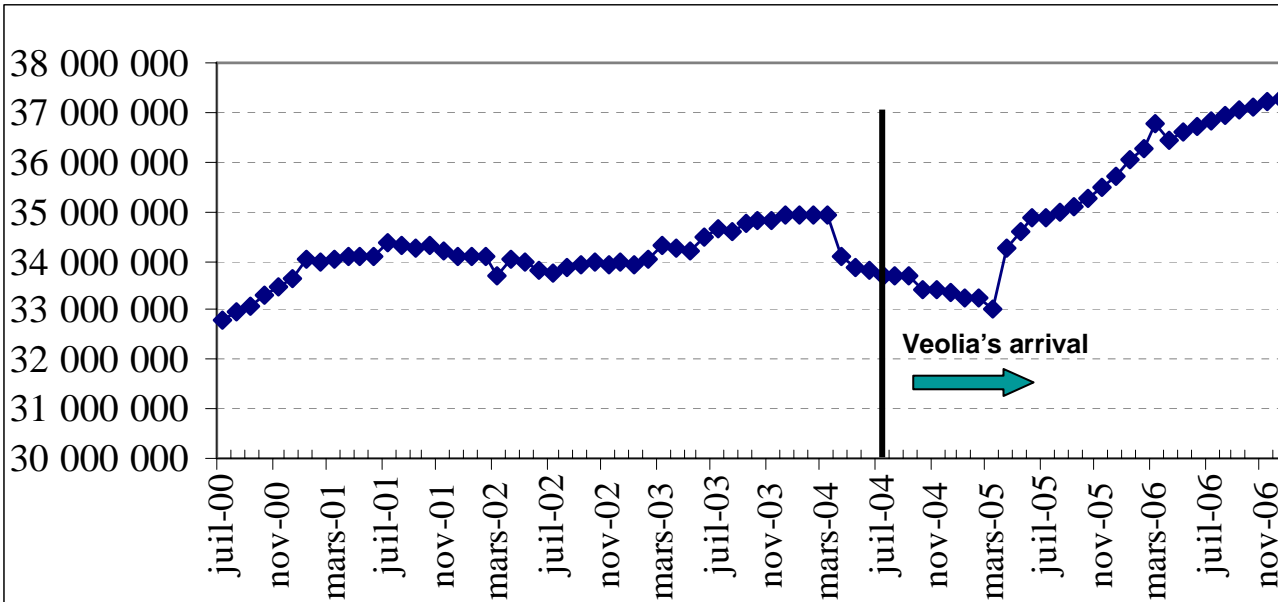
DB AG
1 train / hour

REGIOBAHN
1 train / hour

REGIOBAHN
1 train every 20 min



The ridership issue (2)



Urban system, Pamplona, Spain



Tendering – Which level of competition?

- **Integrated tendering**

Whole network to be awarded: city (France), region (The Netherlands)

⊕: co-ordinated approach and management → **optimization**

⊖: “**access cost**” → competition limited to big companies
 (ex. Lyons, UK Rail)



- **Fragmented tendering** (London Buses, Scandinavia)

→ PTA to co-ordinate / to market transport services
 to develop expertise

⊕: more competition / small companies favoured

⊖: operator = carrier → added value?

Tendering – The territory issue (1)

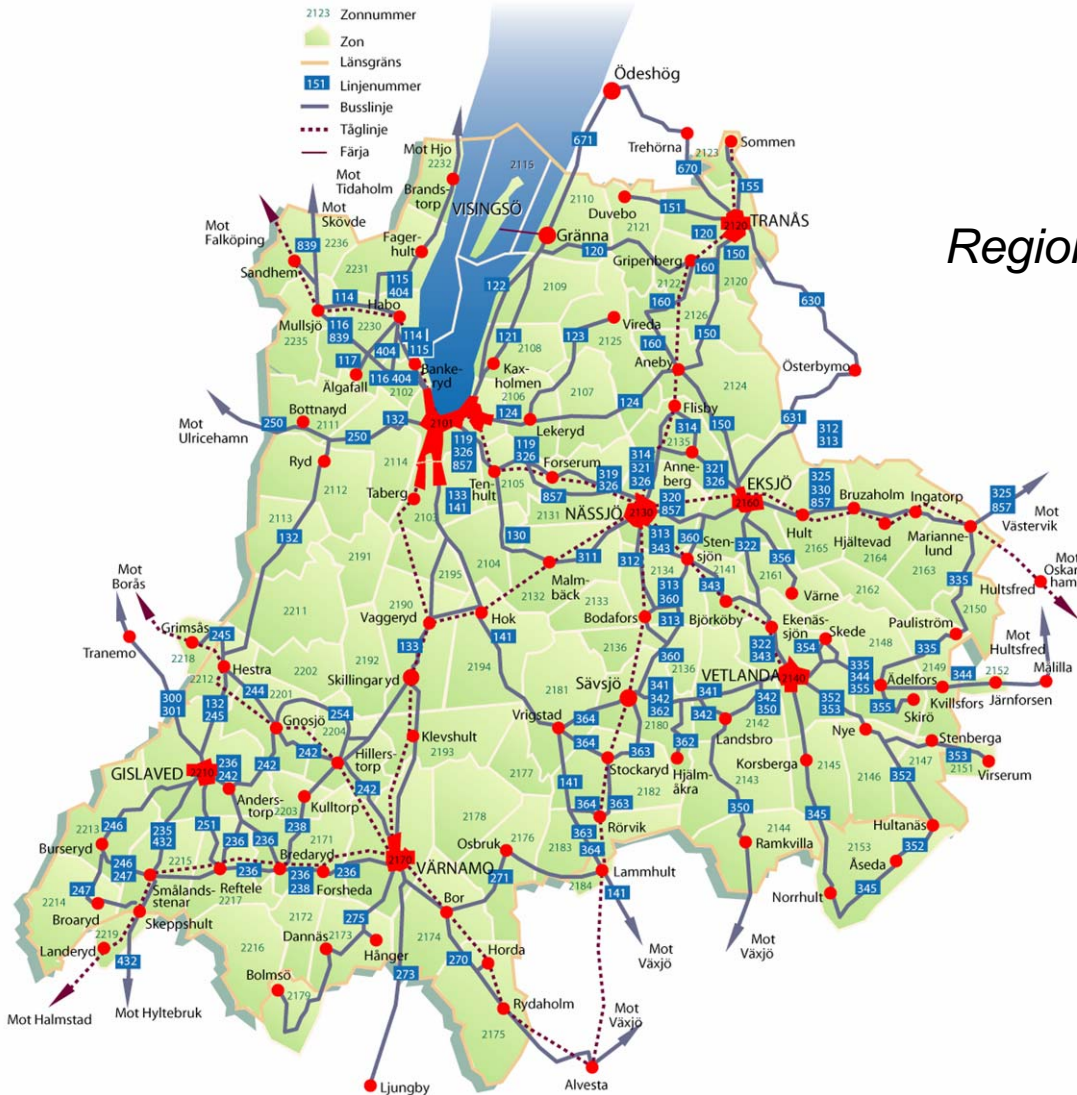
- **Urban sprawl** → large territories to be co-ordinated
→ Limits of the distinction **urban / regional**

Ex.: **France** → urban transport to profit from specific financial support – different level of services according to the type of territory (“urban” or “non urban”)

Ex.: **The Netherlands, Scandinavia, Germany** → multi-modal and regional authorities to manage road and rail, urban and regional systems

→ Better integration and coherence → **“seamless” travel**

Tendering – The territory issue (2)



*Regionalization of authorities in Sweden:
the example of Jönköping*

Jönköping County
340,000 inhabitants

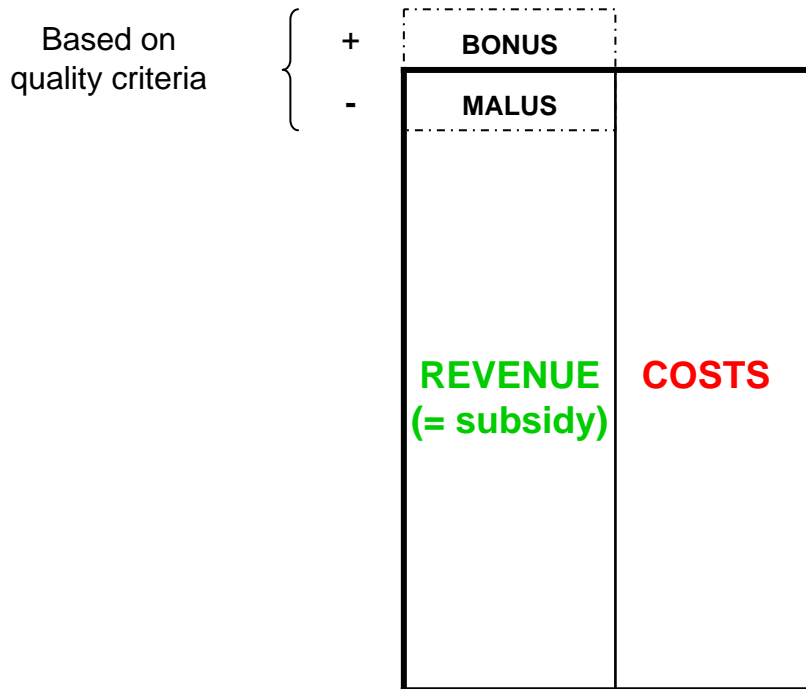
City of Jönköping
100,000 inhabitants

13 municipalities

Contracting – Allocating risks

- **Commercial risk:** related to the revenue and the patronage (this includes fare evasion)
- **Industrial risk:** related to operating expenses (evolution of risk) and operation (accidents, security, safety)

Gross cost contract: the basics



- The PTA keeps the **passenger revenue**
- The level of **costs** forecasted and given by the operator is covered by the PTA by the **subsidy** and includes the operator's remuneration
- Reaching **quality criteria** through an incentive scheme can increase the operator's margin (profit)

Gross cost contract: pros and cons

+

Controlled costs

On-going competition

Controlled quality

Allows **benchmarking** between operators

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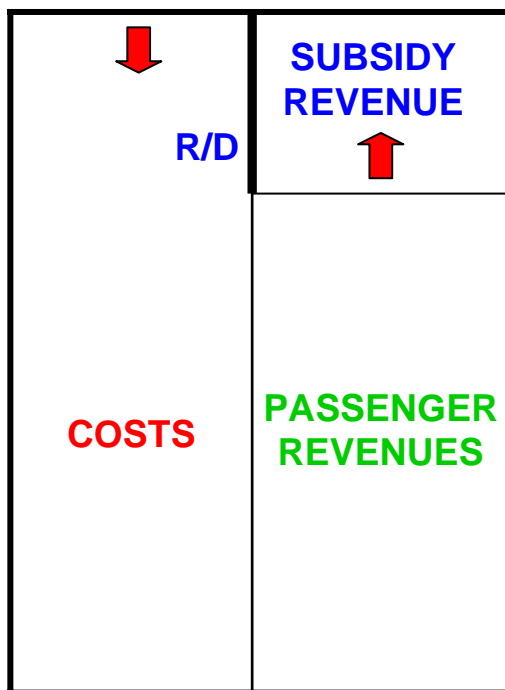
Operator's responsibility decoupled from the market

Difficult for operators to differ from each other

Tendency towards concentration of operators

Competition based only on **cost** → risk of “dumping”

Net cost contract: the trend



- The operator keeps **the revenue**
- The PTA covers the forecasted difference between costs and revenues by **subsidy**
- Revenues include forecasted **profit** for the operator, which can be increased / reduced by:
 - Increased / reduced costs ↓
 - Reduced / increased revenues ↑
- **Fixed subsidy contract** gives long term visibility for the PTA's financial contribution

Net cost contract: pros and cons

+ Incentives for the operator

Increase revenues and patronage

→ Influence on **modal shift**

→ Customer orientation

Quality: key factor

Operator in charge of **commercial development** (marketing, etc.)

Reducing operating costs through more **internal efficiency**

- Dependence on **external factors**: traffic and parking policy, congestion, etc.

Fare policy decided by the authority

Risk of **miscalculation**

Conditions for contractual efficiency (1)

- Undesirable consequences of **tenders based on the cost ratio** alone
ex.: Combus in Denmark
Social dumping
- **Contract duration** long enough to allow productivity improvements
→ Internal efficiency
- **Revenue risk** for the operator = commitment on cost / revenue ratio
→ **Political support** from the authority
(traffic policy, priorities for PT, etc.)
→ External efficiency

Conditions for contractual efficiency (2)

- Contract to allow **room for commercial initiatives** by the operators to develop the market
 - ex.: Dutch tenders for a predefined budget
 - Rail contracts in UK
 - "InterConnex" in Germany
 - sometimes **without** additional subsidy
- **Advisory role** of the operator: major projects, ticketing, fare structure, clearing house, information systems, etc.
 - ex.: BOT contracts
 - French "Départements"
 - Bogota system
 - ➔ Involvement of the operator **early in the process**



Incentives for the operator

- Operator in the best position to know the customers' needs and to market services
- Service quality linked with staff commitment
- Incentives based on increasing patronage
- Quality measurement according to criteria and methods specified in the contract + bonus / malus mechanism

Conclusion

- **Authority** to set political objectives and financial framework
- Regulation through **contract** establishing clear relationships authority – operator(s)
- Freedom of **initiative** for operating companies
- **European regulations** to be implemented:
 - Regulation on Public Service Requirements
 - 3rd Railway Package
- **Financial issue**: additional resources to be found



Thank you!



 **VEOLIA** website: www.veolia-transport.com
TRANSPORT

michel.quidort@veolia-transport.fr