

SPUTNIC – Fourth Working Group Meeting, 9/10 October 2008, Prague, Czech Republic

Cluster: Market Organisation

Topic: Contracts, Incentives and Monitoring

Participants

| Name | Company | Profile | City | Country |
|------|---------|---------|------|---------|
|------|---------|---------|------|---------|

Participating experts:

| | | | | |
|-------------------------|---------------------------------------|-------------------|-----------|----|
| Monika Mroczek | EIB | IFI | Luxemburg | LU |
| Guido Bruggeman | Independent transport consultant | Consultancy | Amsterdam | NL |
| Marten Ignell | Västtrafik | Authority | Skövde | SE |
| Arne Beck | BSL Management Consultants | Consultancy | Berlin | DE |
| Leszek Ruta | Warsaw Transport Authority | Authority | Warsaw | PL |
| Metodi Avramov | Public Transport Company Sofia | Organising entity | Sofia | BG |
| Zdenek Dosek | Transport Operator of Prague | PTO | Prague | CZ |
| Kvetoslav Havlik | KORDIS | Tarrif Ass. | Brno | CZ |
| Branko Mikinac | Zagrebački Električni Tramvaj | PTO | Zagreb | HR |
| Marcin Wolek | University of Gdansk | Academia | Gdansk | PL |
| Rudite Revelina | Riga City Council, Traffic department | Authority | Riga | LV |

Participating SPUTNIC Working Group Partners:

| | | | | |
|----------------------|---------------|-------------|-----------|----|
| Roger Pydokka | VTI | Consultancy | Stockholm | SE |
| Martin Ruesch | Rapp Trans AG | Consultancy | Zurich | CH |
| Dieter Egger | Rapp Trans AG | Consultancy | Zurich | CH |

Total of 14 participants whereof

- 11 experts, 3 SPUTNIC partners
- 5 authorities or PT organising entities, 2 PT operators, 1 International Finance Institution, 1 Academia, 5 consultants
- 7 from CEEC, 7 from western Europe

Minutes

Note: The abbreviations in brackets refer to the initials of the participants' names

Part 1: Introduction, Thursday, 9 October 2008, 11:30 - 13:00 (Moderation: Martin Ruesch)

Martin Ruesch (MR) welcomes all participants and gives a short introduction (see slides on www.sputnicproject.eu). He introduces the cluster partners (Rapp Trans, VVO, vti) and the challenges and topics addressed within the cluster market organisation.

In a short introduction round each participant introduces himself (name, organisation, background, interests).

MR gives a short summary of the background paper that had been sent to the participants in advance (document available on www.sputnicproject.eu). He defines the objectives of the workshop and the main questions to be addressed (see agenda in annex 1). MR gives an overview on the program of the workshop and the communication rules.

The important questions regarding contracts, incentives and monitoring are:

- What is a good PSC? What different types of PSC exist and how are they used according to their strengths and weaknesses?
- What are the advantages/disadvantages of a PSC?
- How to set up and implement a PSC?
- How can incentive contracts improve quality and efficiency of PT operation and services?
- What kind of incentives are suitable under certain framework conditions?
- What are the barriers and success factors when implementing incentive contracts?
- What monitoring systems can improve quality and efficiency of PT services?
- What kind of monitoring systems are appropriate under certain framework conditions?
- How to set up and implement monitoring schemes?

MR summarises the main problems with respect to the workshop's topic:

- pressure on public funds requires the improvement of efficiency and productivity and the increase of PT revenues
- increasing quality expectations of customers and direct competition with the car requires improvements in PT service quality
- few incentives for PT operators to cut costs and to increase quality and revenues
- difficult long term and even short term planning due to unreliable and instable framework conditions
- lack of initiative due to unclear division of responsibilities
- difficult assessment of efficiency and effectiveness of PT services due to insufficient separation of authority and operator and low implementation of monitoring schemes

From the main problems MR derives the following challenges:

- implementation of the new EU Regulation 1370/2007

- transparent formalisation of the relationship between authority and operator by designing and implementing Public Service Contracts that clearly define the actors' responsibilities
- fair and efficient allocation of responsibilities and risks for operators and authorities
- proper design and implementation of incentive contracts which induce operators to conduct their business towards the achievement of the strategic goals of the system
- proper design and implementation of monitoring systems for the operator's economic and quality performance in order to measure quality and efficiency against the targets set, to enforce the fulfilment of the PSC and to reassess the current market organisation

The experts generally agree on the mentioned problems and challenges.

Guido Bruggeman (GB) states that a good PSC might solve 5 out of the 6 mentioned problems. Marten Ignell (MI) reminds that the incentives strongly depend on the type of contract: in a gross cost contract the PTO does have incentives to cut costs. Arne Beck (AB) adds that the amount of incentives furthermore depends on the procedure of awarding the contract (level of competition).

Regarding the challenge of implementing the new EU regulation, Czech Republic is now in the process of adopting a new PT act that will soon be discussed in parliament; however, there are different political forces with different ideas on how to implement the new EU Regulation in detail (Zdenek Dosek, ZD).

Guido Bruggeman (GB) gives a key note speech presenting an overview on Public Service Contracts (PSC) within PT (see slides on www.sputnicproject.eu). He starts with a digression concerning the old and new EU Regulation. PSC was already mentioned in the old regulation (Reg 1191/69) dating from 40 years ago. However, in the old regulation a PSC was not compulsory whereas in the new Regulation (Reg 1370/2007) a PSC becomes mandatory. The example of a PSC for the airlink between Paris and Aurillac shows that PSC is not a new concept and common in other sectors. GB then discusses the contents of a PSC along Art. 4 of the new EU Regulation. For the image and attitude of the PT sector it is important to note that the new EU Regulation no longer speaks about "subsidies" but about "compensation". There are still many cities without PSC, especially in CEEC. The specific requirements for PSCs will be mainly determined by national legislation (which does and will differ quite substantially). GB discusses the main contents of a PSC (rights and obligations, quantity and quality of services, compensation payments, use and ownership of assets, monitoring, administrative procedures on the management of the contract) and the different types of PSC according to different risk sharing model (management contract, gross cost contract, net cost contract, quality incentive contract). He expects quality incentive contracts to gain importance in the future. Net cost contracts however are seldom especially in CEEC because patronage is expected to decline. GB summarises the advantages of a PSC; among other a PSC also serves as a basis for a bank loan. He discusses the contents and basic elements of a PSC along the following structure: preamble, scope, rights and obligations of the PTO, rights and obligations of the authority, execution of agreement, appendices. GB explains the idea of incentives using the example of Quality Incentive Contracts that were developed by London Transport as the Transport Authority was not satisfied with the delivered quality of services under Gross Contracts (payment per vehicle kilometre). Operators could gain substantial bonuses (up to 3 Mio. EURO per year in former times) when meeting certain quality standards. GB concludes his presentation with an overview on possible difficulties with implementing PSC.

Part 2: Contracts (PSC), Thursday, 9 October 2008, 14:15 - 18:00 (Moderation: Martin Ruesch)

Discussion:

The University of Gdansk is working on a formula that includes average speed in the compensation calculations in order to exclude external influences that cannot be influenced by the PTO - such as congestion (Marcin Wolek, MW).

Metodi Avramov (MA) raises the question of national quality standards. GB is not aware of any national standards, although many authorities apply technical standards for vehicles (on emissions, low-floor availability etc.) and/or quality standards such as punctuality (difficult because operator might not be liable for problems due to congestion), information provision to the passengers, fare dodging etc. He argues that national legislation should not set the standards but oblige the

commissioning authorities to include quality issues in their contracts. RP agrees as those who pay should also decide on the quality level.

AB agrees with national standards on safety or environmental issues. In Germany, some standards are set in the “Nahverkehrsplan”. An integrated system might be seen as a standard on a higher level.

In France there are national standards that have to be fulfilled to receive a certain certificate which is required when applying for a PSC (ZD).

The amount of quality standards needed in a PSC also depends on the contract type: In a gross cost contract (GCC) you need to define much more quality standards because in a GCC every passenger is bad news (AB). In a Net Cost Contract (NCC) you assume (this might not always be the case) that quality incentives persist due to revenue incentives (GB).

Sofia has a PSC and pays their operators by vehicle-kilometres (GCC). Now they want to bring the customer into the picture. For instance there are have 4 busses running in a row but the operators have no incentive to react to the benefit of the customer. How to include incentives when the revenues go to the authority (MA)? MR suggests to distribute the revenues to the operators according to the number of passengers which proved to be effective in Switzerland. In Gdynia the PT organiser does a lot of marketing research such as counting passengers or interviews with passengers and households (MW). MA sees the advantages of a NCC but Sofia is not ready for it.

In Prague the operator is compensated for a so called “demonstrable loss” which is calculated before signing the contract. In this sense it is a NCC, but it is renegotiated every year (ZD).

Kvetoslav Havlik (KH) thinks that for Brno the number of passengers is not a suitable indicator as they have up to 7 operators on one and the same line and the passengers just takes the first bus which arrives at the stop – independent of quality.

GB sees fairness problems when using the number of passengers as indicator as some operators run “cash cow-lines” while others run less frequented lines.

GCC with bonus systems (for instance based on Customer Satisfaction Surveys) can be an alternative to NCC. Passengers are able to differentiate between different operators. There exist technical systems to allocate revenues to different operators even in an integrated system. But both solutions (GCC with monitoring and NCC with revenues allocation) cost money. The question is which one is cheaper which depends on local circumstances. Incentives out of a NCC strongly depend on the possibility for the operator to gain additional customers. The best incentive scheme is a solution that makes the operator do what the authority wants him to do (AB).

AB explains a rather sophisticated compensation scheme from Norway where the operator receives a lump sum franchise fee calculated on the basis of costs, revenues, passenger-kilometres, number of passengers and vehicle-kilometres. This scheme reminds MI of their solution within Västtraffik where the operator is compensated based on vehicle-kilometres but receives additional incentive payments based on the number of passengers.

In the Netherlands NCCs are known where the operator receives a compensation based on vehicle-kilometres but keeps the revenues. In turn the operator is allowed to decide on tariffs. In other Dutch cases the contract is awarded to the bidder which promises the highest increase in ridership. In these cases the operator can also decide on the PT network (GB).

There is a vast number of possible solutions. No size fits all – it very much depends on the local circumstances. There is no empirical evidence for the best model (AB).

MW suggests Modal Split targets as possible basis for incentives. AB suggests a benchmark study for Modal Split among different cities with different contract types.

GB and MI expect quality incentive contracts (GCC with quality incentives) to be the most widespread contract type within 5-10 years.

Martin Ruesch (MR) briefly presents the results of the inquiry regarding the occurrence and the advantages of PSC and possible barriers to implementation (see slides on www.sputnicproject.eu). 8 out of 11 questionnaires have been returned.

Arne Beck (AB) presents the study “contracting in urban PT” by NEA, inno-V, KCW and others that aimed at providing a guide-book for Public Transport Authorities on contracting and awarding of contracts based on an analysis of best-practice

experience in EU member states. The study identified 3 types of awarding mechanisms (direct award, competitive tendering and free market regimes) and 8 main types of contracts. The new EU Regulation provides a wide legal definition for PSC. It induces a need for change for PTAs enabling them to optimize their contract relationships. Contracts should correspond with and support the desired market organisation. Thereby authorities are often not aware of the full range of steering mechanisms. Decisions on roles and tasks are necessary on a strategic, tactical and operational level. The authority's influence on planning and design of the PT service determines the regulative influence on the tactical level. Municipalities should keep ownership of infrastructures to avoid problems of discrimination within the awarding procedure. The contract expiration should always be kept in mind when drafting a contract in order to avoid discrimination problems when retendering. Before drafting a contract the authority should identify its aims and then check the local circumstances – not the other way round. When drafting a contract the allocation of risks is crucial. The question of contract type is linked to the allocation of risks which should be linked to the allocation of tasks which again depends on the capability of the actors (functional vs. constructive contract design). An adjustment clause for contracts is advisable and widely common in Europe. Performance control mechanisms must be in place. Thereby, credibility of incentives and sanctions is the basis for a successful contractual relationship. The 3 main contract types (MC, GCC, NCC) can be classified according to the risk allocation. Authorities should refrain from transferring too much risk to the operator as small operators might not be able to bear the risk and large operators will charge too high a risk premium. When the PT service is run by an in-house operator there should be a clear internal separation between the tasks and aims of the municipality as the owner of the PTO and as the commissioning entity/authority. Finally, for an economically successful contract lawyer engagement should focus on legal assessment after economical design of market structure and contract – and not before.

MW and GB miss the term “quality incentives”. AB explains that they are subsumed under the term “revenue incentives” as a bonus related to extra quality results in extra revenues.

Contract design has to follow policy aims (revenues, passengers, quality etc.). However, politicians might not like to define the aims (Roger Pydokke, RP). We have to force them to decide upon the aims – from our experience we often start with discussing the level of freedom granted to the operator (functional vs. constructive design).

Rudite Revelina (RR) presents the Latvian experiences with PSC (see slides on www.sputnicproject.eu). She explains the new legal framework which is in place since 2007 and foresees the establishment of PSCs. The new PT law also states who is paying for regional and urban PT. On the national level there are PSC for railway services and for intercity busses. Currently there are 10 offers being evaluated for a 12-year contract for 8 lots of intercity bus routes. However, the existing contracts signed in the beginning of 2008 had to be changed already in September because the losses were much higher than expected due to increased prices of diesel and spare parts and due to changes in the tariff system. On the local level there have also been PSCs signed. In Riga, there are one municipal enterprise (MC) and 8 private operators (GCC). However, there are 15 categories of discounted tickets. The operators receive an annual compensation of 11 Mio. Lit, whereof 8 Mio. are for discounted tickets and 3 Mio. for investment programs.

Dieter Egger (DE) finds it remarkable that without discounted tickets and investment costs the revenues would cover 100% of the production costs. MA adds that the same applies for Sofia where the compensations to operators are mainly for discounted tickets. MW adds that this situation is quite common for CEEC. According to AB the reasons for this is the relatively high Modal Split and the low capital costs (old rolling-stock).

Sofia currently faces the problem that the major PTO is unable to hire enough drivers and therefore will not be able to run the winter timetable. The authority imposes penalties to the PTO, but without effect (MA). AB suggests that the penalties might be too low as it is obviously cheaper for the PTO to pay the penalties than to pay higher salaries to the drivers. In Sofia the issue has a political dimension as the salary of the drivers is linked to the whole economy; a driver's salary three times higher than a teacher's salary would not be accepted politically (MA).

Monika Mroczek (MR) presents the Senior lender's perspective on PSC in PPP structures (see slides on www.sputnicproject.eu). She starts by presenting the EIB and the characteristics of a PPP. For the lender stable framework conditions are one of the key issues. A PSC is part of these framework conditions. The lender needs the revenues guaranteed by the PSC as a security. Within the PSC the lender will look at the tenure of the contract (does it correspond to the tenure of the debt), the scope of the services, the payment mechanisms (e.g. if there are indexation mechanisms to insure the PTO against sharp rises in energy prices? Who sets the tariffs? Is there a risk of falling ridership?), contract defaults, step-in-rights, contract termination, insurance, force majeure and change of law. MR explains the structure of 2

different PPP models (UK and France). She concludes saying that senior lenders are public sector's best friend because:

- the lender reassures the viability of the project
- once started the lender has all interests for a successful project
- in case of problems the lender will help in his own interest.

MW sees a growing market for senior lenders in PT because the new EU Regulation will provide many PTO with long term contracts.

AB remarks the fact that the EIB acts just like a private investor (due diligence etc.).

GB states that for lenders the termination clause in a PSC is crucial. In any case, PSC will open access to financing.

MA is impressed by Prague's number of PT passengers and vehicle kilometres and their budget for PT which equals approx. the whole budget of Sofia municipality although Sofia and Prague are about the same size.

When aiming at the reduction of public spending, AB suggests thinking about long term restructuring potential first before reducing services.

Part 3: Incentives & Risks, Friday, 10 October 2008, 09:00 - 12:30 (Moderation: Roger Pydokke)

Roger Pydokke (RP) introduces the topic by summarising some points of the background paper and presents some research results from Sweden (see slides on www.sputnicproject.eu). He briefly summarises the results of the expert inquiry. Almost 90% of the cities that answered the questionnaire know some form of incentives.

Marten Ignell (MI) presents the experiences from Västtraffik, one of 20 Swedish PTAs in the region around Gothenburg (see slides on www.sputnicproject.eu). Cost coverage is approx. 55%; the dominant mode is bus transport. Contract duration is 5-9 years (it used to be less). All lines except for the trams are subject to tender. Most of the contracts are GCC with incentives. The advantage of GCC for Västtraffik is that the PTA retains control over supply, timetables etc. and that the services are easier to integrate. On the other hand the operator is only focused on costs and has no interest in revenues or quality. For this reason incentives are needed. Västtraffik differentiates between "incentives" which are always paid but depend on the level of achievement (e.g. the number of passengers) and bonuses which are extra payments (on top) dependent on customer satisfaction punctuality etc. and fines (e.g. for cancelled departures, not properly maintained vehicles etc.). Fines are multiplied by 3- 5 if the misconduct is discovered by the PTA (and not reported by the operator). Västtraffik's experiences indicate that some kind of compromise between gross- and net contracts is probably the best way. Incentives related to the number of passengers work quite well (in open systems they might require additional passenger counting). It is advisable to keep the incentives separate from the PTA's fares and revenues.

AB states that it is difficult to find the right level of bonuses/fines as the operator will ask itself if it is cheaper to pay the fines than to fulfil the targets. From his experience NCC are also possible within integrated systems.

Marcin Wolek (MW) presents the Polish experiences (see slides on www.sputnicproject.eu) starting with an overview on the evolution of the Polish PT market. Poland knows mainly GCC with rather short duration of max. 4 years (now starting to become longer). In-house operators hold a strong monopolistic position and competition is not very popular. Gdynia has always had GCC with quality measures. There used to be positive incentives but this had to be abandoned due to legal restrictions. The contracts are strongly constructive (little freedom for PTO). Gdynia thinks about indexing the payment per vehicle-kilometres in future contracts depending on wage level, energy prices, consumer price index and vehicle speed (to account for congestion). In Polish contracts there are typically no rewarding incentives, only penalties. In Gdynia there is a monitoring scheme based on random checks with respect to reliability, punctuality, rolling-stock. In addition Gdynia has a strong tradition of marketing research in order to know the needs and the behaviour of the PT customer including regular customer satisfaction surveys (but also surveys among non-PT users).

MA states that many points mentioned also apply to Bulgaria.

MW clarifies that in the urban market there is threat of market monopolisation both by in-house operators as well as by large international players. The regional market is much more open to competition.

AB and MW discuss on the appropriate size of a tender (tendering efficiency vs. market structure). Gdynia knows tenders of different sizes, from 3 to 150 buses. Sometimes small lots are combined into one tender.

Statement round along the questions of RP's presentation

In Prague, the contract is focused on the amount of services to be provided. There is no incentive for the PTO to increase the number of passengers. Prague only knows penalties, but ZD doubts if they increase PT travel (ZD).

In Riga, there are no incentives linked to increases in PT travel (RR).

In Gdynia, MW thinks that incentives have had a positive impact on PT, but it is not known to which amount. The key for success might be a combination of different incentives.

In Brno, there are only negative incentives, but their impact on PT travel is estimated rather low (the increase in PT travel being due to other reasons). However, they had a large impact on PT quality in regional PT. In urban PT, there is no need for incentives because the municipal PT operator is the pride of the city and has a lot of intrinsic motivation (this seems to be quite typical for Czech cities and regions (KH)). RP adds that in Sweden this intrinsic motivation has been "destroyed" through the large tendering process (maybe linked to the increasing pressure on wages). KH adds that a possible reason for the higher motivation in cities might in fact be that the working conditions are better than in the regions.

In Sofia, the PTA's budget is fixed and there is no extra money available for bonuses. Therefore Sofia now runs a trial earmarking 20% of the penalties paid for bonus payments. It is to be seen how the soft indicators within this bonus scheme (such as customer satisfaction) will be accepted by the operators. Penalties seem to work and to improve quality with most operators (e.g. the number of cancelled trips has declined due to penalties. However, it seems that in Wasraw penalties seem to work better than in Sofia (busses in Sofia are dirtier than in Warsaw). (MA)

GB thinks that incentives can improve quality in many cases, but it is difficult to estimate the impact of this increase in quality on ridership. This impact takes a lot of time. In Amsterdam the fines for punctuality improved quality. The fines were published which put quite some pressure on the operator. The management of the operator used the penalties as a means to motivate their employees.

AB mentions the Marschbahn tender which has been won by Veolia. In their offer Veolia calculated with a 25% increase in ridership due to new rolling stock and higher frequencies of services etc. – and it seems to work out.

MA mentions possible conflicts between different goals such as friendliness of the drivers and keeping the timetable.

The situation presented for Gdynia applies to Warsaw as well. Polish legislation is very difficult for PPP projects (Leszek Ruta, LR). Luckily there are some attempts to change this law (MM).

According to MI the effect of the incentive on ridership is difficult to isolate; in the Västtraffik region there is not much experience so far with positive incentives but they are estimated to have an effect on the PTA's revenues as the operators have a strong incentive to make sure that passengers pay their fare. Negative incentives have for sure improved quality. MI thinks that successful incentives should be linked to the customer. But you should not have an incentive that costs more to be realised than the additional revenues it generates.

AB mentions the importance of calculating all the effects (quality, ridership, revenues, costs) in advance in order to design a successful incentive.

MA mentions the problems in Sofia with bus lanes that are not properly enforced because the enforcement is performed by the Ministry of Interior. In Warsaw, the PTA therefore has concluded a special contract with the police for protecting the bus lanes from being used by private cars (LR).

GB explains slide 38 of his presentation with respect to incentive design. He argues that the PTA has to think like an operator when designing the bonus schemes. When the operator can do satisfying business even without bonus payments, the effect of the bonus scheme might be quite small.

MI argues that it is difficult for the PTA to know if the compensation payment covers the operator's costs. MA argues that at least for in-house operators you might know. MI points out the negative climate that could result from having only maluses; it is therefore necessary to have both maluses and bonuses.

GB remarks that penalties are mostly based on hard indicators in order to avoid discussions whereas bonuses are rather linked to soft indicators resulting from mystery shopping surveys or customer satisfaction surveys. London started doing mystery shopping in close cooperation with the operators in order to avoid long debates and not to act as a police.

AB affirms that a cooperative relationship is needed, otherwise monitoring gets very costly. On the other hand the PTA needs the reputation that it will enforce all penalties. The appropriate balance between cooperation and enforcement depends on the phase the PT market is in (in emerging markets as CEEC you might need more enforcement whereas in mature markets in Western Europe you might need more cooperation).

MW adds that in CEEC in former times the customer was no issue – and therefore quality was neither.

MA supports this view. Sofia has a very sophisticated system of control, but only with respect to production indicators, not for indicators related to the customer.

Part 4: Monitoring systems, Friday, 10 April 2008, 13:30 - 15:30 (Moderation: Dieter Egger)

Dieter Egger (DE) welcomes all participants for the session on monitoring systems and gives a short introduction (see slides on www.sputnicproject.eu). He presents shortly the results from the inquiry about the methods and indicators used and the problems and barriers faced in different European cities (see slides on www.sputnicproject.eu). All the cities which took part in the inquiry use monitoring schemes, 38% of them based on CEN quality standard. 50% of the cities use it also for benchmarking purposes. There were only few problems mentioned such as unwanted transparency and difficulties to compare companies when it comes to benchmarking. Monitoring indicators include reliability, service level, rolling stock, passenger information, staff behaviour etc. Benchmarking indicators include also subsidy per km and customer satisfaction.

DE presents some Swiss experiences relating to monitoring schemes. The first good practice example is the ZVV monitoring scheme of the Zurich transportation association, which integrates 44 PT operators. Their approach is to steer the quality by the market based on biannual customer satisfaction survey which includes 70 questions on 16 quality dimensions (9000 questionnaires, 80% feedback rate). What is interesting about this scheme is that it covers the strategic, tactical and operational level. For a service level Index from 70 to 78 a bonus is given to a PT Operator. The overall bonus sum per year is 1% of the revenues of the transportation association. The results are published which stimulates the quality competition. The experiences are very positive; the quality and customer satisfaction increased.

The second example is a benchmarking scheme of the Canton of St. Gallen, which aims at controlling the performance, increasing the effectiveness and efficiency and optimising the use of public money. The regional benchmarking system is used so far only for busses and includes financial and quality indicators. The results have been used for a tendering strategy that lead to quality improvements and public cost savings. This approach resulted also in a stronger negotiation position for the authorities in the case of direct awards. Future plans are to extend the system to a Bonus/Malus scheme and to implement interregional benchmarks with other cities.

Leszek Ruta (LR) presents the monitoring system of the public transport services in Warsaw (see slides on www.sputnicproject.eu). After an overview on the Warsaw public transport system, PT organisation, the existing contracts and the tendering approach LR outlined the monitoring scheme. This includes reliability, punctuality and service failures. The indicators are used to calculate penalties. Main measurement methods are manual measure, automatic measure and document control. From the viewpoint of WTA the main challenges include the automation and the integration into dynamic passenger and traffic control schemes.

Zdenek Dosek (ZD) from the transport operator of Prague presents their monitoring scheme based on the quality standard 13816 (see slides on www.sputnicproject.eu). ZD gives overview on the PT organisation in the Prague region and the contractual situation. The monitoring provision is required in the contract (directly awarded) and includes the fulfilment of PT services and performance. He also presents the penalty schedule. The monitoring approach takes into account the new CEN standard, which considers 8 quality categories (availability, accessibility, information, time, customer care, comfort, security, Environmental impact). In Prague there is a compensation for the available service, but there is no incentive (bonus/malus) for additional services as for instance in Brussels. Prague is also involved in Benchmarking activities comparing the service quality of PT operators in bigger European cities. ZD also mentions incentives used in contracts from RATP and the CYQUAL-club which consists of different PT operators who cooperate with respect to a quality service program. He informs that there are often arguments that the introduction of a quality management system is expensive but does not increase the revenues. But the experiences from ZD show that QM is an investment in order to improve services,

image, security and allows to decrease fraud. He ends his presentation with a proverb from Gandhi who said: “Quality is not expensive, it is priceless”.

Discussion:

GB raises the question of price differences in cities as Warsaw and Sofia where you have in-house service provider and private operators with tendered contracts. LR answers that the prices of private operators (tendered services) are lower, but the difference is not so big. This situation creates a (positive) pressure on the in-house service provider. MW adds that in-house service providers are satisfied to be safe from competition and that long term contracts have been signed just before the new procurement law. GB points out that the new EU regulation includes the obligation for PSC and that the procurement process must consider these rules. AB adds that the new EU-regulation provides only general rules and allows some flexibility. Competition puts some pressure on the in-house operator and makes prices more transparent. GB adds that there is an open exchange of prices between 14 PT operators and that this is allowed because of compensation with public money. MA mentions the increased salaries of in-house operators (strong unions, strikes) and that there are private operators with higher prices than the municipal operator. This might lead to a negative spiral of increased prices.

MA raises the question of potential overcompensation and how to control it. DE mentions that overcompensation can be prevented by competition or by benchmarking (such as in the example of St.Gallen that has been presented). AB refers to the Altmark case.

AB raises the question if in Prague there is a bonus for the quality activities. ZD answers that ROPID (staff approx. 40 people) does not consider quality activities and that there is no bonus at all but the PT operator feels responsible for the quality. Based on these activities quality has improved and also the information behaviour. KH adds that quality measurement is also done in the southern Moravian region, especially by the big PT companies.

MI asks ZD if also Non-PT users are considered in the quality monitoring. ZD answers that also Non-users should be included in a quality monitoring to identify the motives for mode choice and to identify measures to change mode choice of car users.

GB states that from his experience and the ISOTOPE project there is a strong trend to integrate quality in PSC; in gross cost and net cost contracts. It is not the question of “if” but of “how”.

From the discussion it became clear that for monitoring quality indicators should be considered that have a direct influence on ridership. A market oriented approach should be preferred which uses the monitoring results for a continuous improvement. The aims of the operator (e.g. maximising profit) should be made congruent to PTA aims (increase modal split, minimise compensation). The monitoring data should also be used for benchmarking. Monitoring and benchmarking results should be made public; it is important for image and creates a quality competition between the PT operators.

RP adds that a Cost Benefit Analysis of different quality schemes would be useful in order to identify the most suitable schemes and also to calculate bonuses. This should also consider the willingness to pay for quality improvements.

Part 5: Main findings and outlook, Friday, 18 April 2008, 15:30 - 16:00 (Moderation: Martin Ruesch)

Martin Ruesch (MR) presents his summary of the main findings (see slides on www.sputnicproject.eu). His points are discussed very briefly by the experts; missing points are added according to the discussion. MR later presents the main findings in the plenary (see below for a summary).

MR presents the available and planned output of the working group “Market Organisation”. All output will be available on the SPUTNIC website (www.sputnicproject.eu). Background paper, inquiry results, good practice case descriptions and workshop minutes of the last three workshops on “Integration and Tariff systems”, on “Framework conditions and co-operation” and on “PT funding and financing” are available on the project website. The outcome of this workshop will follow. For the collection of good practice examples on PSC, incentives and monitoring the SPUTNIC partners will contact selected experts for contribution. Checklists and Guidelines will be produced at a later stage.

The next SPUTNIC meeting is a plenary meeting taking place on February 12/13 2009, followed by the Final Conference in Brussels at the 3rd of July 2009.

On behalf of the whole cluster Martin Ruesch thanks all experts for their active participation and closes the working group meeting at 16:00.

Friday, 18 April 2008, 16:30-17:30 (Plenary session): Conclusions

Martin Ruesch summarises the discussions and findings of the meeting on the contractual relationship between authority and PT operator (see slides on www.sputnicproject.eu):

Public Service Contract

- Relationship between commissioning authority and PT operator should always be based on a proper PSC which is still not commonplace for many urban areas (no PSC, too short duration, no proper indexation of compensation, etc.)
- New regulation 1370/2007 leads to more transparency and triggers optimisation of the contractual relationship (more transparency on rights, obligation and compensation); inclusion of quality standards in PSC is not mandatory (except for direct award) but strongly advisable
- No “Best Solution” for a contract type (different options such as gross cost, net cost and management contracts); a good solution could consist of a mixture (e.g. quality incentive contracts)
- Before drafting the contract it is absolutely necessary to define the policy aims and the service design (considering the local framework conditions) as this influences the contract type and the allocation of risks and is equally important for the integration of quality aspects and monitoring
- Proper PSC is essential for financing of investments (long term perspective)
- Important success factors for a good PSC are:
 - Consideration of PT policy aims
 - Fair allocation of risks
 - Proper Indexation of compensation

Incentives

- Pure gross cost contracts do not stimulate good quality but seem to work well together with quality incentives
- Clear trend to implement incentives in PSC's (increasing importance of quality but limited number of net cost contracts)
- Authority should define the required quality level
- Penalty schemes are more common than bonus schemes (partly due to regulations and limited funds for bonus payments); Bonus schemes are often related to customer satisfaction surveys
- Prolongation of contracts or threat of tendering can also work as an incentive
- Positive effects of incentives schemes on quality and efficiency; unclear effect on modal split but estimated to be positive; some incentives are too small to generate the desired effects
- Be aware of potential negative effects of incentive schemes (e.g. punctuality incentives might tempt drivers to speed or the operator to adapt his timetables – with longer travel times)
- Important success factors:
 - Credibility of incentives and sanctions is important
 - Use only indicators which also can be affected by the operator
 - Incentive payments should be in accordance with the efforts/costs needed to earn them
 - Win-win situation (not only penalties but also bonuses)

Monitoring

- Monitoring should be part of every PSC (instrument to control the fulfilment of contract; basis for penalties and bonuses; part of contract management)
- Different Monitoring approaches in use:
 - Measurement of performance indicators -> used mostly for penalties
 - Mystery shopping -> used for penalties or bonuses
 - Customer satisfaction surveys -> used mostly for bonuses
- Choose indicators which have a direct influence on ridership and revenues
- Monitoring is also valuable for benchmarking and identification of quality and performance gaps
- Find the right balance between costs and benefits of the monitoring approach
- Important success factors:
 - Consider CEN standards EN 13816 and 15140 for selection and measurement of quality indicators
 - Cooperative relationship PTA-PT (the main aim is not to control but to reach quality/efficiency aims)
 - Common understanding and agreement on measurement and assessment methods
 - Results of quality monitoring should be open to public (quality competition motivates to improve quality)
- More research should be done related to the calculation of bonuses/penalties (CBA)

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Problems and challenges addressed

Problems relating to contracts, incentives and monitoring:

- pressure on public funds requires the improvement of efficiency and productivity and the increase of PT revenues
- increasing quality expectations of customers and direct competition with the car requires improvements in PT service quality
- few incentives for PT operators to cut costs and to increase quality and revenues
- difficult long term and even short term planning due to unreliable and instable framework conditions
- lack of initiative due to unclear division of responsibilities
- difficult assessment of efficiency and effectiveness of PT services due to insufficient separation of authority and operator and low implementation of monitoring schemes

Main challenges regarding contracts, incentives and monitoring include:

- implementation of the new EU Regulation 1370/2007, i.e.
- formalisation of the relationship between authority and operator by designing and implementing Public Service Contracts that clearly define the actors' responsibilities
- allocation of responsibilities and risks for operators and authorities in a fair and efficient way
- design and implementation of incentive contracts which induce operators to conduct their business towards the achievement of the strategic goals of the system, i.e. to increase efficiency and quality of PT
- design and implementation of monitoring systems for the operator's economic and quality performance in order to measure quality and efficiency against the targets set, to enforce the fulfilment of the PSC and to reassess the current market organisation

Objectives of WG Meeting

- To identify and validate main problems/challenges, trends and challenges in CEEC related to contracts, incentives and monitoring in urban PT
- To exchange information, experiences and know how and information on the topic between CEEC and other European cities/urban areas
- To present and discuss good practices examples from operators and authorities from CEEC and other European Countries
- To derive conclusions on challenges and need for action

Important questions to discuss

- What is a good PSC? What different types of PSC exist and how are they used according to their strengths and weaknesses?
- What are the advantages/disadvantages of a PSC?
- How to set up and implement a PSC?
- How can incentive contracts improve quality and efficiency of PT operation and services?
- What kind of incentives are suitable under certain framework conditions?
- What are the barriers and success factors when implementing incentive contracts?
- What kind of monitoring systems are appropriate under certain framework conditions?
- What monitoring systems can improve quality and efficiency of PT services?
- How to set up and implement monitoring schemes?

Preparatory documents

Working paper “Contracts, incentives and monitoring” including

- State of the art and problems/challenges
- Overview on general models / solutions
- Overview on specific topics

9th October 2008

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|---------------|---|------------|
| 09:30 – 11:00 | Opening session (Plenary) | UITP |
| 11:00 – 11:30 | <i>Coffee break</i> | |
| 11:30 – 13:00 | Working Group Session Part 1: Introduction | Rapp Trans |
| | Introduction by cluster leader - scope of the workshop / topics addressed - self-introduction of participants - Objectives / expectations for the meeting - Questions to be discussed - Programme for the WG Meeting - “Communication Rules” - main trends and challenges in CEEC / other countries - validation incl. statements from experts & discussion | |

Key note speech on Public Service Contracts
by Guido Bruggeman

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|---------------|---|------------|
| 13:00 – 14:00 | <i>Lunch</i> | |
| 14:00 – 18:00 | Working Group Session Part 2: Contracts (PSC) | Rapp Trans |
| | Introduction by Rapp Trans incl. results from inquiry | |
| | Presentation: Contracting in urban PT – study results by Arne Beck, BSL Management Consultants | |
| | Presentation: Latvian experiences with PSC by Rudite Revelina, Riga City Council | |
| | Presentation: PSC from the viewpoint of an International Finance Institution by Monika Mroczek, EIB | |
| 16:00 – 16:30 | <i>Coffee break</i> | |
| | Structured group discussion addressing the key questions | |
| 20:00 | <i>Dinner</i> | |

10th October 2008

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|----------------------|--|------------|
| 9:00 – 12:30 | Working Group Session Part 3: Incentives & Risks | VTI |
| | Introduction by VTI incl. results from inquiry | |
| | Presentation: Swedish experiences by Martin Ignell, Västtrafik | |
| | Presentation: Incentives in contracts on PT market in Poland by Marcin Wolek, University of Gdansk | |
| <i>11:00 – 11:30</i> | <i>Coffee break</i> | |
| | Structured group discussion | |
| <i>12:30 – 13:30</i> | <i>Lunch</i> | |
| 13:30 – 15:00 | Working Group Session Part 4: Monitoring systems | Rapp Trans |
| | Introduction by Rapp Trans incl. results from inquiry and Swiss experiences | |
| | Presentation: Experiences from Warsaw by Leszek Ruta, Warsaw Transport Authority (tbc) | |
| | Presentation: Monitoring quality based on CEN 13 816 by Zdenek Dosek, Prague Public Transport Company | |
| | Structured group discussion | |
| 15:00 – 16:00 | Working Group Session Part 5: Main findings & outlook | Rapp Trans |
| | Conclusions and main findings | |
| <i>16:00 – 16:30</i> | <i>Coffee Break</i> | |
| <i>16:30 – 17:30</i> | <i>Closing session (Plenary)</i> | UITP |
| <i>20:00</i> | <i>Dinner</i> | |