For the use of the following material:

The aim of PORTAL is to accelerate the take up of EU research results in the field of local and regional transport through the development of new education and training courses and teaching materials. The beneficiaries of the project are higher educational institutions.

Due to the size and (in some cases) the number of individual projects, it is not possible to explain each single result in detail and include it into these written materials.

The following set of material should rather act as a PORTAL and facilitate the access of single projects and detailed results by the lecturers.

Therefore the material in hand doesn't lay claim to completeness.

Since the expectations of the lecturers regarding these materials are quite diverse - the expectations run the gamut from 'providing a survey of the result of the EU-research to a specific topic' to 'providing special results of a single research-project in detail' -, the attempt has been made to make a compromise and (more or less) come up to the expectations of all user groups.

The following compendium contains results of EU research-projects and complementary results of national research-projects. PORTAL thanks the partners and collaborators of the following projects. A complete list of the projects, consortia, and cited literature is given at the end of the material.

This material of project results for the topic “Regulatory framework and legislation in public” was compiled by Wilfried Anreiter and Daniel Kampus (both FGM-AMOR; Forschungsgesellschaft Mobilität gemein. GmbH – Austrian Mobility Research) and Malachy Buckeridge (Mendes Ltd.) and Graham Lightfoot (CILTI, The Chartered Institute of Logistics & Transport in Ireland) in 2001 and adapted after a workshop with lecturers in 2002.

MARETOPE
ISOTOPE
QUATTRO
FISCUS
LEDA
SORT-IT
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Foreword to Modularised Learning Materials

The educational material developed below is designed to provide course lecturers and students with appropriate learning material that will assist them with the development of their knowledge of recent developments in European research in the field of public transport. A series of six learning modules has been developed by PORTAL. The material underpinning them is based upon the research results distilled from EU funded projects notably MARETOPE, ISOTOPE QUATTRO, FISCUS and to a lesser extent LEDA and SORT-IT. The learning material has been developed in a manner that allows course providers to incorporate the learning material into existing courses of education or be delivered as a separate series of modules that supplement existing courses. Alternatively, the material can be used by student learners as additional material to courses whose primary focus is not on public transport but where public transport studies impacts upon them. Such courses could include Urban Planning, Architecture, Civil Engineering, Public Administration and many others.

It should be noted that the materials draw heavily upon the research developed by other EU funded studies particularly MARETOPE. Learners and other users are strongly advised to refer to it for further study and reference, in particular for references to specific country and city case studies (much of the text for the following modules is drawn directly from MARETOPE). In order to facilitate clarity each module will begin with a common introduction and the specific learning outcomes as they apply to that particular module. In order to assist course providers and learners a set of twenty-four transparencies based upon MS Powerpoint has been prepared and accompany these modules. Transparencies are grouped according to their relevance to each module.

Specific Learning Outcomes for these Learning Materials

Upon completion of the six modules a student learner will gain the following skills and knowledge:

• To have an overview of the European public transport regulatory and policy situation
• To be familiar with the most important framework changes in Europe
• To provide a background on contracting and financing procedures as they exist within the European Community
• To understand the issues that relate to the decision-making processes regarding the development and Implementation of public passenger transport policies in a changed market environment
• To be familiar with the quality issues that are central to the delivery of public transport in a changed environment
• To be aware and understand the key financial issues that surround the implementation of changed processes in public transport
• To give advice or direct consulting to city administrations and other potential providers of public transport as well as policy makers at regional and national level,
• To understand the various viewpoints of the different stakeholder groups (operators, authorities, consultants, industry, customers)

• To understand and examine the issues raised in each of the topics being addressed in each module

• To be able to source additional information and reading material relevant to each topic.

Assessment Methodology

It is envisaged that student learners should be assessed at the end of the series of modules. However, given the variety of assessment methodologies existing within the educational systems across Europe it would be too prescriptive and presumptuous of PORTAL to specify the exact assessment methodology to be used in assessing the student outputs of this educational material. PORTAL envisages that this material should take 6-10 hours to deliver (depending on circumstances in each delivery centre and the supplementary material and emphasis that local educators may chose to place upon aspects of the material). Assessment might then be carried out on the basis of group discussion and assignments to be carried out by the individual learner (such assignments could be based upon the learner’s own work experience or work situation or educational level). A brief number of suggested Exercises and assignments are included though they are merely suggestive rather than definitive as learning conditions vary from country to country.

Case Studies and Study Sites

A selection of case studies is provided for use with this learning material. Case studies have been selected in order to represent a cross section of development and responses in passenger transport in recent years as regions, cities and states come to terms with a changing public passenger market environment and the changes necessary with existing regulatory frameworks. The case studies illustrate the different approaches being taken by authorities as they come to terms with compliance with EU legislation and the often inherent conflict that such directions cause with existing local regulation and legislation. In order to assist learners the profile of regulatory change at national level is provided. This should assist learners to place their examination of individual study sites into a national context. Comparison can then be made on a cross-country/cross regional basis.

Definition of Public Passenger Transport Regulatory Frameworks

The following definition of public passenger transport regulatory frameworks has been adopted by PORTAL as a working definition and it will appear as the start point in each module developed.

The topic “regulatory framework of public transport” contains legal as well as organisational aspects. In recent years the frameworks have undergone significant changes due to the shift in political priorities proposed by EU legislation leading to a more deregulated public transport market enabling some form of controlled competition. Public transport is aiming to achieve economic efficiency, quality of service and transparency in operation and as well as in organisation. Those goals can only be fulfilled if the relationship between authorities and operators is creative and mature. As in most affairs co-operation is the key to success, delays will cost more time, energy and money.

The regulatory framework determines the way in which transport services are designed, planned and produced. Therefore transparent rules have to be established between the different agents of the systems. Especially the allocation of responsibilities and sharing of risks are critical matters, which have to be precisely defined.
Operators from different modes and authorities and from different jurisdictional levels have to co-exist both in time and in space. As well as transport authorities have to devise common strategic goals for the same urban area together with authorities from other areas if congestion relief and environmental protection is to be achieved.

Evidence exists in several cities around the world of transport policies, where the balance between private and public means of mobility can only be achieved through the application of co-ordinated “pull” and “push” measures. “Pull” for entailing the improvement of the quality of public transport facilities and “push” aiming to restrict the use of individual transport in certain areas and periods.

**Introduction to Learning Materials**

**Background to E.U. debate on regulatory Issues for Passenger Transport**

Limitations and constraints

Frameworks in public transport allude to several topics that are not directly linked, but have a certain Regulatory impact.

These topics will only be treated in detail as necessary:

- legal analysis
- operational planning
- transportation planning
- procedural issues
- technological developments

**1.1 Challenges for Public Transport in the Future.**

The key basis to an efficient public transport lies in the form of its regulatory framework. Only a transparent and open framework will allow operators (private as well as public) to create sustainable transport systems which will handle the demands of the future that will satisfy:

- economic efficiency (decrease in travel time, increase in leisure time)
- ecological efficiency (reduction of congestion, improvement of the environment)
- quality of the service (decrease in travel time, increase in leisure time)
- promotion of inter-modality
- competitiveness

Ultimately, public transport aims to provide a better quality of life with sustainable mobility for the public at large. Historically, the main users in Europe, as well on other continents have been people from the lower income groups. This may well be the pattern of users in the past but if de-regulation is to come and an open market is to develop in a manner that satisfies the above criteria then there must be a massive shift in the sociological base of potential users. This is particularly true if the shift from car user to public transport is to impact on the environmental as well as the ecological aspects of life within the cities and
larger urban regions of Europe. Such a shift in thinking requires that the public transport system be attractive for users and be sustainable into the future. The challenge for all in the future will be to expand the range of public transport users to see public transport as their preferred choice of transport within the norm of their daily life.

1.2 Link with EU-policies

There are a number of reasons why the analysis of the legal and regulatory framework in local public transport and the suggestion of solutions in order to ease the transition to new regimes is better tackled at European rather than regional, national or private level.

In this context there are different needs and implications at European level. These relate principally to the completion of the Internal Market in the transport sector, involving mainly the opening up of the market to services and equipment providers from other member states as well as fair competition, transport policy and environmental concerns, etc. All this requires some harmonisation of principles at a global or Macro level, without interfering with the principle of subsidiarity.

The creation of some common EU-wide minimum reference for the legal and regulatory framework will also be directly beneficial to transport operators and authorities all over Europe. This facilitates the task of benchmarking mobility systems and thus will give an important incentive for improvements as well as a step towards the single market reality by lowering the still existing institutional and legal barriers which hinder an European wide competition environment, justifying again a European approach.

Regarding the contribution to European Union policies, this project has in the first place obvious links with the objectives defined by the Common Transport Policy. By assessing the impacts of changes on legal and organisational frameworks and producing tools that will help to improve and complete these changes. The effect of the Common Transport policy in Europe as well as the application of EU Competition Policy to the area of Public Transport is at this point unclear. MARETOPE has indicated that all states have examined various models of de-regulation and are at present in the process of applying EU Policy within their boundaries.

Important consequences will arise in the transport market with direct consequences on the quality of the services provided, which in turn enables to influence mobility demand, towards the objective of sustainable mobility, that is promoting a transport system configuration that respects four vital equilibrium:

- Other connected EU policies that will directly or indirectly be benefited from this research are:

  Completion of Internal market in the transport sector by speeding up the complete opening of the transport market to competition from other member states, eliminating barriers to the free operation of services;

- Customer protection, since a quick and efficient change of the current situation in many Member States will lead to cost cuts, improvements of public transport and the provision of high quality services or even a reduction in the price;

- Social and societal objectives, the above-mentioned changes will also facilitate mobility for the less well-off part of the society, bringing time savings in transport and thus increased leisure time and quality of life;
• Improvement of **employment**, by providing a better access to the working place;

• Improvement of **working conditions**, by eliminating inefficiencies in the current working environment of public transport companies.

One of the main outputs of this research, i.e. the updated overview on the current legal, organisational and financial frameworks of public transport systems will constitute the basis for future EU and national legislation in the field and may ultimately lead to some common elements at European level.

Additional Community added value will also result from a close interaction with other completed or ongoing research at European level or in other Member States. A research project carried out under a European umbrella by a multinational consortium – where each partner has its own networks - is the best form of bringing all this information together and effectively contributing to its dissemination.

### 1.3 Challenges for Public Transport in the Future

In order to analyse the implications of EU Policies and their impacts at national and regional level the EU initiated a series of research projects aimed at identifying the then current status of the provision of passenger transport within member states and subsequently to identify the challenges confronting members with the implementation of such policies. Further the Commission has initiated research into the present status of change and the possible future developments with the member and accession states. The principal research studies carried out to date include the following:

Under the 4th RTD Framework Programme a number of projects was dedicated to the issue of regulatory framework development, such as ISOTOPE and QUATTRO. Within the 5th Framework Programme, MARETOPE is most prominent in addressing the problems of adaptation and management of change processes, considering the perspective of the different groups of stakeholders and the potential conflicts that might occur from the impacts produced by those changes.

The following three important E.U Funded research projects in the field of public transport were selected as sources for this Key Topic and have been quoted as mentioned in the module headline:

• **ISOTOPE**, Improved Structure and Organisation for Transport Operations of Passengers in Europe (4th Framework Programme)

• **QUATTRO**, Quality Approach in tendering urban public transport operations (4th Framework Programme)

• **MARETOPE**, Managing and Assessing Regulatory Evolution in Local Public Transport Operations in Europe (5th Framework Programme)

• LEDA, SORT-IT were taken in consideration for further information on the Key Topic, but proved to lack enough relevant information to be integrated in this project.
2. Module 1 National Differences/Local Adaptations-An Overview of past and future directions in Public Passenger Transport

2.1 Specific Learning Outcomes for Module 1

Upon completion of this Module learners will understand:

• The Origins of the present situation in public passenger transport in Europe

• The impact that EU Policies are having upon the internal markets in member states as they try to adapt to a changing market environment,

• The limitations placed upon authorities attempting to implement EU policy by existing practice and regulation,

• The steps that many states are taking to implement a more open transport Policy in line with EU Policy and desired practice,

• The possible future directions being proposed at this point.

2.2 Introduction

If we examine the present situation regarding the provision of public passenger transport in Europe we discover that its present challenges lie in the developments of the past. The 19th Century saw the development of national rail systems funded by the private sector as well as local systems of transport.

Since the early 20th Century the role of government as a provider of the service at national, regional and local level is seen. The state became owner and regulator of the market which it served. By the last quarter of the century the trend to roll back the participation of the state in transport had taken route. Several factors influenced this change. The costs associated with the investment in a modern transport system and its attendant technology costs as well as the new regulatory regimes emanating from the EU compelled authorities to examine new means of developing the market. Many models presented possibilities for change.

A de-regulated open market offered one set of possibilities, a de-centralised model for eastern European countries has proven to be a particular challenge, whilst the option of maintaining a closed market based on maintaining a state monopoly is simply not an option for most areas of the EU and the accession countries. The challenges for change were also exacerbated by the need to examine and manage the regulatory environment in which change had to occur whilst at the same time striving to harmonise any new regulatory frameworks with those coming into play in the new markets. As can be seen from this module these challenges still remain and it is clear that no country or region has opted for exclusively one solution in preference for another but rather has opted for a mix and match structure within the overall regulatory framework proposed by EU directive.
2.3 The Past – common/ traditional Approaches to the delivery of Public Transport Services

It is interesting to notice that the further we look in the past in some European countries the more we see in fact, that once public transport was very liberalised. Only at the beginning of the 20th century governments started to regulate public transport. By the mid-20th Century most of the related business was in hands of the government.

Most of the country reports have placed the border line between ‘the past’ and ‘the transition’ at some moment where the first steps towards a more independent functioning of public transport companies was made.

The North Western European countries were the first to witness the massive introduction and usage of the private car leading directly to decreased patronage and increased costs for public transport providers. At a later stage changes became apparent in the Southern European states (especially Greece, Spain and Portugal).

Obviously the past of the Central European States is influenced heavily by communism. Here cross subsidies, low tariffs, high patronage (very low car ownership rate) and a centralist organisation are some of the main features.

It should be noticed that the change made in the seventies and eighties was not always heading towards some form of liberalisation as might be expected. For example in Finland city councils actually acquired bus companies in order to ensure continuation of services because the services where no longer profitable. Ownership in Europe varies from completely independent private companies till in house production. Many Member State systems consist of a mixture.

2.4 The Transition

The general trend in the transition, both in western and in central Europe are decentralisation of power of the authorities and the more formal and explicit procedures in organising services that are viable from a social point of view but are not profitable. In many countries competition has been introduced and in other countries competition is in preparation. In many countries the primary legislation law has been renewed to facilitate these changes.

The central driving force for change in most European states was a financial one: the cost coverage of public transport was regarded to be too low and the amounts of money involved with subsidies too high. However also additional driving forces can be observed:

- the need for a better quality of service in order to meet better the objectives of the citizens network;
- the need for a more efficient and effective spending of money to reach a positive change in modal split and number of passengers;
- to enforce the position of the customer by giving him influence in the organisation of public transport;
- to create a proper sustainable financial framework in relation to the use of public funds;
- the anticipated European regulations on urban transport.

On the background the impact of economic developments and the development of car usage played an important role (as described earlier).
In several countries competition for the concession has been formulated as the regime of the near future and the transition process has been organised to facilitate this. The influence of the authorities is large here, having the possibility to organise public transport as a tool in urban development. Where competition has been introduced this has shown efficiency improvements. Since positive changes in ridership could not be gained at the same amount, new and improved tools are being developed to raise the quality of the services under a competitive regime.

In the UK developments have gone the farthest. Outside London a regime of competition on the road has been introduced with additional tendering of unprofitable services. Where market imperfections could form barriers new tools have been introduced to overcome this. Other countries still are in the beginning of the progress. The barriers identified are how to maintain integration in a competitive environment and how to privatise public companies. In these countries the expectations of the effects of change are regarded to be less than the efforts the change will cost. However changes are needed due to financing problems, enforced by the disappearing of possibilities for cross-financing. Subcontracting has been proven to be the first step here to improve efficiency.

In central Europe the driving forces are slightly different compared to Western Europe. The financial position of the central governments has (even more than some Southern European Member State countries) had a key impact on the developments. In many countries budgetary constraints lead to a process of decentralisation without adequate organising the needed financial resources at the lower level, thus leading to reduced services. Moreover ridership is falling harder here due to higher motorization experienced earlier in Western Europe. In some Central European countries prices have increased considerably while other countries –under social pressure- have kept prices on their former low level. However clearly liberalisation is in progress in central Europe, sometimes even faster than in Western Europe. Legal reforms are made or in preparation to meet EU standards at the time of accession.

A curiosity in Europe seems to be that many capital cities (or capital city regions) are approached in a different manner compared to other areas in a country. London and Paris are famous examples of this but also Dublin, Brussels, Athens and Copenhagen have a different regime compared to other cities in the same countries (in some cases the 2nd largest city however operates following the same ‘special regime’). The special regime is usually being justified by the complexity of the network including rail bound services. Usually the speed of liberalisation in these "special areas" is lower compared to the rest of the country. If you consider the European level playing field of public transport services you can wonder to what extent the special regime of some cities is the remaining of a ‘transition period’ or whether it is likely to change in ‘the new’ as well.

It will be interesting here to see what the impact of the new EU legislation will be for mixed service providers. In the paragraph on “developments at EU level” we noticed that contracts for mixed rail/bus networks will be allowed as long as they already existed during entry into force of the new regulation. However for new services it will probably be necessary to separate the services (in case the authority does not want the rail services to be subject to open tendering).

Another feature of "transition" is the special approach for rail bound services. Naturally the technical regulations for rail and road services differ. However usually also the approach towards contracting and tendering differs between these two modes. To some extent this can be explained from the fact that liberalisation of railway services is more difficult to organise compared to road services. However in many countries also ownership (of the national railway operator) plays a crucial role in this process. Many countries do not want to risk further debts of their railway company as a result of competition by others.
2.5 The new – the future, the way/path ahead

The UK is one of the few examples of countries where ‘the new’ is in a sense already part of current practice. The rather fast pace of liberalisation during the eighties, which resulted in a number of drawbacks as well, has been reason for a more modest approach in the latest transport policy plan. Hence, the UK takes now steps beyond ‘the new’.

Looking over the borders in Europe most speedy developments in terms of liberalisation can be experienced in middle sized cities (Finland). In some countries such as The Netherlands and Ireland some fundamental changes are expected from a new regulatory framework that only enters in force next year. Therefore it is hard to say very much more about ‘the new’ for these countries.

Interesting element of the shift towards market forces is the need for a different kind of regulation (not in the first place deregulation but ‘re-regulation’). Besides the governments have to establish a watchdog to prevent abuse of powers (an authority that ensures fair competition). A constraint is clearly that the public transport market has little experience with these kind of structures, especially at the local and regional level. In the Netherlands a special institution has been established to support local governments in for example the organising of tendering procedures and conclusion of contracts.

One of the new factual developments that could be witnessed in many Central European States (Lithuania, Poland, Bulgaria) is the occurrence of new entrants on the market that provided for minibuses services. These kind of services can be very profitable in those countries. Most of the private entrepreneurs make use of the confused regulatory situation in the cities and the (often) rather 'hopeless' situation of the public transport companies. For the public transport companies, with fixed low fares and often with lacking resources as a result of unpaid subsidies it is usually impossible to compete against these private buses that manage the profitable routes in the city regions.

Interesting to note is that in some countries the authorities try to stimulate the occurrence of ‘the new’ by inserting percentages of market shares that need at least to be tendered’ in their policy or even legislation (Denmark, The Netherlands).

Looking more closely at the impact that the new EU legislative framework might have for Member State practice is a difficult task as we are aiming at two moving targets. The revised EU legislation has not been adopted yet and the many regulatory initiatives on Member State level are pending as well.

However taking into account the country reports that have been prepared it is obvious that the bringing of local and regional transport within the scope of the new EU legislation will have an important impact in some countries. For many local and regional transport services throughout Europe – although experiments were made – contracting and especially tendering is by far no part of common practice. This will have to change.

To some extent rail bound services and large cities with mixed services operators can continue practice of direct contracting which has a more limited impact compared to competitive tendering. However especially the medium sized cities in Europe: the cities with service contracts above the EU Threshold but without possibilities to exclude some rules because of rail bound services will have to deal with the full impact of the changes:

- Competitive tendering;
- Contracts of no longer then five years;
- Reshuffle of the position of in house production and separate accounts for the public service contracts.
The outcome might, in fact, be that a free market of public transport operators in Europe will in the first place occur at the level of medium sized cities and regions while small cities that organise their own services (below the EU threshold) or large cities with rail bound services use the exemptions to maintain a more protected market.

2.6 Conclusions

Two different approaches could in fact be witnessed in Western and Southern European countries in the recent past. A bottom up approach in which public transport providers were allowed to develop their services rather freely and a legal and institutional framework that is adjusted subsequently. A top down approach where legal and institutional reform was initiated first and practice was supposed to react on the new institutional setting.

In-house production (e.g. Aarhus, Athens, Paris, Amsterdam) and the relation with EU law will become a difficult subject in the future. Although the ‘ownership question’ is not a subject for debate at the European level – there is a neutral attitude towards this – it remains relevant within the national and regional context. In- house production is hardly compatible with contracting and tendering. In many cities, especially capital cities such as Athens, there are no signs that the ownership question is an issue at all. However this will also in the future have an impact in the approach towards tendering. Clearly the (draft) EU regulation makes clear that in-house production is no reason for exclusion of any EU rule with regard to contracting or tendering.

One of the big controversies of public transport that can be derived from the past is that the economic booms have not turned out to be favourable for the service providers. More people could afford a private car while on the other hand the costs associated with the provision of public transport increased. Failure to control the use of private motor cars particularly in large urban areas will lead to conflict with stated EU policy. In this context, the related topics and measures such as the scale and use of private motor vehicles cannot continue to be allowed at their present levels. To ignore such an uncontrolled use of cars notably, in urban environments, automatically draws one into conflict with EU policy on environment, land use and spatial development and planning. There is also the economic cost associated with the health and quality of life issues deriving from urban pollution as well as the cost implications associated with the provision of road and parking infrastructure.

Subsidy levels differ, for example in France revenues from fares represent on average about 54% of the total network operating costs. In the Netherlands cost coverage is, depending on the region 35-40%. However all these figures should be used with great care as the way of calculation differs.

Looking in the end at the organisational model applied by MARETOPE one conclusion is that countries cannot easily be placed under a definitive heading (e.g. authority initiative concessions with direct contracts) as within many countries a number of different organisational forms co-exists. Interesting impacts of the new EU legislation may be that medium sized cities in different states may be more comparable in different countries (in terms of organisation, tendering and contracting) than, for example, middle sized and large towns in the same country as only the medium sized cities will be fully subject of the EU rules.

One further common feature can at least be found. There is nearly no region in Europe where tendering or at least contracting is not an issue. Of course the allowance of competitive elements in procedures differs considerably and duration of contracts differs from years to for example 30 years (Toulouse), but as an issue it stands and with that the relevance of the framework that is currently being worked out at the European level.
2.7 Exercises/Assignments For Module 1

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material.

1. Outline the legislative evolution that has occurred in the development of Public passenger transport in Europe since the mid-20th Century. Illustrate your answer with reference to specific European experience in three EU member states.

2. Examine the EU Common Policy on Transport and review its impact on the proposed regulatory changes that have occurred in the EU since the mid-1990’s.

2.8 Suggested Reading List for Module 1


3. Module 2 – Approaches to Public Transport Provision

3.1 Specific Learning Outcomes:
Upon completion of this module learners will understand:

- The implementation of regulatory frameworks by States and regulatory authorities which defines competition for the provision of public passenger transport as ‘on-road’ and ‘off-road’.
- The different models that have influenced the decisions of national and regional Authorities in their application of Competition policies.
- The different competitive models considered by authorities in order to achieve competition in the public passenger transport market.

The roles of the different actors within the provision of public passenger transport services.

3.2 Introduction
The organisation of local and regional public transport in Europe has been submitted to considerable changes during the last two decades, which has increased the usage of some form of competition. These can broadly speaking be classified under the headings ‘on-road’ competition and ‘off-road’ competition but the actual organisational forms implemented in the various countries exhibit more variety than suggested by this division. While competition on the road gives operators the possibility to develop services as they like, systems using competition off the road usually prescribe rather strictly which services have to be produced but vary considerably in their implementation.

With the major exception of UK (on-road competition) most Western European countries, where competition has been introduced, have moved towards various forms of regulated regimes using off-road competition (Sweden, Denmark France, Germany and the Netherlands. Transport authorities retain (or obtain) in such regimes all powers to define the transport services. Competitive tendering procedures are then used in such regimes to select efficient operators for the provision of the services that are mostly centrally planned by the authority or its planning company. However, a growing number of cases seem to want to transfer service design decisions to the selected operators.

Figure 1 presents a global classification of organisational forms which may be encountered in public transport in Europe. The first distinction presented in the diagram is the dichotomy between ‘authority-led initiative’ and ‘market-led initiative’. In authority led regimes, those authorities who have received the responsibility for transport (hereinafter called ‘transport authorities’) have the legal monopoly of initiative. All production or market entry is the result of a conscious one-sided authority initiative to produce or request the production of services (this is, e.g., the current legal situation in local passenger transport in France outside the Paris region).

In market-led regimes, the supply of transport services is based upon the principle of autonomous market entry resulting from a market process with more or less regulatory checks on entry. This is the current legal situation in local passenger transport in Great Britain – with much freedom – and in Germany and the Netherlands – with less freedom.
In short, the main distinction is between the organisational forms where the right to initiate the creation of passenger transport services is reserved to the authority, who can then delegate it, and those organisational forms where this right lies “in the market”, for any one to grab.

It should be noted that all regimes presented in this figure can make use of competitive tendering to contract out parts or whole of their activities. This stresses that competitive tendering is merely a selection mechanism in the context of outsourcing, but it is not an organisational form in itself.

The following paragraphs will describe market initiative and authority initiative regimes and present two examples of different regimes to get a first glimpse of the relationships of involved parties. The Maretope project will treat this issue more thoroughly and is recommended for further reading. For better understanding the various elements of the relationships between the categories ‘consumers’ and ‘voters’, ‘authorities’ and ‘transport companies are illustrated. These graphs make a useful distinction between influences, payments, service delivery and market encounters. They are not able, however, to represent the distribution of decision-making powers at the strategic, tactical and operational level between the actors involved. For this purpose, further figures will be presented in a following section of this document (see figure 4 page 26). Those graphs have to be used in complement to these graphs.

It is important to state that few examples will fully correspond to any one of these organisational forms. Only a careful reading and understanding of the legal, regulatory and organisational frameworks will be able to deliver the necessary information to position each real-world organisational form in relation to these ‘pure organisational forms’.
3.3 Market-led initiative

The market initiative regimes have as common characteristic that commercially viable services are meant to appear out of autonomous market processes. Market initiative regimes vary from fully competitive ‘open entry regimes’ to strict ‘authorisation regimes’ where the operators are granted a more or less permanent and extensive levels of exclusivity. These should be seen as two extremes in a continuum.

The authority can also set a number of ‘rules of the game’ for all operators present on the market, controlling and restricting their actions (see Figure 2). This can also be characterised as a ‘watchdog’ and/or ‘referee’ role. One example is the control on predatory behaviour by the Office of Fair Trade in Great Britain. An example of ‘rule of the game’ would be rules pertaining to the co-ordination of supply between neighbouring or overlapping operators. In other words, it could be stated that operators, once present on the market, have to follow a number of rules of conduct such as to guarantee system integration, co-ordinate their timetable with neighbours such as to improve connections, use the same ticketing system, participate in integrated information systems, etc. Such an authority intervention would be an illustration of a way to solve market failures related to network effects.

Figure 2: Authority setting the 'rules of the game', Source: Maretope

Legend for the graphs representing the triangular relationships:
C=consumers, V=voters, A=authority, O=operator
n=national, r=regional, l=local.
A shadow means ‘several’ actors
3.4 Authority-led initiative

Authority initiative regimes have as common characteristic that services can only result from a conscious action by the authority. No services can be provided as result of simple market forces as no legal provision makes such autonomous entry possible (such a legal public monopoly of initiative exists in France outside the Paris region). In this sense, the authority is in this regime a monopolistic ‘entrepreneur’ as no services will appear without its action or order. Within these systems and taking asset ownership as a main classification criterion, a distinction can be made between regimes based on concessioning or Franchising and on public ownership.

In concessioning or Franchising the authority selects a company (see Figure 3) to set-up and operate public transport services (usually a network) and this company is usually the owner of its installations and vehicles (an example can be found in France in Rouen). The selection procedure can take place according to various procedures (such as direct selection, negotiations after pre-selection or competitive tendering). A good example of this, combined with a separation between the ownership of infrastructure, rolling stock and the operation of passenger transport services is the way in which the British railways have been tendered to a number of operators.

![Figure 3: Concession and delegated management, Source: Maretope](image)

In delegated management (see Figure 3), the authority makes the assets available to a (private) operator to whom the authority delegates the management of the network (this can be found in many French cities, such as Lille or Lyon). Here too several procedures can be used. The cases of delegated management and concession can thought of as a continuum between to extremes. Such arrangements lead to a wide scope of contracts giving more or less operational, commercial and investment risks to the operators and giving them more or less service design freedom. It is not possible to represent all details of such relations with these triangular graphs. The specific distribution of decision-power to the actors involved will be further detailed in the next section. Those graphs (see from Figure 4 to Figure 5) have to be seen in conjunction with these.
Besides its role as initiator, the authority retains in this regime also a role in the licensing of operators and as ‘watchdog’ of ‘referee’ setting a number of rules of the game. It should be noted that these various roles of the authority do not necessarily have to be fulfilled by the same authority. Perhaps, even, they should not be fulfilled by the same authorities such as to avoid conflicts of interest.

3.5 Various roles of the authority in both market-led and authority-led initiative

Summarising, authorities can play several roles, both in market initiative regimes and in authority initiative regimes:

**Licensing authority:** to assess the compliance of potential operators with technical standards and the fulfilment of juridical requisites (i.e. granting access to the profession) in all regimes. This model is proposed for ‘New Institutional Frameworks for public passenger Transport in Ireland, (road).

**Authorising authority:** to judge the desirability of actual market entry by autonomous licensed operators (i.e. granting access to the market in market initiative regimes). A model under consideration in Denmark for bus passenger transport.

**Concessioning authority:** to take the initiative to create a transport service concession and to select (by competitive tendering or otherwise) a licensed operator for the concession (i.e. granting access to the market in authority initiative). This model is proposed for a number of countries including Austria.

**Regulatory authority:** setting the ‘rules of the game’ for operators present on the market, together with the actual watchdog or referee monitoring and enforcing the rules of the game in all regimes. This has been applied within the UK and regions of Spain.

**Enterprising authority:** when the authority creates and bears the entrepreneurial risks on transport services she creates either by owning a public transport company (or non-corporate internal division producing transport services) or by outsourcing the production of services she has designed. This either under authority initiative (legal public monopoly) or under market initiative (the services created by the authority have to be granted an authorisation by the authorising authority). A study of this in Finland, notably in the Helsinki and Turku areas is worthy of further examination by student learners.

**Subsidising authority:** for two purposes: stimulate the general supply of services and redistributing wealth to politically chosen target groups in society (such as disabled people, older people, unemployed people).

It is essential to distinguish these various roles in order to describe the functioning of organisational frameworks. It is also important to note whether these roles are or are not fulfilled by distinct authorities, and to note their mutual relations.

In many cases, several levels of authorities will be present, such as local, regional and national authorities. It is important to represent adequately the relations that may or may not exist between these various levels, both in terms of financing and in terms of co-operation, e.g. in the creation of co-ordination bodies such as Zweckverbände and Verkehrsverbünde in Germany.

It is also worth noting that in very few cases are the various models exclusive to each other as in many instances the state for either political or social reasons wishes to target specific sectors of society through subsidy or to promote specific environmental or land use planning issues. It is also clear that in many countries that it is not desirable for historic reasons to focus solely on one means of management or planning for he delivery of public transport services. Thus it is important to understand the legal and regulatory framework that exists within each State and region under examination by the learner.
3.6 Exercises/Assignments for Module 2

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material

1. Define the following terms and give specific examples of each:
   - Market Competition
   - Organising Transport Authorities
   - Regulatory Transport Authorities
   - Transport Planning Agencies

2. Explain fully the functions of each of the following and indicate examples in Europe of each:
   - Organising Transport Authorities
   - Regulatory Transport Authorities
   - Transport Planning Agencies

3. Explain what is meant by Market-led initiative show how it impacts upon the decision-making process. Particular emphasis should be placed upon the role of the various actors involved in the decision process. Respondents should support their responses with examples

4. Taking an example of Market-led and Authority-led models in European Public Transport identify one location in Europe and trace the development of the process from regulatory reform stage to actual implementation. Outline the issues involved for the participant players and the relevant final outcomes for the delivery of services as practiced at this stage in the location selected.

3.7 Suggested Reading List for Module 2:

(The suggested reading list below is intended to be only indicative and not comprehensive. More extensive reading lists are available from MARETOPE and the web-site of the European Commission)


Federtasporti-Website-http/www.federtaspo.it/

Federtrasporti (March,1999), Bollettino Economico sui Settore del Trasporti, Efficienza e Sussidiartita: il Trasporto Locale dopo la Riforma


Italian Ministry of Transport –website- http://www.trasportinanavigazione.it/


4. Module 3 - Levels of planning and control in public transport

4.1 Specific Learning Outcomes for Module 3
Upon completion of this module learners will understand:

- The basic factors that influence the decision-making process and the influences that govern that process of planning and controlling the deliverable service,
- The identity and roles of the actors who contribute to the decision-making process,
- The allocation of decision-making power amongst the various actors,

4.2 Introduction
While the previous module presented the relationship between the parties involved in the provision of Public passenger transport, this module will focus on the allocation of the power of decision-making. Based on various theoretical definitions (see Anthony, 1988 or Hellriegel and Slocum, 1992), we will use the following definitions:

**Strategic level:** strategic planning is involved in the formulation of general aims and in the determination in broad terms of the means that can be used to attain these.

*In short: what do we want to achieve?*

**Tactical level:** tactical planning is about making decisions on acquiring means that can help reaching the general aims, and on how to use these means most efficiently.

*In short: what product can help us to achieve the aims?*

**Operational level:** makes sure the orders are carried out, and that this happens in an efficient way.

*In short: how do we produce that product?*

Figure 4 translates these and their consequences to the public transport sector, without yet referring to any specific legal or regulatory setting: The terms indicated in the figure are examples relating to the case of simple bus networks for small-scale cities. The terms will obviously be longer when fixed infrastructures are involved, such as is often the case in larger cities.

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1 This division has been used in Van de Velde (1992) in a first attempt to compare organisational forms in public transport. It has subsequently been redeveloped in Van de Velde (1997).
In opposition to the hardware side, which is the production of vehicle-kilometres, we define the software side as everything that will help to sell the vehicle-kilometres, i.e. transforming them into passenger-kilometres. Seen from a dynamic perspective, there has of course to be a feedback between the decision levels involved, notably based on the feedback provided by (potential) clients. Moreover, there will ideally be a link between the hardware and software side at the strategic level to ensure an adequate evolution of the services, in accordance with market needs and the stated general aims. Figure 4 does not, for clarity’s sake, focus on these dynamically essential links and feedback of information.

As for any production, one or several actors can be responsible for each of the decisions presented in the table. In general the strategic-tactical-operational chain can be seen as a (series of) principal-agent chain(s). Numerous forms of organisation of this chain of principal(s) and agent(s) are possible. The following graphs will provide an illustration of a few of these.

### 4.3 Representation of organisational forms using the above concepts at system level

Using the levels of planning and control as presented above, together with the insights provided by the classification of organisational forms, it becomes possible to draw graphical representations of both existing and conceptual organisational forms in public transport.\(^2\)

One organisational form will be presented hereafter.

The focus here is on the role of the authority (or authorities) as concessioning authority, taking the initiative for the creation of services and heading a ‘principal-agent’ chain, and in its role of authorising and regulatory authority when controlling market initiative. The role of the authority as licensing authority (access to the profession), enterprising authority (owner

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\(^2\) See Van de Velde and van Reeven (1996) for an earlier description of such models, at greater length, in a report on the implementation of tendering in public transport in the Netherlands, written for the Dutch Ministry of Transport.
of transport companies) and subsidising authority is, for clarity’s sake, represented in the graphs. The democratic relationship between ‘the People’ and the (transport) authority is also added to the principal-agent chain, although, for clarity’s sake, only under authority initiative.

**Example: Tendering of the design and realisation (Franchising)**

This organisational form goes a step further in giving re-design freedoms to the transport operators. These are limited by the minimum standards defined by the concessioning agency (such as the passenger service requirements defined in Britain by the Office of Passenger Rail Franchising) which organises the tendering of all services, area-wise, according to the instructions of the transport authority. The split between the ‘transport department’ of the authority and the tendering agency introduces a relationship at arm’s length but is not strictly necessary. The authority could also set the minimum standards and levels of the service itself, thereby determining the ‘public service obligations’ (see Figure 5).

This organisational form, which was used for the franchising of British Rail, is akin to the French practice for urban public transport networks. However, the distinction between the transport department of the authority and the concessioning agency either does not exist in the French practice or is not as strict as presented in this organisational form. Furthermore, the difference between this organisational form and the practice in urban networks in France is located in the balance of power between operator and authority. While the operator has a rather strong position in negotiating the contract in France, its position is often weaker during the contract as most of its ‘freedoms’ often boil down to being allowed to suggest modifications to the services to the authority, not being allowed to decide the actual modifications to the services.

![Figure 5: Tendering of the design and realisation (concessioning) (BR Franchising), Source: Maretope](image-url)
Key for reading the figure:

- The first row of the figure indicates which actors are involved in the organisational form described. The nature of each actor is given below its general name.

- The second row of the figure indicates by arrow-shaped blocks which control relationship there is between the actors involved.

The lower part of the figure indicates which actors are responsible for the various decisions presented in Figure 4 by positioning each decision below the responsible actor. A white block indicates that the actor under which the block falls is the main or sole responsible for that decision. A shaded block indicates that the actor concerned also has some decision power on the item located immediately to the left or right. Text between brackets and within shaded blocks indicate the type of influence given to the actor considered. The following example is used in the tables (between quotes here): the ability to ‘discuss’, to make ‘proposals’, to set ‘minimum standards’ by means of contract, to create fare ‘rebates’, to impose vehicle ‘accessibility standards’, to require service ‘co-ordination’ and to require service ‘publication’.

Text located vertically indicates the instrument or selection mechanism used to put in place the relationship represented in the second row of the figure.

### 4.4 Sharing decisions between actors

In many cases decisions pertaining to one topic, such as fares or routes, will not be attributed totally to solely one actor. As far as fares are concerned, it is possible to observe – without implying that this is a good or a bad thing – that a political council wants to retain decision power on maximum average fare increases, sometimes even on fare levels. **In such situations, the fare structure is determined by a co-ordinating body charged with public transport planning** and that the actual fare level is determined by the transport operators within the limits set by the other actors. Figure 6 gives an illustration of how such shared decisions can be represented in the graphs as developed above.

<table>
<thead>
<tr>
<th>Actor</th>
<th>“The People”</th>
<th>Transport Authority</th>
<th>Administrative company</th>
<th>Transporters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Political council</td>
<td>Company owned by TA</td>
<td>Private companies</td>
</tr>
<tr>
<td>Relation</td>
<td></td>
<td>Transport Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tactical</td>
<td>Max.fare incr. (Proposals)</td>
<td>Fare structure</td>
<td>Fare level</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reg. trpt plan (Proposals)</td>
<td>Main interchange</td>
<td>Routes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transport model (Proposals)</td>
<td>“Takt”</td>
<td>Timetable</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vehicle layout</td>
<td>Vehicle type</td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td>Empl. pol. (Proposals)</td>
<td>Info. layout</td>
<td>Information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Person. salary</td>
<td></td>
<td>Person. mngt</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 6 Sharing decisions between actors, Source: Maretope*
A common theme for many organisational forms is the decision to “delegate”, “contract out”, “outsource” some part of the chain of decisions (STO) to other actors (contract on the market) or, on the contrary, to retain all decisions in one organisation (internal hierarchy). This results, mainly, in contractual relations between actors, where financial risks have to be divided, where additional incentive mechanisms of various sorts can be added (such as those relating to quality), etc. The existence of such contractual relations is furthermore not neutral in terms of management, such as the functioning of feedback between the operational level and the other levels. It has also to be linked with the theme of ‘corporate governance’.

4.5 Exercises/Assignments

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material.

1. Define and differentiate between the following:
   - Authorisation
   - Concession
   - Total Quality Management
   - Benchmarking
   - Quality Partnership

Please select any one of the above and develop how it has worked in a European Environment.

2. Outline the major contractual difficulties that must be taken into account when in consideration is being given to by Authorities when introducing competition into the market-place. Particular emphasis should be placed upon issues as they relate to the division of risk and the possible conflicts that may arise when introducing competition in the transport market.

4.6 Suggested Reading List for Module 3.

(The suggested reading list below is intended to be only indicative and not comprehensive. More extensive reading lists are available from MARETOPE and the web-site of the European Commission)


Italian Ministry of Transport –website- http:/www.trasportinavigazione.it/


5. **Module 4 – Contractual relationships between actors in Public Transport Provision**

5.1 **Specific Learning Outcomes for module 4.**

Upon completion of this module learners will understand:

- The division of risk between the actors in order to achieve the goals identified in the decision-making process
- The conflicting issues that may arise in relation to the ability of each of the actors in goals and targets identified at the planning stages of the process,
- The debate relating to the issues of Governance i.e. public versus private ownership of the means of delivery of the services or infrastructure to be used to deliver the passenger service required,
- The differences between ‘fixed and flexible’ planning as understood on a wider non-EU basis.

5.2 **Introduction**

(Text taken from Maretope, Isotope and Quattro)

Contracts in the public transport world usually divide between production cost risks and revenue risks. Risks can be shared in various ways as can be seen in Figure 7 for the case of a contract between a transport authority and a transport operator. The main distinction in this figure is between management, gross-cost and net-cost contracts. Yet many intermediate forms of contracts are feasible as can be seen in the shaded boxes.)
5.3 Division of Risk

When analysing contracts in public transport, one should bear in mind that there has to be a balance between the incentives given and the instruments at the disposal of those who are submitted to the incentives. For example, a net contract where the authorities are responsible for defining the fare system and level of fare, the structure can easily be unbalanced and a source for conflict. Alternatively, when an operator receives tactical freedoms, he should also bear an increased financial responsibility on the consequences of his tactical decision and possibly also an increased contract period.

In other words, a further analysis of contractual relations will have to integrate various perspectives of vision on the contract. The financial perspective is a very important one, especially in a sector where the financial intervention of authorities is not only for financing but – mostly – for subsidising purposes.

Besides production and revenue risk there are financial (interest and currency exchange rates), planning (changes in road and town planning) and environmental risk (emissions and noise standards).

In general, risks should be allocated to the party who is in the best position to avoid their occurrence or to absorb their consequences. This should normally be transcribed in the contractual terms, but quite frequently there are unexpected losses which may originate from unforeseen sources, and some form of conflict arises when making an ex-post allocation of those consequences.
5.4 Conflict types

There are internal (industrial relations) and external (between an authority and an operator) and will vary in their magnitude of importance. In Figure 8 the main types of conflict have been identified and will be discussed below.

Conflicts may arise whenever inconvenient responsibilities are not clearly defined from the outset and have to be solved. All mentioned risks from the previous chapter may hide a potential conflict, like distributing costs and revenues, opposing objectives and performance.

In general, contracts should include provision for remedy covering all the risks that may be foreseen at the outset. Experience and knowledge from one project helps design a better contract in the next. Including soft clauses in the contract on some general principles governing the relationship might prove helpful. Flexibility is one important part to guarantee a sustainable service which can cope with future challenges.

5.5 Ownership versus usage

In urban public transport we can encounter situations where “the authority” is the owner/provider of some means of production (tunnels and stations, rolling stock, garages,...) while these are used by another (private) actor (“the operator”). This is, e.g., the usual situation in most large French cities (except the Paris region). Situations also occur with both public ownership and public operation, or with both private ownership and private operation. Figure 9 gives a representation of the possible combinations of public or private ownership with public or private management indicating different types of contracts between government and state-owned enterprises, private managers of state assets and private monopoly, respectively. The figure makes the link between the organisational forms presented earlier in ‘the tree’ (in bold in the figure) and the classification used by the World Bank in its study “Bureaucrats in Business” (1995, ch. 3) (between brackets and in italics in the figure).

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Figure 8 - Conflict Types, Source: Isotope

Conflicts may arise whenever inconvenient responsibilities are not clearly defined from the outset and have to be solved. All mentioned risks from the previous chapter may hide a potential conflict, like distributing costs and revenues, opposing objectives and performance.

In general, contracts should include provision for remedy covering all the risks that may be foreseen at the outset. Experience and knowledge from one project helps design a better contract in the next. Including soft clauses in the contract on some general principles governing the relationship might prove helpful. Flexibility is one important part to guarantee a sustainable service which can cope with future challenges.

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According to the World Bank study (1995), the way in which the three problems of information asymmetry, rewards and penalties, and commitment are solved in the contract is determinant to their success. The study states that performance contracts rarely seem to improve incentives – and may even do more harm than good – mainly because the contracting process gives public managers the opportunity to capitalise on their informational advantage by negotiating multiple soft targets. As far as management contracts are concerned their success seems to be dependent upon the usage of a competitive process (both competitive bidding for the management and/or competition in the market). According to the World Bank, the large costs of obtaining the information needed to negotiate, monitor and enforce such contracts tend to confine them to such sectors where technology is relatively static and quality is easily compared. Finally, the success of regulatory contracts, which according to the World Bank result on average in the best performance, seems to be dependent upon careful design and, in some cases, of simultaneous usage of direct competition.

5.6 Fixed vs. flexible planning

The classification presented in the World Bank study implicitly refers to the tactical level. In the context of tendering, decision making at the tactical level can be organised in different ways. The ‘tactics’ can be determined prior to the contracting out and the operators may have either no ‘tactical’ powers, such as in London and Copenhagen, or some ‘tactical’ powers during the contract period in the form of re-design incentives, such as in Helsingborg and Sundsvall (Sweden) or Adelaide (Australia). Alternatively, the ‘tactics’ can be determined during the contracting out (as suggested in the Netherlands and put in practice, to a limited extent, in France) either simultaneously with the contracting out of the operational

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5 See the ISOTOPE research for a further description of some examples.
level or not, but here too contractual re-design incentives can be given for the length of the contract period. The British rail franchises are examples where bidders win on the basis of their proposals’ quality and price but where operators also enjoy a regulated service redesign freedom (timetables, fares, image, additional services inside and outside the trains, etc) during the contract period.

These various forms are ordered in Figure 10 into four main options for the place of the tactical (T) decisions.

![Figure 10: Tactics and contracting](source: Maretope)

If the contracting party decides to give some service design powers to the operators, then a first consideration may lead him to the conclusion that the tactics should not be determined by the tendering/negotiation process, i.e. before the contract, because of the informational advantage of the incumbent operator in terms of market knowledge. Solving this information asymmetry may be feasible, but is costly. Yet, even without solution to this problem, interesting suggestions could appear at this stage.

A second consideration may then lead to the conclusion that the tactics should at least be revisable during the contract. Markets evolve in time and operators – especially new entrants – can only acquire market knowledge by actually operating in the markets considered. Competitive bidding for the tactics would result in a static network based upon an imperfect perception of demand by the (entrant) operators, which would clearly not be adequate. The balance that has to be struck here is that between more freedom for the agent (aims-contracts⁶) and more guarantee for the principal (means-contracts⁷).

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⁶ We define aims-contracts as those where the principal sets a number of aims or targets which are to be fulfilled by the selected agent using whatever means within some broad limits set by the principal.

⁷ We define means-contracts as those where the principal dictates to the selected agent the means to be used with possibly some freedom of choice and with or without clear statement of the aims.
5.7 Exercises/Assignments

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material

1. Outline the major contractual difficulties that must be taken into account when in consideration is being given by Authorities when introducing competition into the market-place. Particular emphasis should be placed upon issues as they relate to the division of risk and the possible conflicts that may arise when introducing competition in the transport market.

2. From your knowledge of the materials and additional material that you may have studied identify the advantages and disadvantages of fixed and flexible planning processes. Answers should be supported by reference to specific examples where they have occurred in Europe.

5.8 Suggested Reading List for Module 4.

(The suggested reading list below is intended to be only indicative and not comprehensive. More extensive reading lists are available from MARETOPE and the web-site of the European Commission)


6. Module 5.- Quality assurance Systems in Public Transport

(Text taken from Maretope and Quattro)

6.1 Specific Learning Outcomes for this Module

Upon completion of this module learners will understand:

- The significance of quality systems in the amendment of regulatory frameworks
- The need to identify quality measures through the creation of benchmarks prior to the awarding of contracts,
- The importance of realising the parameters of the regulatory policies prior to the construction and design of contracts for the delivery of public transport in a changed environment,
- The importance and significance of providing for an integrated system of public transport in any new market environment (be that tariff based or structural)
- The importance of developing measurable quality systems that are transparent and accountable in a new regulatory environment and can demonstrate improvement.

6.2 Introduction

Public transport is a service which is crucial to inhabitants in urban regions. When Public transport is out-sourced the quality of service has to be assured for obvious reasons. Therefore some relevant quality matters are presented in the following module. These issues relate to the need for the development of measurable Quality Assurance systems. Such systems will predicate the understanding of a Quality Loop where specific benchmarks are introduced as a requirement for all service providers. Such Benchmarks will have to be incorporated into the design and structure of Contracts and will reflect the aspirations of the development of and Integrated transport system from the outset as well as providing the tools for the actual measurement of improved delivery.

6.3 Quality loop

How relevant the introduction of quality specifications in contracts is depends on the use of consistent and reliable methods for estimating the value of the different quality aspects to passengers.

In order to define service quality levels in UPT, we propose to use a simplified quality loop based on the ISO 9004.2 norm loop for quality of service. The proposed loop is based on four distinctive benchmarks: analysing differences between these four benchmarks (see figure 11) help decision-makers to improve their service.
### Expected Quality
Level of quality anticipated by the customer

### Targeted quality
This is the level of quality that the operator aims to provide to passengers.

### Delivered Quality
Level of quality that is achieved on a day-to-day basis in normal operating conditions

### Perceived Quality
Level of quality perceived by passengers in the course of their journeys.

![Figure 11: Quality loop, Source: Afnor](image)

### 6.4 Contract design
(Text taken from Isotope and Quattro)

The specifications for a continuous improvement system should be part of the tendering specifications. The authority may specify the tools which are foreseen, or limit its specifications to the fact that such a system should be proposed by potential operators. At that stage, the authority should specify what will be its own responsibility and what are its expectations in this respect.

The contract should then specify:

- objectives of continuous improvement
- tools and responsibilities, including measurement/monitoring programs
- consequences of the measures, including financial incentives/penalties
- control of these results
- recourse procedure in the case of non-application of the contract
This specification of services by the authority in the tendering procedures should stimulate operators and authorities to cover all operational/tactical fields of interest by the continuous improvement system:

- transport (including access / exit by users)
- connections (inside UPT / with other modes)
- information to customers (static / real time)
- fares and sales systems
- environmental impact (in a broad sense, including impact on model split).

The agreed system must be enforced. There must be a specific allocation of monitoring responsibilities, related to the level of enforcement and the evaluation of the system in itself. Short term contracts may be more challenging to foresee with a continuous improvement tool, since the operator might not agree on the cost benefit ratio. Therefore the authority has to develop neutral improvement tools applicable to any operator.

6.5 Integration

The customer has to perceive the system as one (logical integration), which is necessary to achieve full benefit of tariff and physical integration. The physical integration aims at the public transport system itself (network design, interchange stations and timetables) and at the other modes. The main objective of integration is to offer more attractive and easier services to use to the public, but the aspect of cost coverage is another important factor. It is clear from MARETOPEand other studies, that, whilst the issues of inter-modal linkages provide valid reasons for the delay in extending the possible changes as outlined in the Common Transport policy in individual member States within the European Union there is certainly a role for technology at the most basic point in the passenger transport chain. It would appear that the time-scale for the implementation of a more open market competitive policy is taking an inordinately long time in many countries. This may be due to the problems of an infra-structural nature but other ‘bottlenecks’ can develop in areas where competing services provided by different providers use different ticketing systems or where ticketing is non-transferable between modes. Present technology (such as ‘swipe cards’, G.P.S. systems) can be utilised to address these issues provided that there is a perception by the contracting agency at the outset of the contracts.
6.6 Improvement

By “continuous improvement” of urban public transport, we consider the need for continuous adjustment of the service design and of the organisation in charge of providing the service, in order to maintain or increase its value. Innovation in service and management is generated by continuous improvement systems.

Various tools (i.e. total quality management systems, monitoring, penalties/incentives schemes) can be applied to improve the system continuously. These tools can be applied at strategic, tactical and operational levels, certainly more easily at the operational level.

Another important management tool for continuous improvement is continuous improvement is “listening to the customer”.

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Figure 13.-Specifications for monitoring continuous improvement, Source: Quattro

Example: Lindau, Germany.

Here we see an example of how quality services can be developed without recourse to major regulatory reform. Relatively straightforward initiatives, particularly, in smaller regions or urban centres can lead to improved quality public transport services that reach the targets of sustainability, efficiency, competitive and are economically viable.
During the 90s many small and medium sized cities established so called „Stadtbussysteme“ (citybus systems). In terms of modal split and subsidies per passenger the success of this citybus system was remarkable. The establishment of citybus-systems was not a response to changes in the legal framework. The citybus system in Lindau is a good example for this new PT model.

The city-bus system in Lindau (lake Constance), with 25,000 inhabitants, was established in 1992. The old bus network had been run by the Bundesbahn (DB) since the 1950s and had lost most of its passengers during its last years of existence.

In recent times other bus networks around Lake Constance (such as Frauenfeld (CH), Dornbirn and Bregenz (A)) had fundamentally improved quality and passenger frequencies. Lindau therefore decided to reorganise its system too. Lindau studied these models in the neighbourhood for one year and prepared within the municipal administration without any external consultant. The new system started as an overwhelming success: from the outset more than 6,000 passengers per day responded to the new offer – more than twice the expected number. The major problem of the system was coping with this great demand.

The system runs in strict 30-minute-intervals on 4 routes, operation times are app. 6.10 a.m. to 10.40 p.m., buses also run on Saturdays and Sundays. All buses meet every half-hour at a central bus station and so enable the passenger to change routes easily.

The operator of the buses is the “Regionalverkehr Alb-Bodensee”, a subsidiary of the Bundesbahn (DB, since 1994 DB AG). The “Stadtwerke Lindau” (local utilities company) took the responsibility for management and marketing. There are a lot of marketing activities surrounding the bus. The bus enjoys priority over any other vehicle at the traffic lights.

Although the fares are not cheap (DM 2.50 for a single ticket), the citybus system of Lindau transports app. 240,000 passengers per month – a figure that other towns of comparable size only achieve in one year.

The frequencies have shown new perspectives for bus operations in towns of a comparable size: Co-ordination and integration of transport.

6.7 Exercises/Assignments

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material

1. What are the principal issues that need to be addressed in the development of a measurable Quality Assurance system? List and explain five such issues.

2. In your opinion what model offers the most effective means of managing a Quality Assurance system in a changed regulatory environment. Supporting evidence should be provided in order to test the effectiveness of the proposed model.
6.8 Suggested Reading List for Module 5.

(The suggested reading list below is intended to be only indicative and not comprehensive. More extensive reading lists are available from MARETOPE and the web-site of the European Commission)


7. **Module 6. Financing and subsiding Policies in Public Transport**

(Text taken from Maretope)

7.1 **Specific Learning Outcomes for this Module:**

Upon completion of this Module the Learner will understand the following:

- The linkage between the financial contribution to public transport from transport users,
- The relationship between users and financial support from public contributions,
- The specific categories of funding that exist to support the development of public transport,
- The importance of developing alternative sources of funding through either the creation of specific transport taxation policy or the development of alternative sources of funding through the use of ‘private funding’ i.e. the development of ‘public-private partnerships,
- The possible models that might be used to address the issues relating to the development of on-going financial support for transport.

7.2 **Introduction**

Pricing and financing in Urban Transport are closely related concepts since the level of prices determines the self-financing capacity, and consequently the need for subsidies. Pricing and finance are closely linked, as pricing represents one of the most important methods of raising finance. Pricing also has another important role. It is a key mechanism for influencing the volume of traffic using each method of transport, in order to achieve other important aims such as economic efficiency and environmental sustainability. There is evidence that, existing pricing mechanisms and levels are contributing towards the problems of congestion and environmental pollution by failing to provide appropriate signals that will influence social behaviour.

In this perspective financing urban transport systems includes all economic instruments that can lead to:

- more efficiency, that is any means to improve incentives to economic efficiency and internalise external effects of transport;
- raising additional funds (capital) to support the costs of the various elements of urban transport systems.

The following categories of financing can be distinguished:

- Transport users contributions
- Contributions from public sources and public companies
7.3 Financial aspects

Transport users contributions:
Within this category Public Transport Fares are the most common source of financing across Europe, although in most cities they cover only a minor part of the operating costs. With the exception of the deregulated regimes, fares levels and structure are settled within limits established by the authorities. Due to the public service characteristics of Urban Transport the use of concessionary fares (compensations for fare rebates, paid through the operators or through the passenger) is a common practice in Europe in all regulatory regimes. These contributions in the form of user charges or fees represent a significant means of financing urban public transport systems in Europe. They can be set according to either a cost orientated or a demand-orientated approach. In the case of a cost orientated approach prices should reflect the costs (full or additional) incurred by the use of the transport system whilst the latter approach reflects the benefits derived from that use (in accordance with the users willingness to pay). One of the cost-orientated approaches includes the social /marginal cost principle. This theoretically implies that prices are set according to the additional cost that the extra use of the system would generate including the operating costs associated with the types of external effects (pollution, congestion, noise etc.) In other words, the transport prices should reflect the marginal social costs associated with its use.

This also introduces the concept of Fair Pricing systems. This can be interpreted as Social Equity. Here the distribution effects (how costs and benefits from the different pricing measures are distributed amongst different income groups) need to be considered. Such a pricing system can also be interpreted as pricing which does not have a negative distribution or regressive impact e.g. lower income groups paying relatively more than those at higher income levels. In such a situation efficient pricing does not always contribute to ‘fair pricing of as transport system since the marginal social costs do not allow for differences in income levels.

Contributions from public sources and public companies:
Public sources, either from the general budget or earmarked – generally seen as an inefficient financing instruments – are the main source for investment and deficit coverage in Urban Public Transport. They contribute to the stability of the service but are also seen as a major contributor to the productive inefficiency of the less competitive operators.

Cross-subsidisation by public companies also falls within this category. Cross subsidy is a major problem in terms of distortion of competition as it gives a clear advantage to public companies, mainly municipal companies with other activities (e.g. electricity, gas, interurban transport). The potential to distort competition is particularly high in regulated regimes where municipal companies detain a significant part of the market share.

Contributions from other beneficiaries: One can distinguish between two types of internalisation of the ‘externalities’ created by the existence of the transport services:
Earmarked taxes for transport purposes which are collected either directly or indirectly from the employers, and aim to assure the mobility of their employees. Examples are the “versement de transport” used in France, and the similar taxes used in Vienna and in Brazil.
The main drawback of the method relates with the increase in labour costs, and in turn has the merit of raising an additional source of financing, while keeping some competitive pressure on the operator for the improvement of the quality of the service, as the choice of mode and company are still left to the end-user.

**Value capture**, which entails a low risk of distortion of competition, presents the following advantages:

- **Value capture through operators revenue:** Internalises the external benefits produced by transport facilities and reduces the need for subsidies. Additionally, some of the diversified services can be a stimulus to increase patronage (e.g. commercial areas, vertical integration of services, etc)

- **Value capture through taxes:** Besides internalising the external benefits of transport facilities, some taxes (e.g. land owners) stimulate the systemic approach to urban planning, with a significant impact in the scope of action of the authorities responsible for the mobility system.

**Private sources:** Within the private sources of financing, private loans, public private partnerships are the most relevant ones:

Private loans are a traditional form of financing. They are mostly used to solve cash-flow problems, and its main advantage is enabling the division of costs between more than one user generation.

Public Private Partnership (PPP’s) are contracts between the public and the private sector, normally used to provide urban mobility solutions. The main advantages of these arrangements, when correctly implemented, are:

- **Improvement of efficiency**

- **Relief of the pressure on public budget**

- **Sharing of risk and responsibilities with private partners**

- **Stimulation of entrepreneurial innovation**

- **Benefits of private management methods**

**FINANCING ALTERNATIVES**

(Text taken from FISCUS)

The following sections highlight different ways in which the financing needs, resulting from the failure of efficient prices to cover financial costs or the inability to implement efficient prices, may be met.

**Further contributions from users**

Where efficient prices do not provide a sufficient means of financing, one of the available options for bridging the gap between user contributions from efficient prices and the full financial cost is to secure further contributions from users. There is a variety of ways of doing this. One option is simply to increase all prices to reflect the average costs of the services in question. Some will consider this the fairest way of doing so. However, in terms of efficiency, it is better to seek the price increases that least distort user decisions, via the adoption of second best pricing strategies such as 'two-part-tariffs' ('Two-part-tariffs'
combine efficiency, through marginal cost pricing, with cost recovery) and Ramsey Pricing (Ramsey Pricing is an approach which differentiates prices according to users price elasticity of demand).

**POSSIBLE SUPPLEMENTARY USER CONTRIBUTIONS**

1. **Average cost pricing**

   Everyone pays the same. Simple, may be seen as fair but inefficient. Some people who would be willing to pay their marginal cost are priced off the system, whilst others who are not willing to pay marginal cost (e.g. in the peak) continue to travel.

2. **Two part tariffs**

   Car use is almost always charged on a two-part tariff, with an annual vehicle excise duty plus fuel tax or other user charges. If the annual charge does not affect how many people own cars then it is non-distorting.

   Two part tariffs may also be used on public transport (e.g. cards giving a discount on the price of tickets) but the fixed part of the charge is likely to have a bigger effect on public transport use.

3. **Charging according to willingness to pay.**

   This approach, technically known as price discrimination, attempts to charge more those users willing to pay more. Generally it involves dividing the market into segments (e.g. peak and off peak), and raising charges most in those segments that are least sensitive to price. Although it minimises distortions, it cannot prevent them altogether (unless each traveller is charged a different price, which is an impossible degree of price discrimination).

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*Figure 14: Financing by User Contributions (conceptual) – IFIP 1999*

Breakdown of Complex Figure 14. Source: FISCUS Handbook
Public budgets

Public budgets are clearly a second source from which the financing needs, resulting from the failure of efficient prices to cover financial costs or the inability to implement efficient prices, may be met. Where there is market failure there is the theoretical basis of a case for public intervention in the market place. In transport, this case exists as externalities are common and there are elements of the infrastructure, which exhibit decreasing costs.

Public expenditure can occur directly as either payment for goods and services or as transfers to producers, such as subsidies. It can also occur indirectly as losses in receipts/negative revenues. It may be financed from general taxation, specific ear-marked taxes (but these often have more the character of user contributions, as for instance the surcharge on petrol to fund transport infrastructure in Germany), public borrowing, or profits on other activities. The latter will however be considered separately as ‘cross-funding’ below.

Figure 15: Financing by public budget (conceptual) – IFIP 1999
Breakdown of Complex Figure 14. Source: FISCUS Handbook
Value capture

Value capture describes a group of financing instruments, which seek to recover secondary benefits, which would otherwise be uncharged. The approach relies upon the existence of such secondary benefits, which are benefits to ‘third parties’ or to the economy as a whole, and upon the capturing of these benefits being possible.

For instance, improved transport may make an area a more desirable one in which to live, work or shop, and thus raise land values, improve business sales or make recruitment of a suitable labour force cheaper and easier.

VALUE CAPTURE

Whilst significant examples do exist of value capture in the form of voluntary contributions they are not common. In the case of the City Extension to the Docklands Light Railway in London, developers contributed £100m of the total £280m capital cost. However, this was a situation in which the extension was in doubt, and it was seen as very important by a single major developer. So the usual temptation to free-ride was not present.

Value capture through dedicated employment taxes have been most successful in France. The ‘Versement Transport, introduced in 1971, is now applied in all French urban areas of more than 100,000 population and is credited with making possible the large number of Metro and Light Rail systems which exist throughout France. All employers with more than 9 employees, unless employees live on the premises or the employer provides transport, are subject to the tax and the tax rate, a proportion of payroll costs, is set by the Autorite Organisatrice within nationally set limits. It raises significant amounts of money - in excess of 2.5 bn Euro in 1993 - 40% of which is used for capital investment in the provinces but only 15% in Paris; the balance being taken up in operating subsidies.

The main worry about this crude approach to value capture is that it might have undesirable effects on city employment. More sophisticated approaches, designed to capture the benefits enjoyed in the form of increased land values, have generally been hard to administer.

Figure 16: Financing by cross funding( conceptual) – IFIP 1999
Breakdown of Complex Figure 14. Source: FISCUS Handbook
Cross funding

Cross funding is the approach of using profits from some activities to cover losses on others. It is common in countries where the local authority is responsible for activities such as electricity, gas and water as well as transport. However, it involves the risk of inefficiencies in both the source and the recipient market.

Generally speaking, cross funding may be disregarded as an important source of funding for transport with one very important exception. That is where the characteristics of the two markets make it efficient to raise profits in one market and to subsidise the other. This is exactly true of private and public transport, where the existence of congestion and environmental costs lead to a financial surplus on private transport, whilst economies of scale demand subsidies for public transport. Cross funding of public transport from private is expected to become an even more important source of funding in the future as more sophisticated road pricing schemes spread.

CROSS FUNDING

The most attractive form of cross funding for transport appears to be actually within the transport sector, using profits from road user charges for public transport subsidy and investment.

A simple form of this has been in use in Germany for more than 30 years. Under this a surcharge on petrol is used to finance approved public transport infrastructure schemes. It is this funding that has led to most German cities having excellent rail, metro or light rail systems.

In Switzerland, it is proposed to use the funding from increased HGV taxes to finance the rail based tunnels under the Alps.

In Britain, it is proposed that the proceeds from introducing road pricing, or a tax on private non residential parking spaces, should be earmarked for local transport improvements for at least 10 years.

It should be noted that whilst such earmarking may go a long way to improving the acceptability of new pricing measures, it could lead to transport schemes being undertaken which were not the best use of the money available, or to transport projects being financed in a manner which was not the most efficient. Furthermore, it should be noted that this method very often corresponds to an indirect form of cross funding since fuel and/or road user charges are collected by central government while public transport is in most countries a responsibility of local governments.
Private finance

The use of private finance in the transport sector is growing, both as a way of relieving existing capital shortages and because it is perceived as bringing with it the added efficiency of private sector management. On the other hand, the cost of capital to the private sector is generally above that to the public, so it will not be sensible to use private finance in the absence of advantages such as these.

The most obvious form of private finance is the outright provision of facilities by the private sector. However, this could lead to decisions strongly at odds with public policy in terms of the facilities and service levels provided and the prices charged. It is therefore more common in the transport sector to go for some form of public-private partnership.

PRIVATE FINANCE

The proportion of finance for transport, which comes from the private sector, is growing but still quite small; "the availability of commercial bank finance for European transport infrastructure is conservatively estimated to be around EURO 2.4-6.0b per annum. In relation to expenditures of over EURO 70 b per annum" (Farrell, 1998). Also, much of that which exists has been focused on large-scale inter-urban projects.

The well-established tradition of contracting out of municipal services in France has aided the development of public-private partnerships there. An example of a successful public private partnership project is the Pont de Normandie, which opened in 1994 under a 35-year concession granted to the Chamber of Commerce and Industry of Le Havre. The project cost was approximately 265 MEuro, which was funded by a syndicate of 20 banks with loan guarantees from regional and local government.

A number of ‘Design Build Finance and Operate’ contracts have been let for ‘shadow toll’ roads in the UK. These include the M40, the A19 and the recently opened A1M1 link road.
A notable example of private finance for an urban transport project is that of Manchester Metrolink. The project was developed under a Design Build Operate and Maintain concession agreement and was successfully opened in 1992. Initially the payment for the operating concession, i.e. the private sector financing contribution, was only £5m, a small proportion of the £140m total system cost. However, when a subsequent replacement contract to extend the system and to operate the whole resultant Metrolink system was let two years later, a £90 m private sector financing contribution was secured in contrast with an additional construction cost of £100 m.

**Figure 18: Private financing (conceptual) – IFIP 1999**

**Breakdown of Complex Figure 14. Source: FISCUS Handbook**

**FINANCING PACKAGES**

**The need to examine packages as a whole**

There are three main reasons that explain why packages of measures may be more appropriate for financing urban transport systems than individual financing mechanisms.

First, it is of general acceptance that urban transport systems cannot be financed from a single source. In the presence of decreasing costs, user contributions set according to the social marginal cost principle might not cover total costs from some services.

Finally, value capture is seen as a funding source that may contribute to covering operating costs and, especially, financing investment, in a fair way since it is paid by beneficiaries of the system.

And thirdly, the previous section has also illustrated how the different financing mechanisms trade off between efficiency, acceptability and practical feasibility. The use of a combination of different mechanisms might offset the disadvantages of one instrument with the advantages of another.
Suggested alternative packages

Clearly, a large number of alternative funding packages may be put together, and what is seen as most suitable will vary very much with the situation in the city in question. What follows should therefore be taken to be illustrations rather than a definitive list. They have been chosen rather to illustrate the range of options available, and therefore tend to be rather concentrated at the extremes of what is available.

![Diagram of financing alternatives in urban transport](source: FISCUS Handbook)

Figure 19 Financing alternatives in Urban Transport (conceptual) (Source: FISCUS Handbook)
Figure 19 produced by the FISCUS research give a clear idea of the implications of each financing alternative. Please note that this figure also includes the car system. Behind the complexity of this figure, the triangular relationship described earlier can be distinguished, with the difference that the authority and the taxpayers have been amalgamated in this figure. In order to adequately describe real-world examples, it is important to distinguish between the following: “payments” (fares, subsidies, contract price etc) versus “financing” in the proper sense (such as in PPP, loans etc), “investments” versus “operational costs” sources of money for the authorities versus sources of money for the operators.

**Public-Private partnerships**

The aim of this concept is to eliminate need for contribution from general taxation whilst maintaining efficient pricing, and maintain public control of fares/services e.g. by franchising. It comprises:

- social marginal cost pricing of users but with capital requirements met by private finance, and operating and capital servicing costs covered and remunerated, respectively, through a combination of efficient user charges and subsidies funded by value capture (to be broadly interpreted to include voluntary developer contributions and specific taxes, e.g. on employment), and supplementary user charges.

**Commercial Operations within Public/Private Partnerships**

This package would make each mode commercially viable, possibly on the basis that this is necessary for equity reasons, or possibly to facilitate later privatisation. In this model, user charges have to be set at a level which makes all transport facilities profitable, so that no subsidies are needed. Pricing instruments are used as outlined above. Ramsey pricing and two part tariffs are to be used as necessary, so that charges, especially in the peak, may be higher than socially optimal (but regulated to follow ‘second best’ principles); i.e.

- taxes are imposed to cover environmental and accident externalities;
- no cross financing exists between modes. Each mode is self sufficient, servicing its own capital requirements as well as covering current costs. However, specific subsidies for certain unprofitable routes or types of rider (e.g. pensioners) may be present, funded
From general taxation.

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<th>1. User Contributions</th>
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<td>Public Transport Fares</td>
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<td>National</td>
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<td>Fuel Tax</td>
<td>National</td>
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<td>Area licensing, cordon tolls, electronic road pricing</td>
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<td>Parking charges</td>
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<th>2. Public Budgets</th>
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<td>General taxation</td>
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<td>Local budgets</td>
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<th>3. Value Capture</th>
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<td>Property or employment taxes</td>
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<th>4. Cross Funding</th>
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<td>Profits from road pricing or other local enterprises</td>
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<th>5. Private Finance</th>
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<td>Franchising</td>
<td>National or Local</td>
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**Summary of Financing Methods - Usual Decision-Making Body/Authority**

The above table reflects the main decision-makers in the area of finance and finance models that can be used in selecting a model for the development of pricing policies for public transport at local and national level.
8. **Exercises/Assignments**

The following Exercises and Assignments are not intended to be prescriptive or exhaustive. PORTAL is conscious that educational systems vary from country to country throughout Europe and as such these exercises are intended to be indicative. The exercises are not intended to supplant the work that course providers may wish to assign to learners as part of a wider course of study. They aim to test the knowledge and skills that should have been acquired through use of this material.

1. In considering the various models of delivery for a public passenger transport system please place the issues of Finance in the order of importance amongst other issues that might be considered. What Financial criteria might be used in order to determine the success or failure of the system?

2. Trace the four most common strands that have made the delivery of transport systems within the new environment successful. Examples can be from within the member states of the EU or the accession countries.

3. Where implementation of new structures has been attempted in a less than successful manner outline the reasons that, in your opinion, made them less than successful and compare them to areas where success is evident. (Two examples will suffice)

8.1 **Suggested Reading List for Module 6.**

(The suggested reading list below is intended to be only indicative and not comprehensive. More extensive reading lists are available from MARETOPE and the web-site of the European Commission)


Bleijenberg, A.N. The Art of Internalising in *Internalising the Social Costs of Transport* 1993 Seminar ECMT/OECD


9. Case Studies and Study Sites
(Extracts are taken from MARETOPE Deliverable 2, 2001)

9.1 Introduction
Sites selected represent areas throughout Europe and reflect the particular situations that apply in each country and region.

The case studies and study sites examined below have also been selected to reflect the National efforts being made to introduce new Regulatory Frameworks and the actual impacts of those changes on particular regions and cities. The structure of each study reflects the sequence of the Modules already outlined in the course contents. The barriers to change are outlined and the approaches taken to address these barriers are highlighted. Where possible the success or failure of the measures taken are indicated and future developments where they are planned are also illustrated. In order to assist learners the profile of change is identified at a national level and then there is a specific illustration of that profile as it is applied to a specific city or region. For convenience of learners each profile and study site is constructed along the same format.

The selected sites are representative of the research carried out in MARETOPE deliverable 2 and it is advised that learners should consult those reports in order to obtain a fuller knowledge and greater detail than is contained here.

9.2 Austria

The Past:
Public local and regional transport in Austria is comparably attractive and cheap. This is mainly due to the 12 Public Transport Associations (PTAs) covering the whole territory. Within the PTA regime, an annual growth rate in patronage of more than 10% was recorded over the past years. Despite this success, demand for subsidies has been soaring. The state, the provinces and to a lesser extent the communes all contribute towards public transport. Cost coverage rates of public transport providers range from 40 to 60%.

Austria's public transport market is considerably regulated. So far, virtually no competitive tendering occurred. The organisational form can be defined as market initiative whereby an authorisation regime is at work. The market is dominated by publicly owned companies. Public service agreements in the form of service contracts exist between operators and the federal and provincial authorities (and/or PTAs). The contracts are designed so that operators bear only minimal risks and no revenue risk at all. Imposed public service agreements exist especially where communes are owners of transport companies.

The transition period has been triggered by two new laws (effective from 1.1.2000) which have far-reaching organisational and financial implications. They are supposed to create an environment, which is in line with the Council Regulations 1191/69 and 1107/70 as amended. The most important provisions are: (1) competitive tendering will be compulsory for all services that lie in the public interest. This concerns all services on new lines and existing lines with expiring concessions. However, operators active only on sub-urban transport are exempted. (2) The concessions for profitable lines are to be granted by competition only. The concessions for lines in the public interest are to be based upon a service contract after competitive tendering.
The new situation has not become reality to date. Recent legislation has created much uncertainty as to the intended financial and organisational frameworks. Obviously, the organisational form is moving from market initiative towards authority initiative featuring competitive tendering and concessioning. The federal level announced to reduce its funding obligations at the expense of the lower level authorities. A further drawback is that only few operators have, in the light of the proceeding deregulation, started to re-structure their enterprises towards more production efficiency. Furthermore, the subsidising regime as foreseen in the new law could be challenged as for its non-conformity with EU legislation.

Vienna

In the case of Vienna the changes in Public Transport system are at the beginning, so there is only one change existing and this is the one under investigation. The main vectors of the change are prescribed by new legislation that became effective from 1.1.2000.

Also the main operator of Vienna, the “Wiener Linien” (WL) have gone trough major organisational changes. WL had been fully integrated with the “Wiener Stadtwerke” (WS), Austria’s largest communal utility enterprise owned by the City of Vienna. In order to gain in competitiveness for the future liberalising markets, WS has been transforming its subsidiaries into private law companies. In 1998, WS itself became a joint-stock holding company while its subsidiary WL became detached from it as a limited liability company (GmbH). Both, however, will remain in 100% public ownership (City of Vienna). This new arrangement has led to a more transparent and entrepreneurial environment where preparation for future competition in the urban transport market is facilitated.

Past situation

The former "stable" situation in Vienna refers to the early 90s (1990-1995). Most of the actors in public transport (PT) have gone through organisational changes but in principle these actors remain identical in all phases of public transport evolution in Vienna.

Legally speaking, the right of initiative lied and still lies with the operators. In practice, however, initiative is jointly taken by the planning authorities. The authority involvement stems from the fact that many operators are publicly owned and/or the fact that most services are non-profitable and therefore dependant on public subsidies. The companies need to seek permission from a regulating authority as set out in the federal Public Road Transport Act 1952 as amended (PRTA). The PRTA defines the technical, financial, juridical etc. prerequisites for an operator and/or a specific service to obtain a concession (licence). The applicant gains the exclusive right to operate a certain service on a certain line. This regime is very protective for the operator, granting long concessions with easy extension and protects the concession holding operator from any competition.

The central piece of legislation for public rail transport (federal Railway Act 1957 as amended - RA) requires all operators except for the OeBB (Austrian Federal Railways) to obtain a concession (the exclusive right to operate) and a Betriebsbewilligung (a license to operate granted upon compliance with set technical standards). The Bundesbahngesetz (Federal Railways Act 1992- FRA) gives the Ministry of Transport the right to order non-profitable services from the OeBB. The Privatbahnunterstützungsgesetz (Federal Private Railway Funding Act 1988 as amended - PRFA) empowers the Ministry of Transport to order non-profitable services for a period of several years from non-state owned rail companies. It should be noted that market entry is controlled almost exclusively by the concession regime (PRTA, RA) and, in the case of the OeBB, a quasi monopoly position.

The various transport planning departments of the City of Vienna and the Province of LA, together with VOR (the public transport association in the Vienna metropolitan area) and the
PGO (the regional planning agency), are the major strategic decision making bodies (transport master plans etc.). Tactical planning and decision making (fares, services, marketing, ticketing etc.) is done primarily by the operators (and/or the transport departments of their owning authorities, e.g. WL, City of Vienna). The few profitable services are being created on the initiative of the operators themselves.

In promoting service, ticket and tariff integration, VOR has a key role in establishing and developing an integrated tariff scheme, in planning services, co-ordinating operators, and certain marketing issues. This is laid down in the "basic and financing contract".

**Triggers for discussion on reform and main elements of change**

From the early nineties onwards, discussions on the reshaping of Austria's local and regional public transport framework have become more intensive. Basically, there were five major categories of triggers for a reform of local public transport organisation and financing in Austria. Low efficiency: cost coverage ratios in public transport range from 40 to 60% on average. Production efficiency is generally deemed too low (in the case of Vienna successful internal efforts have been made to increase the efficiency since the beginning of the nineties). Budget constraints: public subsidisation of local public transport has been rising beyond the financial capabilities of public households. Modal split: in general the market share of public transport in Austria has been decreasing countrywide as against that of the car (because of the special situation in Vienna the modal split increased from 29% in the year 1993 up to 33% in the year 2000 because of the high acceptance of the LPT based on quantitative and qualitative improvements). Deficient administrative structure: before the backdrop of regionalisation, local and provincial authorities ought to have more statutory powers. EU legislation: the endeavours of the Commission, by way of revising Regulation (EEC) No. 1191/69 as amended. Federal Railway reform: as a response to EU Directive (EEC) No. 91/440, non-profitable local and regional services now need to be specified and ordered from the Federal Railways by the respective authorities.

Initiators of the reform were all those participating in the discussion process from the early 90s onwards. These stakeholders were government officials, Chamber of Commerce, representing the transport industry, various operators, publicly and privately owned, Chamber of Labour, representing consumer interests, IGV (*Interessensgemeinschaft der Verkehrsverbünde*), a working party and interest group representing all PTAs in Austria, transport consultants, and various pressure groups (NGOs), mainly representing passenger and environmental interests.

The main vectors of change are prescribed by new legislation which became effective from 1.1.2000. This legislation redesigns the framework of financing and organising public transport in Austria. Community and provincial authorities can now conclude transport service contracts with road and rail transport operators. Concessions for services "in the public interest" need to be based upon service contracts concluded after a competitive tendering phase. The laws require concessions for profitable lines to be granted by competition only. Concessions periods are reduced to 10 years.

The PLTRA (Public Local and Regional Transport Act) requires each public transport association to undergo an institutional reform. In Vienna, this has already been achieved as early as in 1984. Moreover, all operators co-operating in a public transport association must form an association. The PLRTA also abolishes the valorised income guarantee as applied by the public transport associations and replaces it by adequate public service contracts. Free school children tickets will have to be integrated in the public transport association tariff system. The allocation of moneys to be used for subsidies by the federal level and the regional (local) levels has been re-designed.
**Intended transitional path and preferred situation**

The three overall aims of the reform were widely agreed upon and clearly stated:

- to increase the cost coverage ratio (efficiency) of the local and regional public transport system,
- to increase the quality of public transport supply and hence its market share as against individual car use, and
- to strengthen the role of regional and local authorities as regards shaping and financing the public transport system.

It is important to note that the various stakeholders reached a basic agreement that a reform to achieve the above aims was indeed needed. However, conflicting interests and views persisted throughout the process with respect to the concrete measures to be taken. The initial reform proposals reflect a first rather radical stance which was put forward by field studies and more theoretical research. Such investigation was commissioned by provincial and federal authorities and carried out by transport professionals (consultants) and scientists in the mid 90s.

Regional and local authority initiative should be strengthened. Authorities should receive technical, financial and administrative powers to commission and finance public transport services entering in private law contracts.

The rigid concessioning system prevents or restrains the selection of operators based on competitive principles (e.g. tendering). The selection of operators should pay due regard to the best-bidder logic, i.e. the price-performance ratio should govern the selection process.

The planning and decision-making framework should be altered in the following ways:

- regional and local authorities, or public transport association managing organisations on their behalf, should act as the bodies fully responsible for planning and commissioning the politically desired local and regional public transport supply. The reform should reinforce their strategic and tactical decision-making competencies,
- a provincial transport master plan comprising all modes should be made mandatory for the authorities,
- the role of the public transport association should be further reinforced. Ideally, a public transport association is a co-operation of operators aiming to provide
  - integrated services (i.e. timetables and routes),
  - integrated tariffs (i.e. a single fare structure valid with all operators),
  - integrated decision-making (i.e. fine-tuned distribution of strategic, tactical and operational decision-making powers).
Actual transitional path: barriers encountered and tools applied.

The backbone of the reform is the adoption of two federal new acts which have far-reaching organisational and financial implications. The PLRTA 1999 became effective from 1.1.2000. This law sets up a new framework of financing and organising public transport in Austria. The PRTA was fully revised in 1999 and became effective from 1.1.2000. The purpose of this was to relax the restrictive concessioning system and enable a more competitive environment amongst the operators.

**Barriers encountered:**

The proposals for the initial change were formulated on the basis of rather scientific analysis and technical evidence and they experienced (part or full) opposition by various stakeholders: **Operators** (in Vienna WL, WLB, OeBB, bus operating companies) were apparently strongly interested to see the following items preserved:

- a monopolistic position (i.e. granted through protective exclusive rights, concessions),
- the general subsidising regime (i.e. gross contracts or arrangements with little incentives and almost no revenue risk, finance transfer within communal utilities),
- their discretionary autonomy within VOR as regards tariff and service planning.

According to the reform proposals, **authorities** should take on more planning, commissioning and financing functions. Resistance against the proposals is discernible in the following respects:

- commissioning of public transport, based on tendering, is a new area and requires much expertise and technical know-how. Experiences are scarce in Austria, and foreign examples are often little instructive or non-transferable.
- the authorities are in a dilemma where they are owners of the operators (e.g. City of Vienna and WL). On the one hand they resisted to harm their "subsidiary", on the other hand, they should have to act budget-conscious (where competition between operators is a means to this end).

The most important barriers at system level are the existence of a closed integrated and monopolistic community owned PT-system of high quality, the financial uncertainties and the not identified use of a free market and the missing political will and the negative public opinion. At the level between actors there are the different aims of the actors and the status of the employees and the opposition of the trade unions. And at actor level there is the difficulty to reduce costs at community owned transport operators and the existing financial system with nearly no revenue and entrepreneur - risk for the operator.

**Tools applied**

The main tools to overcome these barriers are certain transition periods especially with respect to financial provisions conceded by law. A transition period until 2005 is conceded for the abolishment of the income guarantee. The process of change in Vienna is only at the beginning. Because of the unclear political will the identification of barriers at political and authority level is not very advanced.
At the side of the operator they don’t believe in a real change because of the existing closed integrated monopolistic system. The tools used at the operator level are more internal to get competitiveness (new systems of investment and costing, new contracts with the new employees, reduction of technical employees, etc.). One has to wait if these tools are successful enough to make the communal PT-operator fit for the market.

**Actual/ current situation**

The current situation is very much characterised by the reform situation. In fact, both the PRTA and PLRTA propose a number of changes to the financial and organisational framework. Since the enactment of both laws in the beginning of 2000, confusion about the conformity with EU law (especially EU Directive 1191/69) as well as the feasibility and enforcement of certain article has been dominant. Thus, relatively little of the legal provisions has been put into practice as yet. The future seems to be quite unclear. The allocation of the right of initiative has remained unchanged. Legally speaking, transport services can only arise if an operator decides to offer services and to apply for the necessary permissions. The system can therefore be said to be market initiative.

The revised PRTA scales down the importance of the concession as a monopoly-building instrument in two respects. The authority can tender a service, if a community and/or provincial authority orders additional services or an entirely new non-profitable bus service. The controlling regime is still largely determined by the concessions and licences awarded to the operators.

In addition to the already existing decision-making framework, the new PLRTA (for the first time) expressly states the responsibilities of the various actors, mostly at the tactical and operational levels. Communities and provinces have to plan demand oriented rail and road services and can conclude service contracts in order to commission regional transport services in excess of the basic supply.

**Future plans**

The encouragement to tender services has hardly been practised yet. However, this is expected to change in the future. It is also expected that both acts (PRTA and PLRTA) will have to undergo amendments again once the new Directive (replacing EU Directive 1191/69) will enter into force.

As regards the right of initiative, the system will remain market initiative. Legally speaking, transport services can only arise if an operator decides to offer services and to apply for the necessary permissions. STO decision making and the role of authorities has been redefined by law and will be reorganised:

- Local authorities (e.g. City of Vienna) will plan and co-finance rail and road services and will increasingly conclude service contracts

- public transport association managing agencies (e.g. VOR) will plan, review and adapt the public transport association tariff system, co-ordinate the commissioning and contracting of services, perform the quality management using set minimum quality, monitor the transport service contracts, perform public transport association marketing and revenue distribution, plan local and regional transport services (as a proposal to or on behalf of the authorities).
Operators participating in public transport associations will plan, review and adapt the public transport association tariff system (in co-operation with public transport association managing agency), plan local and regional transport services at the operator level, and perform the revenue and subsidy distribution (unless delegated to the public transport association managing agency).

9.3 Denmark

Denmark, outside the Greater Copenhagen Region

Public bus transport is by act of Parliament managed by the counties and the municipalities in Denmark. Typically the counties play the leading role. The counties can freely decide how to organise public transport themselves, except the Greater Copenhagen Authority. Since 1974, special laws have applied only to the capital region, while the rest of the country is subject to general law. In the past - until 1978 - net cost operated bus lines with possibilities of local authority subsidisation existed outside Copenhagen. Some local authorities and DSB national railways organised buses co-ordinated with the nation-wide trains. In 1978, - period of transition - a law giving the counties the freedom to procure bus transport how they wanted, was implemented.

Within the New, most municipalities have given up in-house production and tendered the services. Today three main patterns exist when it comes to organisation:

- Tendering/in-house production in county-owned public transport authorities (predominant)
- Tendering/in-house production in counties where local public bus transport is up to each of the municipalities, regional public bus transport is up to the county (more organisations)
- In-house production in municipal companies

All public transport authorities have chosen to keep the revenue risk by using gross-cost contracts.

Railways

In the past, most passenger train operations in Denmark were carried out by DSB – the Danish State Railways, which they still are to a very large extent. 1st January 1999, period of transition, DSB was split up into an operational company, DSB, and a track authority, Banestyrelsen, both owned by the Ministry of Transport. DSB operates under contracts for the Ministry of Transport. In 2003, 15 % of the contracts are subject to tender in the new. The 13 local railways carry out the rest of the train operations. Since 1st January 2001, the counties have been responsible for these railways.

Greater Copenhagen Region

Public transport in the Greater Copenhagen Region is split up into companies according to mode. This means that the Greater Copenhagen Authority, HUR – is responsible for public bus transport, which it procures on tendered gross-cost contracts. The Danish State Railways (DSB) is responsible for all train operations in the Greater Copenhagen Region which they
operate under contract for the Ministry of Transport, except for the six local railways in the outskirts of the region. These local railways are part of the Greater Copenhagen Authority. In 2002 the Copenhagen Metro is due to open. The metro is subject to a special act. However, all these different modes have one common seamless fare system.

In the past, Copenhagen Transport, HT (now Greater Copenhagen Authority, HUR) was created in 1974 as a merger of 12 mainly public municipal companies - one common fare system was established with the train services. It was a successful organisation until the 80s when fares increased, level of patronage fell, and costs increased. 1990-Act – period of transition - enforced 45% of all operations to be tendered. In 1995 the act was changed. Now 100% of all bus operations was subject to tender by 2002, however, the former operational part of HT was allowed to make bids.

The current position: the latest revision of the act in 1999 did not have any implications on the procurement of public transport but only on the organisation of the authority itself when the Greater Copenhagen Authority, HUR, replaced Copenhagen Transport, HT. Greater Copenhagen Authority has taken over responsibility of the 6 local railways in the outskirts of the region.

Århus

In Denmark, the state is responsible for the national public transport connecting the different regions of Denmark. Most national public transport is made by Danish State Railways, DSB. The counties are responsible for regional public transport and most counties have established public transport authorities that are responsible for both the regional and the local routes. They are responsible for the planning, the revenues and the contracts with the operators if services are tendered.

Three counties have no public transport authorities and in these counties, the administration of the regional routes is part of the general activities of the county (all are tendered), and the local public transport is taken care of by the municipalities or by the counties. One municipality has decided to keep its operations in house, Århus. Whereas most cities and counties during the 90s decided to tender their services, the operation in Århus was kept – and still is - in-house.

Past situation

There have in fact over the years only been a few changes in the organisation of public transport in Denmark. There has been a long tradition for the counties having the responsibility for public transport and letting private and public operators do the operation. In Copenhagen there was a change from a situation where the public company had the same role as Århus Sporveje. It was a change in the 1980’s when economic difficulties made it necessary to change the organisation to the one known today. It meant significant improvements.

In the third town of Denmark, Odense, the same type of organisation as in Århus existed, but recently the City Council has decided to make a tender on 25% of public transport in Odense.

Before 1990, Århus had in principle the same organisation as it has today.

Trigger for the discussion on reform and main elements of change

In Århus, there have been no changes in the political situation vis-à-vis the discussion on tendering or not. However, during the 1990’s, Århus Sporveje made a big effort to adapt costs to the level created by the competition situation in other places in Denmark.
There has not been a process of change in Århus because of a political wish to keep operations municipally operated. Århus has, however, succeeded into keeping costs at a low level and at the same time modernising the company. There are a number of service standard objectives to be fulfilled, e.g. quality of the performance and the economy.

**Actual/current situation**

In Århus, the quality control is based on a great number of measurable objectives regarding service standards on e.g., reliability and precision etc. and Århus Sporveje must every year give a detailed account on the degree of fulfilment of the different goals. Some of the main objectives set by the city council are the following:

- All citizens in Århus municipality must have access to public transport – adjusted according to the size of the area and the structure of the population
- Public transport must be carried out at a sufficient quality level ensuring that the existing passengers remain as passengers and that new passengers are attracted.
- At every time, there must be an appropriate use of the financial resources and a reliable development in the level of fares and service level.
- Special priority to the disabled must be taken in the development of the public transport network.

The public authority that is responsible for a certain public transport in Denmark is free to decide the level of fares and subsidy. In 1997, the Danish Parliament decided to reduce the general fare level in regional and local public transport in order to increase its market share. The different organisations reduced the fare levels with 6 - 10 % and got refunds from the state. It was emphasised that the regional and local authorities still have the competence to decide fares. It was not possible to measure any effect of the reduced fares.

The authorities can decide fare reductions for special groups (students, elderly people etc.), and recently the state has taken initiatives to secure free transport to children. In this case, too, the local public transport authorities get refunds from the state. In general the subsidy in Denmark is about 45 - 50% of the total costs. In Århus the subsidy is about 35%. There is a yearly negotiated subsidy which is rather constant about 35% of the total costs including investments. Århus Sporveje is allowed to transfer surpluses and deficits from one fiscal year to the next.

Those authorities that are responsible for different parts of the public transport in Denmark have the competence to make the necessary decisions on both the strategic, the tactical and the operational level.

In Århus, the strategic and tactical decisions are made in connection with the decisions on the yearly budgets. Århus Sporveje usually makes the proposals and the City Council decides.

The decisions on the operational level are all made by Århus Sporveje.

**Future plans**

There are no current tendering plans in the city of Århus.
9.4 Finland

The urban public transport in Finland consists of two main types of organisational forms. In the big cities, in the Helsinki Metropolitan Area (Helsinki region) and in the cities of Turku and Tampere the responsibility of public transport services is entirely in the hands of the public transport authority (PTA). In other urban areas - in middle-sized cities - the public transport is based on market initiative and authorisation. In the Helsinki region and in Turku there are both municipal actors as well private operators, which operate public transport services under a contract with the PTA. In Tampere the public transport is operated as public management. In the middle-sized cities except in the City of Pori all the operators are privately owned. Rail systems are operated only in the Helsinki region; trains offer contracted services for the region while trams and metro are operated in the City of Helsinki as a public management.

The possibility to tender public transport services in Finland was introduced in 1991 when a new law concerning public transport was enacted. The Helsinki Metropolitan Area Council (YTV) arranged the first tendering in 1994. The results of the tendering were a great success; the price level went down by 33 %, the offered bus fleet was extremely new and the passenger service was very satisfactory. Some problems concerning employment relationships arose in cases when a losing operator was forced to adjust to the new situation by reducing its costs, e.g. by laying off employees.

By the year of 2000 all the regional and the main part of local services have been tendered in the Helsinki region and in Turku. The price level stabled on the level ca. 25 – 30 % below the old, contracted price level. The recent tenders show, for the first time since the opening of the market, an increase of price by 5 - 10 %. The quality results of the tendered services have proved to be very high. At the moment the tendering of bus services goes on and by 2002 all the bus services in the Helsinki region have been tendered. A discussion of tendering regional trains is active but according to the ministry draft proposal the railways will not be opened to the competition except the international cargo services.

In Tampere the situation has been unchanged concerning the organisational form. Also in the middle-sized cities the organisational form is still based on market initiative and authorisation. The activity of the municipalities has, however, increased when they have began to subsidise the fares.

The share of different organisational forms (% of total urban public transport, measured by seat kilometres) is shown in a picture below. The picture summarises the changes during the time period of 1990 – 2005:

- 1990 – 1995: a part of public management (buses in Helsinki and Turku) is transferred to contracted services,
- 1995 – 2000: most of the contracted bus services are tendered,
- 2000 - 2005: rest of the contracted bus services is tendered, rail services remain to be produced as public management or by contracted services. On the other hand the public transport in middle-sized cities remain to be produced as market initiative dominated by private companies.
At present the demand of public transport in the Helsinki region is increasing rapidly. In other cities the demand is stable or in slight decrease. The subsidy rate of public transport in the Helsinki region is ca. 40 % of total costs. In Tampere and Turku the subsidy rate is ca. 30 % and in the middle-sized cities the rate is mainly between 15 and 20 % of the total costs.

**Turku**

This case concerns the urban bus service of City of Turku in Southwest coast of Finland. The system consists of 165 buses that carried 21.6 million passengers in the year of 2000. Number of bus routes is 60 and bus kilometres 10.1 million annually. The number of inhabitants in Turku is ca. 172.000.

Between years 1994 and 2000 the urban bus service of Turku faced a regulatory transition from negotiated gross cost contracts to tendered gross cost contracts on route basis. In following chapters a politically dominated process is described that after many phases led to tendering.

**Past situation**

Before the regulatory change begun in 1994 the public transport service of City of Turku were organised in two separate ways. On City’s side there was a municipal organisation called Turku City Transport (Turun kaupungin liikennelaitos, TuKL). It was both a municipal operator with a market share of 30 % and a municipal public transport authority with its own political board.
The remaining 70% of local bus service were operated by small and middle size private operators. They were organised to a company called Turun Linja-autoilijain Osakeyhtiö, LO (The Company of bus operators of Turku Ltd.). The organisational form of the service was a negotiated gross cost contract between the city and TLO.

In the past situation, before contracting the service a route authorisation gave the operators an exclusive right to produce public transport service on a certain route or a certain area. In Turku the only possible negotiator with the municipality was in practice TLO. The City of Turku, actually the Turku City Transport (TuKL) was very anxious to receive the right to plan the routes and timetables and decide the fares. On the contrary, the private companies behind TLO were unwilling to sell their freedom of enterprise. This situation led to rather a high level of compensation of contracted public transport service when the first contract was made between the city and TLO in 1988.

After 1988 the right to operate was based on the contract between the city and TLO. Internal rules of TLO divided the service to different member companies of TLO. There was no competition between operators and the operators who were not members of TLO did not try to enter the market. Municipal TuKL did have a monopoly to its service.

The strategic and most of the tactical decisions after 1988 were made by the city. TLO member companies could buy the buses under very broad rules in the contract. The officials of TuKL supervised that the new buses follow the orders. In the contract there were a statement that buses must fulfil the requirements of urban transport. The responsibility of marketing and ticket sales was divided to both partners.

**Triggers for discussion on reform and main elements of change**

It may be stated that there were two main triggers to raise discussion on reforms. The first was the economic depression, which created severe economic and social problems in Finland in the beginning of the 90’ies. The second was the new public transport act and regulation, which included a possibility to move to competitive tendering. The former put pressure to the decision-makers to plan reforms, the latter gave them a possibility to do the reforms. Further it should be mentioned that Finland became first member of EES in 1994 and later member of EU in 1995. Due to this the public transport contracts in Helsinki region and Turku became subject to the rules of public procurement legislation. This meant tendering in practice.

The economic depression affected the City of Turku strongly. The unemployment rate went up to over 20% raising the costs of the city especially in the social sector. On the other hand the tax revenues of the city went down. At the same time the payments to TLO on the basis of the contract and the deficit of TuKL grew steadily. The payments to TLO grew as, according to the contract, the level of compensations followed the inflation. TuKL on the other hand did not show any bigger efforts to make its production more effective.

The only solution to cut costs was to cut production and this tool was used very effectively. At the same time, mainly due to increasing unemployment, the number of public transport passengers and fare revenues decreased rapidly. Due to these changes the public transport market share developed in a very undesirable direction.

The new public transport act and regulation came into force in March 1991. Since that time competitive tendering in acquiring public transport service was realised as one possible solution to cut the costs of public transport production.
**Intended transitional path and preferred situation**

In the beginning of the 90's the aims of the reform expressed by leading public transport officials were to introduce competition and with the help of tendering to get money for service level improvements and to lower the fare level. Later on in 1997, the goals were expressed clearly in the public transport strategy paper.

In 1992 the city government decided to start preparations of splitting the Turku City Transport TuKL (authority+operator) into a planning and contracting authority, Public transport office (PTA) and a municipal operator (Turku City Transport, TuKL). The vision of the organisational reform was to have a PTA organisation, which is separated from production and thus would be able to plan public transport in the City of Turku and be, in the future, capable to arrange competitive tendering. On the other hand, creation of an independent production unit with its own economy was seen as an effective tool to develop the efficiency of the old TuKL.

The public transport contract with TLO, signed in 1988 was still in force until 15.8.1993. In 1991 the City of Turku informed TLO that the contract would be cancelled from 15.8.1993 on. Cancellation of the contract was based on the new Act and on the need of new vehicle types (low-floor, low emission vehicles). Thus the original initiator was a political body: the city government. Behind the decision was, of course, a vision of leading public transport officials who wanted to use competitive tendering in the future.

**Actual transitional path: barriers encountered and tools applied**

TLO resisted the idea of competition and lobbied strongly to hold the situation unchanged. On the other hand the trade union in TuKL resisted changes (being) frightened for cuts in salaries and reductions in the number of jobs. TLO, as a group of small private entrepreneurs, got sympathy from some conservative politicians. The trade union in TuKL got sympathy from the social democrats and the Left league. The only political party favouring competitive tendering was the Green Party.

Despite a resistance by the major parties a political decision to cancel the contract and to go towards competitive tendering was possible because public transport was not seen as an utmost important issue among the leading politicians in the City of Turku. It seems to be so that for politicians it was more important to save money than to think what is happening to the private operators or to the municipal public transport employees.

While TLO and the city negotiated the renewal of the old contract, the Ministry of Transport intervened in the discussions. It sent to the City of Turku a letter, in which it pointed out that by better contracts and by competition considerable savings in public transport costs could be achieved. The Ministry also considered that TuKL should be transformed into a limited company or even privatised.

In a later phase of the process when the city was planning a public transport strategy TLO made several suggestions to the municipality to postpone competition, or, to avoid any competition. In June 1997 TLO made a proposal to the city government to cancel the contract and move back to route authorisation and fare compensations to the passengers. By this procedure the competition could be avoided, because the economic responsibility of service (revenue risk) would have been moved back to the operators.

The difficult and long lasting negotiations led to the new contract between the city and TLO from the end of 1993 to 2000. The new contract made it possible to move yearly a maximum of 15 % of the production into competition, during the contract period in total a maximum of 40 % of the production. All new routes would go, however, into competition. The tendering would not be started before 1995. The new contract included also reduction of the compensation level for the non-tendered production/routes.
In 1995, before any final decisions concerning the tendering, TLO made twice a proposal to the PTA to lower the compensation level and to postpone the start of the tendering after the contract period, to the year of 2000. In the second proposal TLO also included some new features concerning the regional bus service. By these changes TLO promised some savings to the municipality for these routes. Furthermore, the compensation level for all production would be lowered by 3.5%. The proposal was accepted by city government and a new, additional contract was signed in September 1995. The aim of the additional contract was to postpone the start of the competition. The contract was grounded on faster savings to the municipality than it could achieve by tendering the production. The contract did not, however, prevent tendering of new routes.

The public transport strategy paper was accepted by the PTA board in June 1997 and by the City Council in May 1998. The strategy finally defined was that the City of Turku would move into competitive tendering. The next step in the process was a tendering of a route on a net cost contract basis, which was allowed by the additional contract. One of the bidders was TLO, which was at that time, in 1998, a limited company owned by most of the local bus operators in the Turku region. TLO won the contract but one private company, which was not an owner of TLO, made a complaint to the Competition Council, which rejected the PTA decision. Furthermore, the competition board stated that TLO is a cartel, which forbids price agreements. This decision created a situation where the contract between TLO and the City of Turku was invalid and the City of Turku got instructions from the Finnish Competition Council to arrange competitive tendering as soon as possible.

In this new situation the City of Turku negotiated an acceptable timetable with the Competition Board. According to the agreement all the contracted traffic production had to be put into competition in three parts; the first with traffic start at 1.5.1999, the second with traffic start at 1.10.1999 and the third with traffic start at 1.5.2000. In the tendering process also 40% of the traffic production of the municipal TuKL had to be put into competition.

It can be stated that the final pressure to the City of Turku came from outside, from the Competition Council. Without it there would have been at least some efforts to change the taken decisions and to postpone or to avoid tendering.

Barriers encountered

Before 1991 the main barrier to change were the route authorisations for TLO, which made it impossible for the City of Turku to negotiate a public transport contract with any other operator than TLO. After 1991 the competitive tendering became possible. TLO was clearly against the competition and lobbied effectively the key politicians.

Because the public procurement legislation was new there were a lot of unawareness in 1994 what this legislation combined with the amended public passenger transport act would mean in practice. This could be regarded as one barrier of change on PTA’s side. The second barrier on PTA’s side was that there was no long-term plan of public transport in Turku. The PTA officials thought that there should first be a long-term plan for public transport and that tendering would then be adjusted to be a part of the implementation of that plan.

One special barrier to change can be found from the long tradition of municipal public transport in Turku. TuKL had been founded in 1890 and it can be seen as an institution in Turku. It was generally realised that TuKL was not ready for competition but, as an institution, nearly all politicians and inhabitants wanted to see TuKL to produce traffic service also in the future. All decisions, which postponed the competition, were seen as positive decisions for TuKL and therefore the high costs of public transport were more easy to carry. For left parties the municipal workers in TuKL were also a very important interest group, that was clearly against the competition. Therefore it was easier for the left politicians to pay high compensation to private entrepreneurs when this, on the other hand, calmed down or prevented the discussions on e.g. privatisation of TuKL.
From provincial and fractional reasons it was also quite generally accepted that local entrepreneurship should be protected against big national or international public transport companies. This argument can be seen as a very effective argument, which explains that majority of political decision-makers so often decided not to open the market for competition.

**Tools applied**

The final decision of tendering was not a political one because it was made by the Competition Council, a special court to handle competition issues. Because the city of Turku was obliged, after an order from the Competition Council, to make the decision to tender it can be said that a legal process as a tool for change appeared to be the most effective one.

The PTA’s long term plan, the public transport strategy for 1997 – 2003, which gave a framework for developing public transport in Turku, could be seen as a very important tool when the Competition Council’s decision was implemented. It helped greatly to reach the aims of the reform that were developed during the process 1993-98.

The city of Turku, as an owner of a public transport operator tried to soften the effects of tendering to TuKL by guaranteeing a job to every employee of TuKL if he or she cannot find a job in one of the winning companies. This procedure can be seen as an important tool in political sense. This compromising was successful also because at the same time when TuKL lost normal bus service it got new service routes that were presented in public transport strategy. On the other hand the re-organization and cost cutting at TuKL were only partially successful.

The lobbying done by TLO was a success for 4-5 years until the decision of the Competition Council. It gave the small operators time to develop their economy and to prepare them to the change. Lobbying local politicians did not appear to be a right tool to attain the goal to stop the change because the decision was made in a national court.

For the small member organisations of TLO the ability to co-operate and to form consortiums in bidding was a vital tool to survive in the first phase of competition. From the PTA’s point of view this co-operation could be seen as a good tool to attain the goal of a competitive market that has numerous different type and size of players.

The so-called Lonka-agreement between trade union formed clear rules for the bus drivers how they can move from the losing operator to the winner. This agreement decreased and softened the social consequences of tendering.

**Actual/ current situation**

In years 1998-2000 80 % of urban transport has been tendered in Turku. Tendering on gross cost basis is now a normal form of organising public transport and there are now plans to change this. The remaining 20 % of bus service are operated by the municipal TuKL as “in-house operation”. The future of this service is still unclear because at moment there are no decisions to change this situation.

**Future plans**

No real future plans are identified for Turku.
9.5 France

In the field of urban public transport, the process of change during the last two decades in France may be summarised as follows.

In the early eighties, the law “LOTI” initiates the decentralisation through a new share of responsibilities between the State and the local authorities: except for the particular case of the Ile-de-France Region, the organising authorities for urban public transport are henceforth Communes and associations of Communes. As regards financing of urban transport, use of the revenues (fares, taxes, etc.) is therefore left to the initiative of the local authorities, which have a wide margin of manoeuvre within the set framework. As another consequence of the law “LOTI”, more flexibility in contract procedure should be noticed, because the law removed the obligation to choose one among a limited number of model contracts.

During the nineties, an evolution of public-private partnership can be observed, as well as the development of private participation, though operations fully financed by private capital are still very rare (in most operations, the organising authority is still responsible for almost all of the investment payments). The renewal of franchise contracts is another characteristic of the nineties: for the past ten years, the number of French urban public transport franchises has increased more than in any other European country. During this decade, as well, the law “Sapin” (1993) introduces the concept of competition through the obligation of publicity in public tendering procedures.

Voted recently, two laws may have significant implications as regards urban transport:

- The law on the quality of the air (1997) makes it compulsory to work out a “Plan of urban displacements” within every agglomerations of more than 100 000 inhabitants (including the Ile-de-France Region); as the “urban perimeter” used for the “Plan of urban displacements” does not coincide systematically with that of the organising authority in place, this law potentially can lead to the emergence of “second level Organising Authorities”.

- Accepted in 2000, the SRU law modifies the financing system as well as the “contractualisation system” within the Ile-de-France Region (as another consequence of this law, let us notice that it will facilitate this emergence of “second level Organising Authorities”).

Important remark about the IDF Region (= Ile-de-France Region):

Owing to its size (10.8 million inhabitants, or 19% of the total population of France), and because of its importance within the French economy (28% of GNP), the IDF Region which includes the French capital has always been treated as a special case. So we do throughout the present document, where we make a distinction between the “IDF Region” on one hand, the “province” (i.e. the rest of the country) on the other.

La Rochelle

In the early eighties, the law “LOTI” initiates the decentralisation through a new share of responsibilities between the State and the local authorities: except for the particular case of the Ile-de-France Region, the organising authorities for urban public transport are henceforth Communes and associations of Communes. As regards financing of urban transport, use of the revenues (fares, taxes,…) is therefore left to the initiative of the local authorities, which have a wide margin of manoeuvre within the set framework. As another consequence of the law “LOTI”, more flexibility in contract procedure should be noticed, this law having removed the obligation to choose one among a limited number of model contracts.
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- The law on the quality of the air (1997) makes it compulsory to work out a “Plan of urban displacements” within every agglomerations of more than 100,000 inhabitants (including the Ile-de-France Region)
- Accepted in 2000, the SRU law modifies the financing system as well as the “contractualisation system” within the Ile-de-France Region

9.6 Germany

In the field of public transport the past was characterised through closed markets. With the exception of a few individual cases, no access to the railway market existed for other operators in both German states. The local transport was dominated by monopolies of publicly owned operators based on authorisations. Formally these authorisations were subject to the revolving competition procedure based on market initiative. However, by reason of the historical growth of the financing systematics there was very little pressure for competition. A unique situation arose in the region of the former GDR. Firstly, the rail infrastructure was particularly ailing in those areas. Secondly, since re-unification patronage has decreased considerably.

A turning mark in the direction of openness to competition was initiated by the legislator through the railway reform package (“Bahnreform”) including the following parts.

- Both national railways (DB/FRG; DR/GDR) were merged, removed of debts and transformed from authorities to private legal form as the DB AG. Market organisation was changed from authority initiative to market initiative with additional tendering of non-commercial services. Every network operator has to allow competing operators free access to essential facilities, i.e. the railway infrastructure.
- The “Regionalisierung” (regionalisation - a form of decentralisation) began at the same time the federation provided the states with means of financing local transport services. With regard to services which are in the public interest, the states conclude contracts with railway transport operators. Few contracts were awarded through competitive procedures.
- With regionalisation, on the municipality level (light-rail, bus, metro) and on the level of regional bus services the legal guidelines were brought into line with the amended EC law. An additional pathway of market access through authority initiative for non-commercial services was introduced. Market access is legally open. A reform of the structure of financing did not take place, so in practice the changes have not been substantial.
In the past local transport in Germany was already characterised by a relatively high degree of integration. From the early 60s until the 90s numbers of public transport associations and public transport executives had evolved. These ensure integration across the barriers of operators, PT modes and competent authorities.

Further implementation of competition is politically disputed. Nevertheless, a stronger market opening even in respect of municipalities is generally expected. The operators are preparing themselves intensively for the forthcoming pressure of competition. The major part of the Public Transport associations (owned by operator companies) have been re-founded as Public Transport executives owned by the competent authorities (e.g. Hamburg, Frankfurt). The Public Transport executives are carrying out competitive tendering procedures and are also intensively preparing themselves for the demands of the new situation. Unfortunately, it remains a problem that the financing systems have not yet been brought into line with competition.

Further reforms in the railway sector are discussed, especially separation of infrastructure and operation of railway services.

München,

Other operators than the state owned had no access to the railways in either of the German states. The remaining local transport was dominated by concession monopolies. Formally these concessions were subject to the revolving competition procedure. However, by reason of the historical growth of the financing systematics there was no pressure for competition. A unique situation arose in the region of the former GDR. Firstly, the rail infrastructure was particularly ailing in those areas. Secondly, since re-unification patronage has decreased to a high degree.

A turning mark in the direction of openness to competition was initiated with the railway reform package. With this reform both state railways (DB/FRG;DR/GDR) were removed of debts and were refunded in private legal form as the DB AG. Since the reform every network operator has to allow competing operators free access to the rail infrastructure.

The regionalisation (a form of decentralisation) began at the same time the federation provided the states with means of financing local transport services. With regard to services which are in the public interest, the states conclude contracts with railway transport operators. Few contracts were awarded in competition.

With regionalisation, on the municipality level (light-rail, bus, metro) and on the level of regional bus services the legal guidelines were brought into line with the amended EC law. A reform of the structure of financing did not take place. The political intend to achieve that all conventional forms of financing of local transport should be capable of being employed in the future.

In the past local transport in Germany was already characterised by a relatively high degree of integration. From the early 60s until the 90s numbers of associations had increased. These ensure integration across the barriers of operators, taskcarriers and system.

9.7 Ireland

The public transport system in Ireland has been remarkably stable in recent years compared to other EU countries. Public transport services are predominantly provided by companies in public ownership with central government revenue support. There are three operating companies in public ownership including Irish Rail, Irish Bus and Dublin Bus. These companies have in effect a monopoly status in relation to bus and rail. However, the present Government has recently (August 2002) put forward proposals for a new institutional and regulatory framework for public transport covering rail and bus modes. In particular, the
proposals involve increased private sector involvement in the public transport system together with changing the status of the publicly owned companies as independent companies and introducing an independent regulatory body. In particular, there are detailed proposals concerning the regulatory framework for the bus market in the Greater Dublin Area involving increased private participation in the operation of bus services mainly through introduction of competitive tendering procedures (possibly combined with some licensing). All proposals are currently under discussion with the affected stakeholders and their response is expected in the early Autumn 2001. The Government’s approach is to achieve consensus regarding the reform initiative that may imply a delay to the timetable for the implementation of the various elements. However, the Government has already enhanced the possibility for private sector participation in the Dublin Bus Market through adopting a less restrictive approach in their assessment of application for bus passenger licenses from private bus operators. The CIE bus companies are now required to notify the Department of Public Enterprise about service changes (including new services) to prevent that they preempt applications for bus passenger licenses from private operators. The recent allocation (July 2000) of 11 new licenses for bus routes in the Dublin area to private operators is in line with the revised procedure. These licenses represent a significant increase of the presence of license holding private operators in the Greater Dublin Area (before the new licenses there were 17 private operators).

The changes are put forward within the context of a major public transport infrastructure investment programme being set out in the National Development Plan 2000-2006. Approximately, £ 2.2 bln will be spent on a range of different public transport projects over that period. This has been followed up in the Dublin Transportation Office’s transportation strategy where the need for significant investment in transport infrastructure is identified. These changes reflect the important economic and social changes that have taken place in Ireland during the last decade. Strong economic growth in Ireland concentrated in Dublin and the South East Region has generated increased traffic levels. In Dublin there are now significant congestion problems and other major urban areas may face similar problems. The problems have been worsened due to a deficient transport infrastructure and lack of investment in public transport until the Mid Nineties, see Joint Committee on Public Enterprise and Transport (1999). Continued growth in traffic is anticipated over the next decade. It should be noticed that a number of schemes in the National Development Plan will be structured as Public Private Partnerships. In particular, light rail schemes in Dublin (LUAS and METRO) will be developed in this way, thereby contributing to increase the involvement of the private sector in public transport. A Railway Procurement Agency will be established to procure the implementation of rail and other public transport projects, mainly on a PPP basis. The proposed institutional changes together with the investment programme aim to revitalise public transport in order to ensure the basis for sustainable economic growth across Ireland and promote social cohesion.

Over the last five years significant work has been undertaken with respect to the development of public service contracts between the state and each of the three publicly owned operating companies, see e.g. Parliament of Ireland (1999). These contracts were in principle ready to be introduced in the Autumn 1999 (at least for Dublin Bus). However, the Attorney General advised that such contracts would require legislation. Therefore, the introduction of public service contracts will now take place as part of the implementation of the new regulatory and institutional framework for public transport.

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9 Peak hour speeds on radial roads reduced from 22 kph in 1991 to 14 kph 1997 (Department of Public Enterprise (2000b))
Dublin

Traditionally, the public transport operators have the right of initiative, although strict regulation of entry has been applied. In Aug. 2000, a series of reform proposals for public transport in Dublin as well as for the rest of the country were put forward by the Government. In particular, there are plans about introducing competitive tendering in the Greater Dublin Area and privatisation of Dublin Bus. The plans will imply a move to a system based on authority initiative where the authority defines the level of service and quality and then ensures the procurement of this level of public transport from operators. However, these plans are still at the discussion stage.

Past situation

Right of initiative

The public transport operators in the Greater Dublin Area (GDA) have the right of initiative, although strict regulation of entry has been applied until Dec. 2000. Public transport services are predominantly provided by the three publicly owned companies: Irish Rail, Irish Bus and Dublin Bus. They are organised within CIÉ (owned 100% by the State). According to the laws Dublin Bus and Irish Bus are not allowed to initiate services in each other’s area. Private operators have the possibility to initiate public transport services, provided a license has been given. The regime is legally based upon market initiative, but in practice private operators exist only on a very limited scale so the three authority-owned companies virtually enjoying a monopoly in the public transport market in Dublin. Furthermore, the CIÉ companies enjoy considerable autonomy concerning provision of current services as well as new services. Irish Bus and Dublin Bus subcontract only a limited proportion of the services and there are examples of services being provided in the other company’s domain for both companies.

Selection of operators

The roles of the three CIÉ public transport operating companies are set out in the 1986 Transport Act. The covered area and the service a company can provide are clearly defined. The Department of Public Enterprise has a licensing (authorising) function as the Minister has the authority to issue licenses to bus companies in cases where they apply to provide public transport services under the Road Transport Act 1932. It should be noticed that the CIÉ bus companies do not require a license. Autonomous market entry is legally possible but entry has only taken place on a very limited scale because the Department of Public Enterprise in assessing license applications under the Road Transport Act, 1932 considered that Irish Bus and Dublin Bus provided an adequate service.

Role of authorities in terms of control on operators

Central Government (Department of Public Enterprise) is the authority responsible for the direct control of the public transport including the CIÉ companies and the few private operators. Local authorities have no role in terms of control on operators according to the laws and regulations. In practice, however, local authorities have an indirect influence on public transport through controlling land use planning and traffic management. Furthermore, local authorities in the Dublin Area are being consulted on strategic public transport decisions.
Role of authorities in terms of subsidisation and financing

Central government provides an annual subsidy to ensure that CIÉ is not significantly loss-making. This subsidy level is decided by central government within the overall Budget and may not match the difference between revenue and costs. The CIÉ Board decides on how the annual subsidy will be allocated among the three operating subsidiaries. There is no transparent link between subsidy level and level of service provided. Funding of public transport investment schemes can come from three main sources, including Irish Government, the CIÉ companies and EU Structural Funds. The actual subsidisation and financing regime corresponds to the framework established in the laws and regulations. From time to time the State has given CIÉ financial targets to achieve. The usage of EC funding towards purchase of new buses is recent; for many years buses were ineligible for EU aid as they were regarded as mobile assets.

Strategic – tactical – operational decision-making

The laws (Transport Act, 1986) allocate substantial powers to the CIÉ Board and the CIÉ public transport operating companies in the strategic-tactical-operational decision-making. The powers are also given to the Department of Public Enterprise, which relate mainly to the strategic level in relation to public transport policy although there are also provisions for influencing tactical elements, including decisions on fares. In practice the Department of Public Enterprise is responsible for the supervision of CIÉ including regulatory aspects and policy decisions in relation to public transport. Although the central government can give directions to CIÉ the company enjoys in practice substantial autonomy in terms of deciding on what level of public transport service is provided and where. The Government controls fare levels, the CIÉ can suggest fare level changes but such changes need to be approved. Furthermore, local authorities and other interested parties within the Dublin Area are consulted on a non-statutory basis concerning development of strategy for public transport. The CIÉ public transport operating companies also co-operate with local authorities regarding services provided and invite customers to put forward ways to undertake service improvement.

Contractual relations and monitoring

The contractual relations and monitoring arrangements between the State and CIÉ is based on the State’s 100% ownership of CIÉ. CIÉ owns wholly each of the CIÉ public transport operating companies. Such contractual relations and monitoring follow the provisions in the Transport Act, 1986. Recently, the CIÉ public transport operating companies have set up customer or passenger charters, where monitoring of operating performance is reviewed in accordance with the specifications included.

Triggers for discussion on reform and main elements of change

In 1999-2000 a review of the institutional and regulatory framework for public transport in Dublin as well as for the rest of Ireland was undertaken. A series of reform proposals were put forward by the Government (Department of Public Enterprise) during the Summer and Autumn 2000. The main factor behind the plans is associated with the need to solve the significant traffic congestion problems in Dublin and other major urban areas. These problems have arisen due to increased traffic levels and transport infrastructure deficiencies. Other factors include:

- Need to promote sustainable transport patterns
- Need for funds to improve public transport
• EC initiatives with respect to public transport regulation
• Perceived benefits of competition
• Perceived benefits of independent regulation

**Intended transitional path and preferred situation**

**Intended transitional path**
A series of measures have been proposed to ensure the smooth transition from the past situation to the preferred situation. The main measures in the government’s consultation document include:

- The establishment of Dublin Bus and Irish Bus as separate, independent companies with the right to operate transport services in each other’s area;
- Definition of public transport service provision standards by the State (through the Minister for Public Enterprise) rather than by the CIÉ;
- Public service contracts between the State and operators whereby public transport provision is procured (but not necessarily produced by the publicly owned operating companies);
- Competitive tendering of bus services in the Greater Dublin Area (to be organised within a franchising model);
- Division of Irish Rail into two separate companies with one responsible for railway infrastructure and the other responsible for the operation of railway services;
- The possible dissolution of the CIÉ holding company;
- Establishment of an independent institution with the function of procuring major infrastructural projects on a PPP basis;
- Independent public transport regulatory function;
- Independent railway safety regulatory body.

**Preferred situation**
The main aims of the reform proposals of public transport are to contribute to achieve improvements in the public transport services in order to increase the attractiveness of public transport to the car. To achieve such aim, several reform plans are proposed to enhance the PT performance.

**Right of initiative**
The reform proposals will involve the move from a (legally based) market initiative system to a system predominantly based on authority initiative where the authority defines the service level and quality for the public transport network and ensures the procurement of this level of public transport. This public transport service standard should be defined for all
modes of public transport including bus, light rail (not in operation yet), metro (not in operation yet) and Dublin suburban rail (but not mainline rail) on an integrated basis. The definition of a public transport service standard will be the responsibility of a proposed new strategic transport and land use planning body.

Selection of operators
Selection of operators in the proposed new framework will be based on the State procuring the provision of the public transport service standard mainly through competitive tendering in the case of bus services (a franchising model) and also through public service contracts. This will include increased involvement of private operators. Irish Bus and Dublin Bus will be allowed to compete in each other’s area. The introduction of competitive tendering will be phased in over a transitional period. Selection and regulation of operators will be the responsibility of the proposed strategic body (see above). The CIE public transport operating companies will be set up as independent companies and the State may divest from one or both of the bus companies. Irish Rail will be split in two companies: one responsible operations and one responsibility for infrastructure.

Role of authorities in terms of control on operators
The reform proposals involve changes concerning the role of authorities with respect to control of operators. A new Greater Dublin strategic body is proposed to be set up under the Department of the Environment and Local Government although the body will also have functions relating to the Department of Public Enterprise. Although this body will be placed under central government the proposed structure a somewhat strengthened local authority involvement in public transport planning through representation of local authority elected members and managers at the proposed council of the body.

Role of authorities in terms of subsidisation and financing
The State’s financial support for public transport services in the Dublin Area should be provided on a contractual basis, specifying the payments to be made for a defined quantity and quality of services (with contracts being awarded as far as possible by tender). Public private partnerships are to be used to procure major new public transport infrastructures in Dublin, including the light rail and metro networks and any new suburban rail lines.

Strategical – tactical – operational decisions-making
In comparison with the current public transport framework the reform proposals would strengthen the powers of the authority in relation to the strategic and tactical dimensions. The authority will decide on:

• Mobility and accessibility standards (strategic level)
• Definition of public transport service standard (strategic level)
• Fares (tactical level)
• Routes (tactical level)
• Time tables (tactical level)
• Vehicle type (tactical level)
In addition, the State would manage, directly or through a third party, the integrated fares and ticketing system as well as passenger information system (which relate to operational aspects). There may even be requirements concerning driver standards. The scope for operator influence will therefore mainly concern the operational level. It is not clear the possibilities operators will have for influence in relation to the tactical level, e.g. through flexibility in the public service contract in order to encourage operators to perform well.

**Contractual relations and monitoring**

Contractual relations between the proposed strategic land use and transport body and public transport operators will be based on the public service contracts covering a detailed list of items including service standards and payment. The details to be included in the contracts are not identified yet. Furthermore, at this point it is still being considered the most appropriate contract form (e.g. gross vs. net cost contracts). Monitoring of operators will relate to the service standards specified in the contracts to ensure an effective enforcement and of compliance with the terms of the contracts, agreements and licenses.

**Actual transitional path: barriers encountered and tools applied**

The reform proposals are currently being discussed in the Public Transport Partnership Forum established in June 2000 where authorities, operators, trade unions and other parties are represented. It is being emphasised from the Government that the reform of public transport organisation and regulation should build on partnership and consensus. Some delay has been experienced as the result of the negative assessment of elements of the reform package, mainly referring to the privatisation of Dublin Bus and to lesser extent the opening up of the public transport market to alternative operators.

**Barriers encountered**

A number of barriers to achieving the aims of change have been identified, including:

- Agreements between stakeholders
- Position of personnel in CIÉ companies (in particular the CIÉ Holding Company)
- Modal relations and integration
- CIÉ restructuring
- Access to public transport infrastructures (depots, terminals etc.)
- Specification and setting up of details of regulatory framework
- Cartel formation in the public transport market
- Finance availability for procuring improved public transport services
- Trade union opposition
- Political will
- Attitudes towards privatisation
Tools applied

*Regulatory changes (system level)*

New relaxed guidelines (from Dec. 2000) concerning licensing of operators of public transport services to facilitate entry of new operators through a changed interpretation of the provisions in the Road Transport Act, 1932, concerning the judgement of whether public transport is already adequately provided. The CIÉ bus companies are now required to notify the Department of Public Enterprise about service changes (including new services) to prevent that they pre-empt applications for bus passenger licenses from private operators.

*Organisational changes (system level)*

Creation of Railway Procurement Agency under the Transport (Railway Infrastructure) Bill 2001 to secure the provision of, or to provide, metro and light rail infrastructure. Staff formerly working on the LUAS project (Light Rail Project Office in CIÉ) will be transferred to the Agency.

*Actual/ current situation*

Because there has been very little change until now, the actual situation of the LPTS in Dublin is very much the same as that described in Section Two. Nevertheless, there are several differences. First is the strengthened position of alternative operators on the basis of new guidelines for passenger service licensing. Second is the increased possibility for private operators to provide bus services through licensing and subcontracting by Dublin Bus and Irish Bus.

It is foreseen that there will be very strong barriers to change, so whether and how the change will take place remain to be seen.

*Future plans*

As stated before, the plans imply a move to a system based on authority initiative where the authority defines the level of service and quality and then ensures the procurement of this level of public transport from operators.

9.8 Poland

The present state of urban transport in Poland is the result of social and economic transformations of the country, which started at the end of the 80’s. Various managing solutions and different organising and legal forms of companies that occur in practice have resulted from municipalities’ different approaches to the task of ensuring urban transport service in their area. In the present situation some regularities of the systems can be distinguished. The regularities enable us to present a cause-and-effect description of distinctive changes of public transport management. Theoretical considerations will be illustrated by examples of differently shaped organisation of transport in two Polish cities – Warsaw and Poznań.

The substantial differentiation of transport in urban areas and outside them is a specific feature of public transport in Poland. This is the result of the past – the period of the central control of the socialistic economy. In this time Provincial Transport Companies (Wojewódzkie Przedsiębiorstwo Komunikacyjne - WPK) were made responsible for public transport in cities and adjoining areas and State Company of Car Transport (Przedsiębiorstwo Państwowej Komunikacji Samochodowej - PPKS) was to deal with
regional bus transport. The above differentiation – although formally abolished - is still the reason for the disintegration of the systems of urban and local transport. This disintegration is deepened by the functioning of railway transport in the structure of a monopolistic railway operator – Polish State Railways (Polskie Koleje Państwowe - PKP) – independent of municipal and regional administration.

The programme „Maretope” focuses particularly on the issue of urban transport. Therefore, the crucial matters concerning regional transport are presented only as the setting or the supplement to the essential problems.

Since 1989 radical changes in organisation and management of urban transport took place in Poland. They were caused by structural transformation, which consisted in leaving the socialistic, centrally controlled system of economy management and turning to market. Changes also included the sphere of public transport management, which functioned according to socialistic rules till 1989. The first half of the 90’s succeeded in considerable decrease of passenger’s number in demands and simultaneously in liberalisation of the market of services in supplies. The whole burden of urban transport financing was transferred to local governments, who as responsible for the functioning of urban transport in their areas, were searching for such managing solutions which would ensure higher effectiveness of public transport.

Another turning point in urban transport management in Poland can be observed since 2000. The perspective of close membership in EU protrudes the meaning of market element in management. Therefore, the municipality gradually turns to the separation of organisational and operating activity in urban transport and to the introduction of competition in the sphere of operating.

**Poznan**

The case study of Poznań discusses two phases of serious change in the field of public transport. The most advanced change evidently is connected to the political revolution, the transition from the central planned socialist economic system to the post-socialist, market-oriented phase, which implied a “process of urban transport degradation” and lasted from 1989 – 1994. The second stage was a phase of learning and awareness of the importance of public transport issues and can be characterised as phase of “formulation and choice of sustainable transport development policy”. It started from 1994 and lasted until 2000. The current situation may be seen as the logical consequence of the past trends. The operators have become more independent, the first large purchases from the operators revenues were made.

**Past situation**

**The Past**

Before 1990 the public transport in Poland had been organised and financed on the level of the central state. Private operators were not allowed and not seen in this period. The essential change in the matter of public authorities’ responsibility for urban transport was brought by the constitutional reform from the beginning of 1990. In Poznań the planning and production of public transport services was handed over to the public-owned local service company MPK (Miejskie Przedsiębiorstwo Komunikacyjne), which was until May 2000 a company depending on the public budget. The regime was legally based upon authority initiative. So effectively no private action was possible. Usually the initiative (e.g. extension of lines, services etc.) came from the operational part of the public-owned company MPK and its experts. In Poznań only the local company MPK had the right to operate bus services and no competition existed.
The national fare system was determined by central decisions at the transport ministry, which had the general power to determine a national tariff and fare system. The central budget was the source of financing for the operation of urban transport and more important investment decisions were also taken at minister level.

Hence, the service level was being created mainly under the influence of administrative and political and not market decisions. The demands and the effectiveness of particular urban transport systems were not analysed. The main planning task had been the service from and to the big industrial areas and the big companies. Every other criterion for traffic planning (quality!) had secondary importance.

**Triggers for discussion and main elements of change**

The main trigger for the reform of the public transport sector in Poland (Poznań) was due to two special situations:

- the slight beginning of decentralisation of financial expenses already in 1988,
- the political revolution in 1989, which turned the central planning economy into a regionalised and decentralised system.

In a certain respect it was the national policy to exempt the almost bankrupt national state from any financial expenses in public transport (except the railway sector). On the other hand, it also had become a common political knowledge that public transport could be organised in the most adequate way on the regional and local level.

The initiators of the reforms had been the regional and local public transport bodies themselves. After forty years of dependence on the central planning economy with a lot of disadvantages the public transport sector headed for positive and self-determined opportunities. Regarding the role of public transport in the political context, one could get the impression that public transport had been totally forgotten on the strategic-political level.

**Intended transitional path and preferred situation**

Aims of the reforms were as follows:

- Transferring the responsibility from the central state to local and regional entities,
- Maintaining the ability to fulfil public service obligations,
- Managing the estate of urban transport companies in a modern way and accepting given solutions in organisation and management,
- Getting prepared for a potential membership in the EU and thus starting the adaptation of laws,
- Reducing public costs.

The main aims of the reforms were the reduction of inefficiencies in public transport production, the increase of the attractiveness of public transport compared to the car, and the reduction of air pollution. The involvement of the authorities had to be reduced and the freedom of operators in designing services had to be guaranteed. Another issue was the protection of labour rights.
The idea of a locally financed urban transport required a totally new attitude towards the customer. In order to be able to compete with private transport (privately owned cars) MPK Poznan had to renew its fleet that required costly investments. In general efficiency became an important issue. Another new aspect became pollution control. All these factors were helping MPK to prepare for competition on the operator level.

**Actual transitional path: barriers encountered and tools applied**

The essential change in the matter of public authorities’ responsibility for urban transport was brought by the constitutional reform from the beginning of 1990. In the parliamentary Act on territorial council from 8th March 1990 the responsibility for urban transport was assigned to the municipalities.

Another important milestone had been the law concerning the grant of social induced discounts by authorities. According to the Act of 24th July 1998 on the change of some acts defining the competence of public administration organs, the authority that requires discount fares or free of charge trips is obliged to refund the losses caused by these concession fares to the operator (the organiser of transport).

The entry regulations into the industry were relaxed: the newly given possibility to get a licence as public transport company emerged. The local and regional entities being financially responsible are free to decide their favourite model of transport organisation and ownership of the public companies. Some municipalities followed a special competition strategy to lower public expenses. The competition leads to rationalisation of the expenses of transport services and, if well prepared, to the optimisation of the services’ quality. In 2000 Poznań chose as optimal the attitude of separation of the organising and operating functions and MPK changed its form to a private limited company.

Due to different political priorities and due to the estimation that the profound knowledge remained at the operators level, responsibility for organisation and planning was transferred to the state run operator. Until 2000 no explicit contracts between the city of Poznań and MPK had to be closed due to the special role of MPK as authority and company at the same time. The changes of legal framework in 1990 created a special situation in respect to the municipalities outside the boundaries of Poznań which served until then. For the neighbouring municipalities the form of MPK as a company dependent on the budget of the city Poznań was unattractive. A company dependent on a city’s budget does not usually carry on marketing researches, so the necessary level of dotations is assigned for the whole network. In Poznań region the neighbouring municipalities were convinced that the share of income on ‘their’ lines is higher than the average for the network. Moreover, they considered the level of costs of the monopolistic operator too high.

The decision of the political bodies from the rural villages around Poznań not to accept the Poznań based operator any more and to look for different solutions of transport organisation. The villages around Poznań formed co-operations in order to organise their public transport system.

Another change took place in 2000, when every public company had to be transformed from a public body into private-like organisation.

For the situation in Poznań changed after the reform steps taken in 1990 in respect to financing, Poznań got responsible for its public transport. The central financial aid was transferred from the province. Another, already mentioned, important fact turned out to be the refusal of the municipalities services outside the boundaries of Poznań to accept the financial conditions of MPK.
Main barriers to change and their role
In the first phase of transformation process the applied shock therapy of total decentralisation and state responsibility withdrawal caused worsening of the urban transport situation. The low quality of services was a big hurdle to overcome by competing with the very fast growing number and role of private cars. Additionally, the stop in the flow of financial means from the central level was not compensated by a comparable increase in means received by the local authorities. The municipalities had to search for money. The budgets had to be reduced drastically and a radical tariff increase followed.

In this difficult financial situation the transport authorities of Poznań began to improve quality and increased the efficiency of management. The tariff system had to be adapted to the new circumstances. The lack of money for fleet renewal and infrastructure made exploitation difficult and maintenance costly.

Actual/ current situation
In Poland the right of initiative today has passed to the local and municipal authorities. The authorities are required to develop a local / regional transport plan. The initiative for changes within networks or adaptations of the lines is shared by the authorities and the operators.

In the past the MPK acted in a form of a public body like company. This type of company implies that the responsibility for the organisation of public transport as well as the operation are given in one hand. In 2000 in Poznań the spheres of organisation and operation have been separated and the responsibility for the organisation was transmitted to the City Council. In practice the right of initiative is shared by the city council as formally responsible authority and the operator as deliverer of experience and practical knowledge.

Since 1990 the main requirement to enter a market is to obtain or bear a licence as public transport operating company. From an organisational point of view the authorities are free to choose the mode of operating contract and the operating company. In fact many municipalities are owners of their companies. The main objective of the council of Poznań is to keep up a well-functioning transport system for the customer. Thus, the city of Poznań will keep MPK as the one and only operator until competition is well-prepared. Since the splitting of competencies the authority is much more enabled to control and monitor the performance of the operator with respect to quality and costs.

The national authorities are now fully exempted from the responsibility for organising and financing public transport. The Parliamentary Act on territorial council from 8th March 1990 transferred the responsibility for urban transport with regard to organisational, planning financial and investment aspects to the provinces and the municipalities. The duty of the provinces includes the financing of regional bus service, rail services, and rail investments.

The duty of the municipalities includes the organisation and financing of the bus, metro and tram services. On the strategic level the city council is considering and setting the volume of the budget necessary for the subsidising operations and investments in infrastructure. On the tactical level the city and the local transport company MPK are responsible for decisions on rolling stock investments and the choice of vehicle types. General decisions on the forming of transport associations may be taken at the level of the transport authority of the city of Poznań.

The responsibility for the financing of the public transport system was transferred to the provinces and the municipalities in Poland in 1990. The national budgets spent on public transport before were not transferred together with the assigning of responsibility. This non-proportional transfer of budgets from the national to the regional level and the non-specified transfer of budgets from the region to the municipalities have caused severe problems to the
local authorities. The financial means are not sufficient to cover operating costs, investments in fleet renewal and infrastructure investments. Additionally, the regional level has to cover regional rail costs and to finance necessary investments entirely from the same national source.

Today the strategic level is generally covered by the planning of the municipalities or the provinces. The law valid since 1990 defines the responsibility for the entire public transport system. It is passed on to the local and regional authorities. Whereas in the past the state had the strategic, tactical and partly management rights, today strategic decisions are taken on the local and regional level only.

Future plans

In Poznań the operator MPK had been a public body-like company. This fact creates a special relationship between the municipality and the company owned by the municipality. In the future MPK will gain the economic freedom to plan investments and become a fully independent, competitive company.

The high degree of decentralisation in Poland is often criticised and the lack of concrete transport policy at the state level causes discontent. The first steps to change this situation have already been made in 1999 by the approval of the assumptions of the transport policy for the years 2000-2015 by the Economic Committee of the Council of Ministers (KERM). Nevertheless, until now it did not result in the formulation of a national transport policy.

In any case the change of legal framework and developments will be subordinated to the aspirations of Poland of joining the European Union in the near future. On the one hand, this may become a big challenge e.g. for Polish operators to compete with foreign operators. One possible preparation measure could be the consolidation of privatised Polish firms. On the other hand, the prospect of EU ascension has already positive impacts on the Polish urban transport leading to its modernisation and increased productivity. Many of the EU experiences are already successfully applied in Poland, for example in the field of quality management.

Spain

In the case of Spain there are at the national level no significant transition periods although there are some significant changes taking place at ‘lower’ administrations and operator levels. The reason for this seamlessly contradiction is the fact that the regional administrations in Spain are relatively more independent from national policies, than in most other European countries. Regarding several topics (Including regional and urban transport), the regional administrations are the authorities, which make the policies set the goals, etc. The National administration has, through its Ministry of Transport, Tourism and Communication, the orientation of the public transport systems and of each of the transport modes and the co-ordination of the other authorities. Only by the interregional rail mode services, mainly supplied by the operator RENFE, is the National Administration the direct responsible Authority.

The National Administration is in line with the European legislation transforming the public transport sector from a public initiative into a sector with more market forces. One of the tools of this transforming process is to change from a system with public service obligations into one with public service contracts.

The significant change identifiable in the past decade, at the national administration level, is the introduction of more formalised contacts, between the National and the different public transport authorities. These formalised contacts are institutionalised in the form of ‘Framework contracts’. The main reason of the introduction of these contracts is the wish of
the National Administration to get a clearer relation between the national financial contributions and the different performance indicators of the different public transport systems and its operators.

At the Regional Administrative level the significant change can be found in the creation of co-ordinating and integrating public transport bodies. This process is in general still in progress. Although the main guidelines for the organisation of public transport have been defined, they are not yet fully implemented.

**Barcelona**

Since the early nineties the central and the regional government have been in a process of formalising its relations (in all terms, organisational, financial, etc) with the different local authorities and autonomous bodies responsible for public transport. This change process in Barcelona is still in progress. Although the main guidelines for the organisation of public transport already have been defined, they are not yet fully implemented. This change process intends the creation of a metropolitan transport authority (ATM) and contemplates the transport sector in all its vectors with this new formulation.

**Past situation**

According to the legal framework the right of initiative is on the authority’s side. This means that only the authority can create services, and it is free to produce the services itself or to delegate it to others, enabling the authority to be both buyer and producer of services.

The relevant legal documents on public transport in the Barcelona region are the following:

- **At national level (with direct application to urban and metropolitan public transport):**
  - Law on National Regime Basis of 1985
  - Law on land transport regulation of 1987 (LOTT)
  - Royal Decree no. 1211 of 1990

- **These laws established at national level the obligations for the regions to provide the basic public services, satisfactory to communities needs.**

- **At the Barcelona regional level there are three PT organisation related laws:**
  - Law for Land Transport Regulation, 12/1987 (regional adaptation of LOTT);
  - Law 57/1989 on the juridical regime of concessions for regular public transport services;
  - Law 7/87 establishing and regulating special public actions in the Barcelona region and in the peripheral boundaries under direct influence of Barcelona.

Through the first law it’s possible to establish a consortium, formed by a group of municipalities, assuring the management of transport services. It resulted in the creation of the Metropolitan Transport Entity (EMT) a consortium of all 18 municipalities in the Barcelona metropolitan area. Through the second law public tenders were imposed and the third law defined its responsibility for planning, ordering and managing urban public transport services. Although there are legally three ways of selecting operators: no competition; public tendering; and Interest management contracts; in practice the latter two are only applied in minor cases.
The responsibilities at the different administrative levels for mobility services in the Barcelona area are distributed between the following governing bodies:

- National government, responsible for the national railways;
- Region, responsible for the regional railways, underground and inter-urban bus services at regional and metropolitan level;
- Municipalities, responsible for urban and inter-municipal bus services;
- EMT, a co-operative body (consortia) responsible for the control of public transport.

In practice, the responsibilities are not allocated in the same way. This specially concerns the distinction between the ones at the regional and the metropolitan level. The region has the control over the regional rail and is the only shareholder of the regional railway operator (FGC). Furthermore is the region responsible for the underground service. EMT is the only shareholder of Transports Metropolitans Barcelona (TMB). The latter is formed by two companies: Transports de Barcelona (TB), an operator of urban bus services and Ferrocarril Metropolità Barcelona (FMB), operator of the underground services. EMT also has competencies regarding the private urban transport companies operating urban bus services in the municipalities of the Barcelona conurbation. EMT acts within these relations as the concessioning and regulating authority, having the control over the operation, i.e. planning, definition and contracting of services.

Regarding the financing of the PT system was the region responsible for all infrastructures, vehicle and rolling stock financing schemes with public owned operators in their area. EMT gets its resources mainly from the revenues accruing from the application of a municipal tax on real estate. In addition a special financing for companies in direct management of EMT exists: e.g. TMB through a 3-year-framework contract signed by the region, the municipality of Barcelona and EMT. In this contract the amount of the financial transfers is calculated on basis of the number of passengers transported during the corresponding year.

The production and revenue risks are left with the operator, resulting in net cost based contracts.

Legally the decision making among the different authorities is divided as follows:

- The region is responsible for planning and organising the general public transport system, including the services offered by FGC, TMB as well as the regional part of the national railways (RENFE)
- Municipalities / EMT are responsible for the co-ordination of urban transport services within the territorial area of these municipalities;

In practice, EMT assures all the tactical and operational decision making within the area of the 18 municipalities. Strategic decision making is dispersed between the national state, the region and the municipalities.

The relations between the different actors are regulated through (program) contracts. These 4- or 5-year contracts are meant to establish some kind of network integration and financial stability for the operators.
**Triggers for discussion on reform and main elements of change**

Within the past situation, especially in the relations between the different authorities with the public operators, a dispersion of competencies between the different entities was felt. This dispersion led to a situation of a sub-optimal PT system with a lack of network integration. The EMT, as a supra-municipal administration, had an insufficient territorial coverage to build a competent framework: to plan, organise and co-ordinate the public transport system within the scope of metropolitan mobility. Furthermore a desire occurred to increase the role of PT as a competitor of the private car. This to achieve environmental goals and a modal share with an increased role for public transport. Last but not least a need occurred for a clear financing scheme centralised in one entity.

In order to overcome the above mentioned felt deficiencies it was clear that the creation of a new entity was necessary, that while covering the sufficient territorial area could integrate the different aspects of the Barcelona PT system. This new entity was supposed to take care of the following issues:

- Planning of infrastructure for all public transport;
- Planning of services and establishment of operating programs;
- Preparation and approval of a common fare framework within a financial policy;
- Agreement, together with the governing bodies on the services of the contract;
- Reaching financial agreements with the government;
- Collection of fare revenues for multi-service tickets and their distribution among the operators;
- Control of revenue, costs and investments of the participating;
- Carrying out administrative responsibilities regarding the management of services;
- Advertising, information provision and public relations;
- Establishing relationships with other administrative bodies.

**Intended transitional path and preferred situation**

On the 28 July 1995 an agreement between the region of Catalunya, the municipality of Barcelona and EMT was signed with the objective of creating the basis for the constitution of a new transport authority, called ATM (Transport Authority of the Metropolitan area). During the planning and design phase the situation described in the “past” section was maintained. Meanwhile studies / reflections were carried out with the purpose to define and establish ATM. Several working teams were formed, which had to develop the different studies. They obtained and provided a better knowledge of the actual PT situation, which enabled the preparation and implementation of the change. Studies carried out were e.g.:

- Mobility – studies on the evolution of the mobility to serve as basis for the services, infrastructure and investment planning;
- Fares – studies on the application of an integrated fare system and study on the technical and functional specifications for a ticket control system.
Finally the legal reform was outlined in the law 48/1997, which established formally the creation and the official start of the implementation phase of ATM. The new entity is constituted as an autonomous and voluntary based consortium for the public transport system responsible for the co-ordination of the public transport within the metropolitan area of Barcelona. Currently it’s formed by the region of Catalunya (51%), the municipality of Barcelona (25%) and EMT (24%). The national state has a role as observer in this entity. The idea was that in a gradual but consistent transition ATM was handed over by the different administrations, the initially to ATM allocated tasks and responsibilities. This process is however severely slowed down by a number of occurring barriers.

**Actual transitional path: barriers encountered, tools applied**

The “past” organisational framework, as mentioned above, was maintained during the planning and design phase. Only after the legal establishment the real change took place. ATM took over the contract program that existed between the Regional State and the TMB, the main urban bus- and metro operator and is supposed to take over gradually the other responsibilities from the different administrations. However a slow down appeared within the process. A broad range of (related) barriers were the cause of this, i.e.:

- Institutional barriers: mainly the role of EMT in the new organisational framework is unclear;
- Financial barriers: Lack of negotiating power for the ATM;
- Cultural (political) barriers: different political interests between the different administrations;
- Market barriers: differences between private and public operators keeps existing; and,
- Organisational barriers: caused by the institutional barriers it is difficult to enlarge the scope to the general Metropolitan mobility and on the actor level the organisation within ATM is somewhat unclear;
- Legal barriers: some necessary responsibilities and tasks, e.g. measures against fraud where legally not allocated to the new authority.

Several tools were developed and implemented (partly) in order to overcome the above mentioned occurring barriers. ATM to be able to strengthening its position within the organisational PT framework of the metropolitan region implemented the following tools:

- The infrastructure plan for 2001-2010;
- A public transport service plan;
- A metropolitan integrating fare system;
- Public tendering of new services.

At first sight these tools seem to be meant as an operational upgrading of the PT system. However the use these plans provide ATM a strong tool in the process of demanding and obtaining more strategic responsibilities from the other entities. Through the introduction of public tendering for new services the monopoly of the existing publicly owned PT operators can be broken. Furthermore gives the latter a strong signal to the existing operators to start preparing for a new, more competitive, PT environment.
Actual/ current situation

In the current situation responsibilities in the initial plans allocated to the ATM, are still divided between the following administrations:

- Region; responsible for the interurban bus services and owner of all rail infrastructures and the owner of the regional rail operator.
- Municipality of Barcelona; still partly responsible for the municipal PT transport
- EMT; Owner of TMB, administrative body for taxi services and responsible for PT contracts within its area;
- Central State administration; owner of the national railways
- ATM.

The complicated power framework of the Barcelona public transport system, where operators act almost as “appendices of the governing bodies” is changing to a situation where operators are moving towards a more market oriented company. The contract programs established between ATM and the public operators (e.g. TMB and with FCG in course) are step forward within this progress, as operators get more financial autonomy through these contracts.

In relation to the operators is ATM not yet able to collect enough information to plan and formulate overall strategies in the context of its whole area. Also on the subject of extension of contracting between ATM and all operators is it still unclear which direction to follow, mostly depending on the weight the different political pressures or external impositions will have in this process.

On the other side, in its relations with the administrations, ATM is still too dependent from the policies of the administrations: e.g. the fare setting of the ATM needs the approval of the pricing body of the regional administration. Secondly there exists a lack of negotiation power for ATM regarding the financing of the PT operations and also with the design of infrastructure programs is it to dependent from the wiliness of financing of the different, political differing, administrations.

On the other hand the existence of ATM enabled a share of decisions in terms of services and investments towards a more integrated system (Although with some concessions between parts). The existence of different panels within ATM (e.g. users, operators) together with technical committees’ enables a representation of different points of view. This resulted already in projects designed according to the cacophony of opinions, needs and views. The carrying out of a “mobility observatory” embracing mobility as whole is on its way, and some studies and statistics have already been collected, preparing the development of a global vision of the PT sector. All these aspects contribute to the stimulation of more competition between operators in terms of quality and/ or service and a more integrated PT system. Especially the new integrated fare system, implemented on the first of January 2001 was a cause of this.
On actor level signals are visible of publicly owned operators preparing for the expected more competitive environment, e.g.:

- Internal restructuring of operators through the creation of new divisions;
- Initiation of cultural change;
- Improvement of management information (e.g. activity costing).

**Future plans**

It is at the moment still unclear how the organisational framework will develop over time. Several aspects are still subject of the (political) discussion, e.g.:

- Which role is established for local authorities within this setting?
- How to introduce competition at the level of the main public operators?
- How to minimise the financial dependence of ATM?
- How to enlarge the scope of action of ATM from public transport to mobility in general?

The main idea is to enlarge the action scope of ATM, which implies a reduction of the competencies of EMT. This is especially issuing the handing over of the concessioning and contracting responsibilities. The intention is to strengthen the contractual base of the relation with the existing publicly owned PT operators. Finally it is envisaged to extend competitive tendering procedures to operators currently acting under direct management, for all new services (as it was the case of the new metro line and the tramway).

A plan currently discussed is to adopt a scheme based on transport and fuel taxes, as the current financing scheme is too depending on the definition of the investment needs by the operator on one side and on the financial contributions of the consortium participants on the other.

**9.10 Sweden**

From a fairly rigid system in Sweden where licensed operators had an exclusive monopoly, it has become a competitive tender system, operated since 1 July 1989. The most common principle today is that the county transport authorities are in charge of all planning, including design of the network, timetables and fares, but the actual operation is put out for tender. Tenders may comprise specific departures but mostly parts of the route network. Cost savings on tendered services have been in the range 5 to 45 per cent.

Over the last years the tendency has been to focus on quality aspects and incentives related to revenue or quality. Another tendency is that publicly owned operating bodies are sold out to private companies and that the number of competing operators, especially publicly owned ones, has been reduced. Not only bus services but also the operation of commuter train services in various areas and the underground in Stockholm have been procured.

**Helsingborg,**

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9.11 The Netherlands

In the Netherlands the process of legal change has recently been taking place, as one of the steps to come from a central organised and centrally subsidised system to a decentralised system with competition regimes for the concession.

Although the legal form of the system in the past was based on market initiatives, in practice all financial and many other items were decided on the level of the Ministry of transport.

In the nineties a process of decentralisation and introducing competition has been started. This lead to a situation with revenue risk for operators under a regime without competition. The new passenger transport act that came into force at January 2001 has set the framework towards further implementation of decentralisation and competition in Urban and Regional Public Transport (including branch lines of the railways) in The Netherlands.

First tenders have been taken place in 2001 and many other are being planned. In the urban rail systems (tram and metro) no tendering has been taken place yet, although the new law also requires competition here.

On the operators side two kind of changes were seen:

- The selling of a part of the VSN group (largest Dutch operator in regional transport) as result of the foreseen regulations on market disturbances (VSN was considered to be too large)
- The forming of publicly owned companies out of former direct operations by authorities followed by the selling of stocks to third parties.

It is foreseen that under the new regime, based on the initiative from the authority, tenders will be organised on subnetwork level following national tendering procedures that give some flexibility with regard to the choice of procedure. It is expected that revenue risk will be mainly kept at the operator's side and - as a consequence- some of the tactical instruments will also be left in their hands.

The Dutch authority has set objectives both with regard to the cost coverage ratio and the number of passengers (to go up). The process of changes has not yet lead to a reduction in subsidy level. Also the objective of attracting more passengers has not yet been achieved. Under the recently accepted new policy paper NVVP the objective of attracting more passengers has been reduced to specific submarkets, where public transport can contribute in reducing congestion. The rural market is now regarded to be mainly of public interest for social reasons.
Arnhem – Nijmegen

The Region of Arnhem/Nijmegen is located in the east of the Netherlands in the province of Gelderland and is known as “KAN (Knooppunt Arnhem-Nijmegen)”. The whole region has around 669,000 inhabitants with Arnhem (135,000) and Nijmegen (148,000) as the main cities. Including these cities, the region consists of 21 municipalities.

During the seventies and eighties public transport in The Netherlands got into a difficult position. Against the objectives of the authorities demand was not increasing. Moreover subsidies were on a level that was not considered to be acceptable in the long run. For these and other reasons a discussion started in the early nineties concerning the restructuring of the public transport sector. The real transition period started in 1996 with the start of a decentralisation process and a new financing system. These were the first legal changes, leading to a brand new Passenger Transport Law in 2001, introducing obligatory public tendering of concessions in the near future.

These national changes form the background of changes in the KAN-region. These changes started 1990 with the privatisation of the municipal transport operator of Arnhem, followed by the creation of the regional authority KAN and the new financing system in 1996, the change of the urban transport operator of Nijmegen (CVD) into a company under private law, and the development from direct contracting towards concessioning and public tendering in the near future.

Past situation

Before the transition period public transport companies were most of all in public hands and the market was regulated by the Passenger Transport Law, the Railway Law and a lot of subordinating regulations and decisions.

The legal basis was a market initiative system, with authorisation by national government (rail transport and regional public transport) and by the main cities (urban public transport). In the Arnhem-Nijmegen the following authorities were responsible for authorisation:

- Municipality of Arnhem: urban public transport in Arnhem;
- Municipality of Nijmegen: urban public transport in Nijmegen;
- Ministry of Transport: heavy rail transport, regional bus transport.

In practice only occasionally a new company entered the market. There was no competition in this ‘market initiative’ system. In the Arnhem-Nijmegen region both the urban transport companies in Arnhem and Nijmegen, and the Dutch Railways (NS) in heavy rail and Connexxion (former Oostnet) provided the public transport services as a historical grown situation, authorised by the responsible authorities.

- However all three companies in the Arnhem-Nijmegen region were in public hands:
- Urban transport companies in Nijmegen and Arnhem (shares belonged to municipalities of Arnhem and Nijmegen)
- NS (shares belonged to Central Government)
- Connexxion (former Oostnet) (shares belonged to Central Government)
The strategic decision-making was mainly in hands of the national government. They defined the general direction in which public transport had to go. The social function of public transport was quite important.

Arnhem and Nijmegen also had their own responsibilities in urban public transport. However, they had to respect the general guidelines of the national government amongst others with regard to financing. So there freedom in making strategic decisions was somewhat restricted.

Generally local authorities relied on the public transport companies in making proposals for the development of public transport services. In the KAN-region this was also the case. Therefore, practically all operators were quite free as long as they respected the general rules set by the law, by the Ministry and by the municipality.

The regional bus operators were directly paid by the Ministry while the main cities (like Arnhem and Nijmegen) got their part of the subsidy for public transport. The cities used that money for their municipal operator.

The Dutch Railways also got its subsidy directly from the Ministry of Transport. The financing system however did not follow the subsidy system for urban and regional public transport.

**Triggers for discussion on reform and main elements of change**

**Main elements that triggered the reform:**

**On national level:**

- Political tendency to stimulate market forces in public sectors
- Financial deficits by both NS and (most of all) regional and urban bus transport companies
- Liberalisation trend in the EU
- Decentralisation trend

**On local level:**

- The tendency (and up-coming pressure) to separate the role of client (municipality) and provider (operator) (Arnhem and Nijmegen)
- The wish to prevent congestion problems like the existing problems in the central and western part of the country

The national government was the key initiator of the reform. The Minister of Transport installed a commission, which had to develop recommendations to come to a more effective and integrated organisation of public transport, capable to deal with a growth in public transport of 100%. In 1990 this commission advised to decentralise public transport responsibilities to the regional level and to introduce a demand-oriented financing system based on the earnings of the companies. Another commission was installed and asked to develop the basic ideas of its predecessor. In 1993 the cabinet announced the so-called double-objective with regard to public transport: cost-coverage should increase to 50% and use of public transport has to grow.
The reform on regional level (region Arnhem-Nijmegen) partly followed the national initiatives. However, some triggers can be identified at regional level. The main trigger can be identified in Arnhem and Nijmegen where the authority wanted a more clear and business-like relation with its operator. In addition the decentralisation of responsibilities together with the financial deficits in public transport also have been a trigger for the KAN authority, although it should be underlined that this authority did not exist during the ‘past situation’.

**Intended transitional path and preferred situation**

The preferred situation from the national point of view comprises three aspects: first decentralisation of responsibilities to regional authorities, second the introduction of an output-oriented financing system and third the introduction of public tendering of transport services.

In the ideal situation the responsible (regional) authorities lay down their requirements in concession requirements and if necessary in an additional contract. Consumer organisations play an important role in controlling the quality of the provided services. All concessions should be tendered publicly.

With regard to the railways, the preferred situation will be laid down in the new Railway Law, which is being drafted at this moment. On the following items there seems to be consensus:

- The rail network will be split up into the core network and regional lines
- Dutch Railways will get a ten-years exclusive concession for passenger transport on the core network
- Regional lines will be publicly tendered by the regional authorities

The preferred situation from the KAN-region initially was different from the nationally defined one. Both authority and operators favoured a co-operation model more than the public tendering model. However, during the years this preferred situation of the KAN-authority moved towards the national vision of public tendering.

The time path for introduction has been under discussion for a long time. First concept versions of the new Passenger Transport Law have been published in 1998. Finally the law has been approved in 2000 and came into force in January 2001.

**Actual transitional path: barriers encountered and tools applied**

**Privatisation**

In order to get a more business-like relation between authorities and operators in-house production should be abandoned. In addition, the passenger transport law prescribes that any urban operator that is protected by the municipality is not allowed to tender in other cities. This does not mean that transport companies have to be privatised in the sense that shares should be in private hands. The only aim is to separate companies and authorities.

Arnhem already sold it’s municipal operator in an early stage. In Nijmegen the municipal operator has been transformed into a company under private law with the shares still belonging to the municipality.
Decentralisation
As one of the first steps in the transition phase, in 1996 the responsibilities of the Ministry concerning public transport were decentralised to seven agglomerations and, as an experiment, to the three northern provinces Groningen, Friesland and Drenthe. This decentralisation mainly covered responsibilities for authorisation and financing of public transport services and the annual approval of timetables.

In 1996 these seven agglomerations got a specific status as public authority. The administrative level of these regional authorities is somewhere between the municipalities and the provinces. These authorities got the same responsibilities in the field of public transport as the three provinces as described above.

‘KAN’ is one of these seven urban regions. KAN is organised as follows. On top there is a political body, consisting of political representatives from the municipalities within the borders of the KAN region, being Arnhem, Nijmegen and 19 smaller municipalities. For voting Arnhem and Nijmegen each have 5 votes and all other municipalities one vote. Furthermore KAN has its own administration. Part of this administration is responsible for public transport. This is the authority in the KAN region responsible for contracting and financing public transport in the region.

Public tendering
The new Passenger Transport Law came into force 1 January 2001 and it can be considered to be the milestone from the ‘transition’ to the ‘new’. However it should be noticed that the elements of competition included in the new law will only be gradually introduced in Dutch practice. To that extend the transition phase more or less continues till 2007. Concessions for regional bus transport should be all tendered publicly at 1 January 2006. The ultimate date of urban transport is 1 January 2007. In 2004 an evaluation will take place and a decision will be taken whether to go on in the direction of 100% obligatory public tendering of public transport services.

Barriers
The following barriers in the transition process can be observed:

- Nijmegen is both client and owner of the PT company
- In the beginning of the change process KAN authority lacked experience in public transport
- There is no perfect market for trolley bus transport
- The new Passenger Transport Law contains some lacks of clarity (the new act has a lot of new terms, but the definitions of the terms are rather complex and sometimes not very clear; this is a result of the transition period the Netherlands are in now).
- Lack of political commitment for the introduction of compulsory tendering

Tools
As a kind of compromise, an evaluation moment was introduced in the law. In 2003 at least 30% of the concessions have to be tendered publicly. On the basis of this experience a decision is made in 2004 whether to go on with the public tendering of concessions or not.
As an instrument to stimulate public tendering, the Ministry of Transport introduced a financial bonus for those authorities that tender public transport concessions before 2004.

As an instrument facilitating this decentralisation process the Ministry of Transport set up an advisory body for assisting the regional and local authorities in contracting and tendering processes.

A compromise in the Passenger Transport Law 2000 is the inclusion of more specific rules with regard to staff in case of a change in operator. The new operator has to take over all direct and indirect personnel from the former operator in proportion with the size of the concession.

An important instrument in facilitating the change was to keep (a part of) the planning department of the CDV inside the municipal administration in order to have the necessary knowledge and experience needed to be an equal partner to Novio.

A tool to overcome the problem of being client and owner at the same time is to sell the shares to third partners. This is what the city of Nijmegen currently is considering.

**Actual/ current situation**

- In the KAN region the following authorities are responsible for concessioning:
  - KAN: urban and sub-urban public transport in the region
  - Ministry of Transport: heavy rail transport

Currently, all public transport concessions both for urban transport (Novio and Connexxion), regional transport (Connexxion) and heavy rail (NS) are directly given to the operator without tendering.

The Law forces the authority to terminate the contract and to introduce per 1 January 2002 concessions. How this will be arranged exactly is not yet fully clear. Most probably the existing operators will get a direct concession till 2005 or 2006.

In practice, the decentralised authorities play an important role in the control of operators. They have the money to subsidise the operators and they have to conclude contracts and to give or tender concessions. This increased role of the authorities caused a stronger involvement of the authorities, especially with regard to tactical decision making. Next to this authorities control operators through the ownership: Nijmegen owns Novio and the central government owns Connexxion and the Dutch Railways.

The KAN authority receives the state subsidy. In the contract with the operators is laid down that KAN pays the operators on cost basis. KAN and the operators agreed on a fixed cost unit: costs per vehicle hour, with a fixed rate for regional transport and one for urban transport. The risks of unexpected increase or decrease in passengers is 50% for KAN and 50% for the operators.

The KAN authority is fully involved in tactical decision-making. Most of the tactical decisions are prepared in working groups with representatives from both the authority and the operators. The authority most often asks the operator to develop proposals for development tasks like the time schedules. But in during the development phase there is close contact with the authority and in the end the authority (political body) has to approve the proposal.
Future plans

There are no plans to change the current situation: strategic decision-making by national government and (most of all) KAN, tactical decision-making also most of all by the KAN authority in co-operation with the operators and operational decision-making by the operators.

The contract form will change in the near future because of the national legislation. The contract between KAN and the operators should be changed into a concession. The intention is to give them a direct concession till 2006/2007. From that moment on operators should be selected by means of public tendering.

As already mentioned the city of Nijmegen currently considers the option to sell the shares of Novio.

9.12 United Kingdom

The last two decades have involved radical reforms of the public transport in United Kingdom. In particular, the legal framework was changed (beginning with the 1980 Transport Act) to facilitate competition in the bus industry moving from a situation with little or no competition to one characterised by strong competition on the basis of an open entry system. The previously publicly owned bus companies were in the main privatised although a few of these companies remain in public ownership. This model was implemented across United Kingdom (except for London and Northern Ireland). For London a different approach was adopted involving restricted entry and route-by-route competitive tendering. In Northern Ireland public transport remains within a public ownership model. In the case of rail, legislation was introduced in 1993 that provided for the privatisation of the publicly owned British Rail. In particular, this involved the separation of infrastructure ownership and management from operation of transport services. A franchising model is used to select the operators for the different passenger service groups. The legislation allows to a certain degree for open access for companies to start services outside the franchise agreements but this possibility has so far only been permitted to a small extent in order to ensure the financial viability of the train operating companies (an example of an open access operator is the Heathrow Express). Therefore, competition in the case of rail has mainly been off-the-track rather than on-the-track.

These reforms have removed the role for central government as owner of public transport operating companies (except for London Underground), local authorities still owns in a few cases public transport companies. Local government retains an important role regarding planning and procurement of public transport service. The role of central government is rather to provide the overall framework and financial support to passenger rail services and public transport infrastructure investment. A majority of public transport operators are now in the private sector. Furthermore, a number of private companies are involved in both the bus and coach market as well as the passenger rail market. Fifteen out of the 25 TOCs went to bus companies (who have subsequently gained 3 more). Each passenger rail franchise had at least 2 bids from bus companies.

As part of these reforms substantial organisational changes have also taken place. In particular, in the case of railways the privatisation of British Rail involved creation of a whole new structure including a regulatory body as well as a non-ministerial department responsible for the franchising of the passenger services. Other organisational changes at authority level include the abolition of the Metropolitan councils in 1986. A number of authorities have changed responsibilities in relation to public transport including local authorities and traffic commissioners (responsible for the quantity and price regulation prior
to the 1980 and 1985 Transport Acts). In the case of both bus and rail a number of private companies have appeared, although agglomeration (re-agglomeration) occurred quickly. Between 1988 and 1997, Transport Advisory Service (TAS) (1997) recorded 185 principal take-overs in the bus industry. A big three has emerged in the bus industry (Arriva, First Group and Stagecoach) who controlled 11% of the industry’s turnover in 1989 but by 1997 controlled 53%. The latest (as yet unpublished) analysis by TAS indicates that operating margins in the industry average 12%, with 21% of companies having margins of over 15% and 22% having margins of less than 5%. The question must be asked: has re-agglomeration led to monopoly rents (for some)? These mergers and allegations of predatory behaviour by dominant operators have attracted the attention of the pro-competition authorities (the Office of Fair Trading and the Monopolies and Mergers Commission), with over 30 investigations of the bus industry since 1989. However, the power of these residual regulatory authorities has been weak although this has changed as a result of the 1998 Competition Act with its stop and search powers and fines of up to 10% of annual turnover. In the case of Railways agglomeration occurred almost straight away. Four groupings (National Express Group, Connex, Stagecoach/Virgin Trains and First Group) control 70% of revenue.

The involvement of the private sector in public transport has also introduced private finance including in relation to fleet, rolling stock and track infrastructure investment. Public Private Partnerships (PPPs) have also been used to a larger extent in recent years. The reform initiatives implied a change in the way financial support to public transport provision is undertaken: from a system of blanket subsidy to one based on service contracts (in most cases net cost contracts are used).

The change in government in 1997 has involved significant changes concerning the direction of transport policy with an emphasis on integrated transport policy in order to alleviate the environmental effects from transport as outlined in a Transport White Paper (A New Deal for Transport – Better for Everyone), see DETR (1998a). Subsequently, policy measures have been introduced aiming to strengthen regulatory and planning tools with respect to public transport. The policy measures requiring primary legislation were included in the Transport Act 2000. As part of this policy change a major infrastructure programme has been launched of approximately £180 bln over the next ten years, see DETR (2000). These policy initiatives should be seen in the context of perceived problems with deregulation and privatisation in promoting public transport usage. The policy changes are taking place in parallel with the initiatives regarding devolved government for Northern Ireland, Scotland, Wales, and London.

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The last two decades have involved radical reforms of the public transport in United Kingdom. In particular, the legal framework was changed (beginning with the 1980 Transport Act) to facilitate competition in the bus industry moving from a situation with little or no competition to one characterised by strong competition on the basis of an open entry system. Only London (restricted entry and route-by-route competitive tendering) and Northern Ireland (remaining public ownership).

These reforms have switched the role for central government from owner of public transport operating companies (except for London Underground), to providers of overall framework, financial support to passenger services and public transport infrastructure investment.

Some local authorities still own public transport companies. Local government retains an important role regarding planning and procurement of public transport service.

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10. Glossary of Terms

(Taken from Maretope Deliverable 1)

Liberalise: to make autonomous entry to the market easier

Deregulate: to reduce authority rules on the actions of market suppliers

Privatise: sell (individuals, stock exchange) former state (municipal) assets, such as companies

Market competition: Competition between a number of companies in an open market, that compete amongst themselves in order to get their products and services sold, setting the prices that their costs and market can bear.

Market failure: Situation where the market produces inefficient results due to the existence of any of the following factors:

- imperfect competition,
- natural monopoly,
- public goods,
- externalities,
- common ownership of goods,
- lack of perfect and symmetric information,
- incomplete markets.

Market contestability: Characteristic of certain markets in which incumbent companies are threatened by potential new entrants, causing efficient results without the existence of perfect competition conditions. Baumol, Panzar and Willing (1982) hold that contestable markets guarantee the social benefits of perfect markets without the need of making strong assumptions about the number of companies that must be operating in the market. Shepherd (1984) has observed that these results are only valid under the following assumptions:

- Entry to the market is free and without limits.
- Entry is absolute.
- Entry is perfectly reversible.

Authority: government or (its) administration.10

Organising transport authorities are authorities which have powers, and may be the duty, to organise (i.e. create) passenger transport services in their jurisdiction. Transport companies in such a framework act on behalf of the transport authority.

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10 Remark: when referring to ‘the authority’ we do, unless stated otherwise, refer to the whole government (at the relevant, national, regional or local level) including its support staff in the form of civil servants.
**Regulatory transport authorities** are authorities that have some powers to regulate the actions of transport companies on the passenger transport markets. The powers of such authorities can vary considerably according to the legal framework of the country considered: from very weak regulators of the free market, to very powerful regulators with powers close to those of organising authorities. Transport companies in such a framework are considered to be independent companies (be they private or public) acting upon their own initiative on a market.

**Transport planning agencies** are specific (semi-)independent institutions created by ‘the authority’ (mostly the transport authority) to administer in a professional way a number of tasks related to the planning of transport services in the region of competence of the authority. This may include the contractualisation (possibly through competitive tendering) of transport operators. The planning functions are carried out by transport operators or directly by the transport authority when such an agency has not been created.

**License:** right to enter the occupation of passenger transport operator ('operator'). A license is granted on the basis of qualifications (concerning e.g. good repute, financial standing, professional competence) that attest the ability to be an operator. Hence, a license concerns access to the profession.

**Authorization:** an exclusive or non-exclusive right to operate specific services that a (licensed) 'operator' can apply for to a competent authority. In the case of an exclusive authorization, other 'operators' are excluded from providing the same services under the same conditions. The authorization procedure makes it possible to check whether the candidate operator fulfils all the necessary (objective and non-discriminatory) legal and administrative requirements.

**Concession:** A concession is an agreement between an authority and a (licensed) 'operator' of its choice whereby the authority transfers the execution of a service to the public, lying within its region of responsibility, to the 'operator'. The 'operator' agrees to provide the activity in return for the exclusive or non-exclusive right to operate the service or this right together with payment. A concession can take several legal forms; however, a concession is always a kind of agreement by the necessity of acceptance by the operator (although maybe very rudimentary). UK rail franchises are concessions (we prefer to limit to use of the term franchise to its usual meaning of ‘commercial brand franchises’ (e.g. McDonald's) to avoid confusion.

**Total Quality Management:** Management approach that integrates all functions and processes within an organisation in order to achieve continuous improvement of the quality of goods and services (ISO 8402). This quality management approach entail all activities of the overall management function that determine the quality policy, objectives, responsibilities, and implement them by means such as quality planning, quality control, quality assurance and quality improvement (QUATTRO).

**Benchmarking.** Systematic comparison of the performance of an organisation in relation with other departments/subsidiaries (internal benchmarking) or other organisations, competitors or industry leading companies (external benchmarking), as a method of sharing knowledge and experience of “best practices” to bring improvement.

**Quality partnership.** Non contractual agreement of co-operation between parties within the public and private sectors that have common interests in promoting public transport.

**Citizen’s charter.** Document explaining which services can be expected by citizens and sets out the public service’s commitments to them, whose views are taken into account when the charter is reviewed.
**Customer charter.** Document that details the commitment to the customers, sets out the standards to which the operators works, how it publishes its performance against those standards, how it looks after the customer and compensate them if things go wrong and how they can contact the operator:
11. Bibliography and Literature Sources

list of publications for further and more detailed reading on the subject, e.g. deliverables and materials from the different EC projects, and relevant web-sites


Ireland, (2001) *New Institutional Frameworks Public Passenger Transport in Ireland*, The Stationery Office, Dublin. ([www.dpe@irlgove.ie](http://www.dpe@irlgove.ie))


12. Quality and benchmarking in Public Transport – The consortia of the projects

MARETOPE – Managing and Assessing Regulatory Evolution in Local Public Transport Operations in Europe

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ISOTOPE - Improved Structure and Organization for Transport Operations of Passengers in Europe

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**QUATTRO - Quality approach in tendering urban public transport operations**

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FISCUS - Cost evaluation and Financing Schemes for Urban transport Systems

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LEDA - Legal and regulatory measures for sustainable transport in cities

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<td>UDI – Institute of Transportation Engineering of the City of Prague</td>
<td>CZ</td>
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SORT – IT - Strategic Organisation and Regulation in Transport

<table>
<thead>
<tr>
<th>Consortium</th>
<th>Country</th>
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<tbody>
<tr>
<td>University of Leeds</td>
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<tr>
<td>Universitaet Karlsruhe</td>
<td>DE</td>
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<tr>
<td>Swedish National Road and Transport Research Institute</td>
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<tr>
<td>Universidad de Las Palmas de Gran Canaria</td>
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<tr>
<td>Institut National de Recherche sur les Transports et Leur Sécurité</td>
<td>FR</td>
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<tr>
<td>Société Nationale des Chemins de Fer Français (SNCF)</td>
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