

European Public Transport: Some Trends of Relevance to Australia

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Context

This note sets out some conclusions arising from a study tour undertaken by Chris Lowe, Executive Director of BusVic, and Professor John Stanley from the Institute of Transport and Logistics Studies, The University of Sydney, in early April, 2011. The major purposes of the trip were to refresh understanding of developments in bus service planning and contracting, particularly in Europe, and to contribute to such understanding by presentation of papers at the UITP World Congress in Dubai.

Meetings were held with:

- Soren Englund, Contract Manager, Trafikselskabet Movia (the Authority for bus services in Copenhagen region, Denmark).
- Lars Kormann, Arriva (Bus operator in Copenhagen)
- Bjorn Wedeby, Quality and Marketing Manager, and Ingela Buhre, Site Manager, Veolia (bus operator in Malmo, Sweden).
- Wim Dijkstra, (Public Transport) Program Leader, Overijssel Province, The Netherlands (the Regional Public Transport Authority)
- Remko ten Brinke, Manager Commerce, Syntus (bus operator in Overijssel Province, The Netherlands).
- Didier van de Velde, Delft University of Technology and Innov, Amsterdam, The Netherlands
- David Eerdmans, Innov, Amsterdam, The Netherlands.

In addition, a number of discussions were held at the UITP World Congress. Congress proceedings and discussions also contributed to the preparation of this note.

The note does not set out detail obtained from each consultation but summarises the main themes that emerged, drawing out the main implications for bus service planning and contracting in Victoria, and in Australia more broadly.

Main Themes

There were four main themes that emerged from the discussions:

1. The increasing importance attached to co-operation between the authority and bus service provider, with a range of approaches being adopted to foster co-operation;
2. The importance of service quality in attracting customers and in selecting between possible service providers but without a consistent approach to quality;
3. Governance difficulties that constrain service planning and delivery
4. High aspirations for growth in public transport service patronage, driven by obligations such as cutting greenhouse gas emissions (a much stronger theme in Europe than in Australia).

Some elaboration of these themes follows. A range of other matters were also canvassed, some of which are outlined.

Theme 1: The Importance of Authority-Service Provider Co-operation

The importance of the Public Transport Authority and Service provider co-operating in both tactical system planning and in contractual matters that affect service delivery has been emphasised by both BusVic and the Victorian Department of Transport for many years. This has been encapsulated in the language of a “trusting partnership”, which has been proactively pursued by both DOT and BusVic for many years. The theory behind this approach has been discussed by several Thredbo Conferences and has been outlined by Hensher and Stanley¹.

Didier van de Velde noted at Thredbo 10 in 2007 that Dutch authorities and operators were concerned about a lack of innovation under their emerging competitive tendering regimes, partly attributing this to a lack of suitable incentives for operators but also fundamentally linked to insufficient attention being paid to relational contracting. He pointed out that that this had become a priority. Wim Dijkstra from Overijssel Province (in The Netherlands), reflecting the Dutch dissatisfaction with progress being achieved under competitive tendering regimes in promoting service innovation, presented a creative paper to the Thredbo 11 conference in Delft in 2009, outlining how a new alliancing approach was being pursued in that Province to better harness the separate and joint capacities of authority and service provider. The Overijssel approach relies on two joint project teams, one with a marketing focus and the other with a technical focus, both comprised of staff from each of the authority and the service provider. These teams work together to improve service quality and lift patronage growth. They identify development proposals, which are funded through a joint development budget. A negotiation process is used to agree incentive regimes that apply in service delivery contracts.

European law constrains how an authority can negotiate with potential PT service providers. This has been a problem in revealing contractual expectations. Copenhagen PTA has tackled this problem in competitive tendering by implementing three rounds of negotiation after the initial tender responses have been submitted, allowing submitters to refine their proposals. Hensher and Stanley have pointed out how competitive tendering is hampered by the difficulty posed by incomplete contracts. The three rounds of negotiation are an attempt to reduce this level of uncertainty but also to build a relationship between possible providers and the purchaser.

In Denmark, the national government has made funds available for PT innovation. Arriva is working with Movia to bid for some of these funds, which are made available through the PTAs. This reflects the growing emphasis on co-operation.

Malmo uses a Balanced Scorecard approach to assessing PT operator performance and also, most unusually and very commendably, sets expectations on the authority in this same approach. This mutual obligations approach emphasises the importance of co-operation and joint efforts to maximise desired outcomes. Rather than impose financial penalties for underachievement against contractual Key Performance Indicators, the PTA in Malmo says that the operator should use any prospective fines

¹ Hensher, D.A. and Stanley, J.K. (2010). Contracting regimes for bus services. What have we learnt after 20 years. *Research in Transportation Economics* (29), 140-144.

to improve service. This is a supportive attitude, reflecting a spirit of co-operation. KPIs were often the subject of negotiation between purchaser and provider in the authority settings visited.

All the systems with whom discussions were held were emphasising the importance of co-operation or partnership between the authority and PT service provider, to improve service quality (promote innovation) and grow patronage. Dissatisfaction with the constricting environment posed by competitive tendering, where there has been a significant tendency for risk averse authorities to tightly specify service expectations and then be surprised at a lack of operator innovation, has been the major driver of this change in emphasis in Europe, which represents a shift from the old master-servant model. However, there is still a suggestion of the master-servant model lingering in the wings. The success, or otherwise, of the new co-operation/partnering approach will be important in determining how far the master-servant approach can be replaced.

The competitive tendering environment is probably a more difficult environment within which to promote co-operation/partnering than an environment of negotiated contracts. Operators under a CT framework can be expected to guard their intellectual property more tightly than in an environment where contractual rollover is more likely. It will be interesting to monitor European progress in authority-provider co-operation, to see how much it delivers in terms of innovation and patronage growth. The new emphasis is certainly encouraging for the Victorian bus contract setting, since the trusting partnership model has largely been pioneered here.

Theme 2: The Central Role of Service Quality

While price was the central driver of choice of public transport service provider for early rounds of competitive tendering, including the initial Melbourne rail franchises, the service quality offerings of providers has been gaining in importance as an influence on choice of provider. In jurisdictions where negotiation takes precedence over competitive tendering, and in places where the service provider remains a public entity, quality has again risen to the top in terms of intended service delivery outcomes.

The rise of quality as a decisive criterion for public transport service provision, and for choice of provider in a competitive environment, is probably a reflection of two key factors:

1. a switch from service cost-minimising to a social cost minimising on the part of governments that partly fund public transport services, in recognition of the vital role such services play in reducing traffic congestion, lowering emissions (including greenhouse gas emissions), cutting the road toll and fostering social inclusion;
2. in those places where competitive tendering is used to select service providers, a tendency for costs to increase, after initial savings, such that purchasers are seeking to now get better value for money (linked to the preceding point).

Quality has been a major focus of European public transport language for well over a decade, with European Commission transport research projects such as QATTRO setting out well reasoned arguments why quality is important and listing a range of key quality indicators. All the agencies and operators visited remarked on the important role of quality in service planning and delivery, with the authorities indicating that it was a key criterion in choice of provider. For example, Movia's business plan focuses on growth, quality and environment, with quality KPIs including passenger satisfaction and authority

satisfaction. Overijssel also uses customer satisfaction and authority satisfaction as performance (bonus/penalty) indicators.

The Copenhagen tender evaluation model weights price at about 40%, quality at 35% and buses at 25%, although there is some question about whether quality actually achieves this degree of influence – price is still thought to dominate the selection process. In Malmo, customer satisfaction covers five things: punctuality; driver behaviour; information; quality of the bus; ride quality. It is arguable that the degree of operator influence over some of these variables is low, such that the indicator is a flawed measure of operator performance.

Notwithstanding very useful research through projects such as QATTRO, quality is an elusive concept. Difficult issues include, for example:

- whether to focus on production quality or on quality as it relates to customer satisfaction (e.g. how to clean a bus versus what the customer thinks about cleanliness). There is a distinct swing towards quality as it relates to customer satisfaction, since this is thought most likely to drive patronage gains;
- no matter whether a production or customer satisfaction perspective is taken, which variables should comprise the relevant quality indicators and how should they be defined, measured and weighted. Consistent approaches to definition and measurement, in particular, are vital for effective benchmarking of one service/provider compared to another;
- if quality affects patronage, why not simply rely on a patronage incentive to suggest quality outcomes.

The consultation program showed that authorities and providers are grappling with these issues and have a long way to go in terms of any consistent approaches to quality. Inevitably this means that price will continue to exercise the major influence on choice of provider in a competitive environment.

An interesting dilemma concerns the extent to which a public transport service tender document should spell out in detail what it means by quality and how quality will be treated in tender evaluation. The Stockholm approach tends to take a highly quantitative approach, setting out the various factors that are seen as important and the scores that will associate with various levels of achievement against each. Operators tend to like this approach because it provides some clarity in terms of how they structure their service offerings. This can then be followed through to KPIs that influence operator remuneration, such that quality impacts on both choice of provider and on subsequent remuneration.

In contrast, Overijssel is thinking of shifting to a much less structured framework. Their current awarding system uses a points-based approach. However, their team-based philosophy points in another direction, one that looks towards what an operator can bring to the table in terms of service planning, marketing and delivery within a team-based framework. In short, the focus is likely to shift to an operator showing what they are going to do and how. It is early days in terms of the working through of this thinking and in upskilling staff to judge bids on this basis but it may lead to some valuable insights into the qualities that should be sought in an operator in a context of relational contracting. Quality-based KPIs can, of course, still be developed and used to evaluate service delivery performance outcomes. This emerging experience could be very useful for thinking about future Victorian service development.

Reflecting the production/customer satisfaction split, Victorian route bus contracts have made provision for Operational Performance Indicators and Qualitative Performance Indicators. These have not been specified in sufficient detail for implementation, although some preliminary work has been put into the OPIs. BusVic should review European and other work on service quality, to settle on a small number of useful quality indicators that are:

- specific
- measureable
- important to customers and
- subject to operator influence

as a basis for on-going negotiations about the contractual KPI regime. Ideally, this work would then be taken national, as a basis for some benchmarking of operator performance. It is noteworthy that very little benchmarking is published internationally, largely because such work is usually undertaken on a commercial basis for providers (some of whom may not wish to have their performance subject to widespread scrutiny!).

Theme 3: Governance Difficulties

A pervasive theme in the European consultations was the difficulties posed for public transport tactical (system) planning and associated service delivery by governance arrangements. This is a theme that is familiar to Victorians, with the new Liberal-National Coalition Government promising a new Public Transport Development Authority to help overcome some of the governance problems that have confronted public transport in this State. The major governance problems confronted in Europe were:

- a multiplicity of local governments, creating difficulties both for agreeing a regional transport plan and for funding transport priorities (particularly in Copenhagen);
- a multiplicity of regional Public Transport Authorities (in The Netherlands), when a smaller number would be a better reflection of travel patterns and planning contexts;
- public transport authorities becoming too removed from political priorities (Sweden), resulting in the national government restructuring institutional arrangements at regional level, to give provincial level bodies greater control;
- split responsibilities for public transport and roads (in a number of locations), creating problems for road priority measures to support public transport operation;
- lack of integration between rail and other public transport modes, particularly where the rail network has a national government involvement;
- the conservatism of Public Transport Authorities, which tends to lead to highly prescriptive service delivery contracts that frustrate expectations for service innovation (a matter that has been noted above).

Also in the general governance area, Sweden's new Public Transport Act will effectively deregulate public transport provision, subject to new regional public transport authorities deciding on public service obligations (minimum service levels) for which they will be responsible (and which they will contract out). Anyone else can provide additional services, from January 2012.

Local government plays a stronger role in relation to public transport in Europe than it does in Victoria. For example, Copenhagen's Movia (the bus agency) encompasses 45 municipalities and two regions,

with a Board of 9. Agreement to a transport plan for the region is very hard. Funding for public transport comes from the farebox and from municipalities, with contributions in proportion to kilometres (of service). The rail network is not integrated with road-based public transport into a single system. The Danish Government intends to legislate to achieve integration. Local government reform would appear to be a precursor to improved governance of public transport in Copenhagen.

In Malmo, bus and train patronage has been growing very strongly (~8% p.a. from 2006). The aim is to double public transport patronage over ten years (a goal that has been adopted right across Sweden, through the Swedish Doubling project, although it is not clear whether this is intended to be achieved over ten years at the national level, 2025 being a more likely target for doubling). Bus priority measures are seen as integral to continuing growth in bus patronage but Malmo Council has proven hard to convince of the need for such measures.

The Netherlands currently has 11 provinces (like our States only much smaller geographically, being essentially regions) and each province has its own Public Transport Authority. This is acknowledged as too many and a reduction to about four is expected. The national government is only involved with the rail network but provides transport grants to local government that support PT. Regional mainline train services that cross PTA boundaries involve joint working across Authorities. The Provinces (PTAs) have a greater responsibility for public transport integration in The Netherlands than in Denmark but the latter is moving in the Dutch direction. Local government control of the road infrastructure is a major concern for Dutch PTAs, since this can lead to problems in obtaining on-road priority treatments and also to speed limits that slow public transport operation and discourage patronage. Conversely, however, local government has no direct PT funding role in The Netherlands, unlike in Denmark.

In moving from 11 to about 4 PTAs, The Netherlands will need to ensure that it does not encounter the problem that has contributed to Sweden restructuring its regional PTAs. As noted above, these were seen as too removed from regional/local political priorities and this has been a factor in the reform of PT institutional arrangements in Sweden, which will give more control to provincial bodies.

In short, those authorities with whom discussions were held are struggling with a number of integration issues, across modes and levels of government. This is very familiar. Modal integration should be possible within public transport. Integration across levels of government may be more difficult. The proposed Victorian PTDA will avoid the Dutch problem of a multiplicity of such entities within a small geographic space. It will, however, confront the same difficulties of integration of policies and priorities with local government, which exercises considerable authority over the road network (especially local roads). Including one or two local government representatives on the PTDA Board may help to foster integration between the State and local government as it relates to public transport and also to very important wider land use matters.

Theme 4: Aspirations for Public Transport Patronage Growth

For the past few years, the UITP has been running a program called PTx2, which targets doubling the public transport mode share by 2025. Allowing for population growth over that time, the end result is more like a tripling of public transport patronage. A similar target has been adopted in Sweden, as a result of a nationwide co-operative venture that encompasses all the main parts of the public transport industry and government (the Swedish Transport Administration). Sweden has achieved remarkably strong growth in public transport mode share at the national level, growing from 18% to 24% from 2006

to 2010. Patronage growth is also a key focus of the authority's business plan in Copenhagen, in Malmo's Balanced Scorecard approach to service planning and assessment and in Overijssel's service goals in The Netherlands. Patronage KPIs in service contracts are common, reflecting this focus on growth.

The growth focus reflects the strong interest in European transport policy, over many years, in mitigating the external costs of growth in road use, costs such as congestion, greenhouse gas emissions, air pollution, noise, the road toll and social exclusion. The policy significance of these external costs is more widely acknowledged in Europe than in Australia, with acceptance of the urgency of taking significant actions on a wide front to cut greenhouse gas emissions being in notable contrast to Australia - where the policy debate has sunk to the "yes, but not me" level.

The growth focus is also, in part, reaction against contracts that over-specify what is expected from a PT service provider and leave little room for innovation. This constricting environment has been seen as unsuited to quality improvement and to associated growth in patronage. Shifting the focus from a production focus to a customer service focus is central to this change.

The push for public transport patronage growth needs to be aligned with a flow of funds to support expansion and there is considerable interest in new funding options. The interest in new funding options is particularly strong in The Netherlands, where impending 10% cuts in national transport grants to local government loom large (local government does not directly fund public transport in The Netherlands, unlike in Denmark). The three largest cities receive about half their public transport funding from local government and will be subject to greater funding cuts than other areas. These three cities currently receive about one billion Euros from local government for public transport, which is expected to be cut to about 750m Euros. With such funding accounting for about half their total PT revenue, the overall funding cut is about 12.5% in funds available. This will mean:

- fewer services;
- restructured services;
- increased fares; and/or
- some combination of the above.

Even though service kilometres and population have been growing, public transport patronage in The Netherlands has been generally fairly stable in recent years, with cycling's mode share growing. Whichever approach is taken to dealing with funding cuts, patronage growth seems likely to come under further pressure.

The growth focus in Europe more generally, notwithstanding the flat lining being achieved in The Netherlands, underlines the importance of a medium to long term system and service development plan, which is adequately funded. Funding options seem likely to gain significance in coming years, as jurisdictions struggle to find the funds needed to support service growth. The Swedish de-regulation experiment may be trying to unleash hidden innovative forces, as a "cheap" way to expand services. It will be interesting to see if this succeeds.

Some Other Issues

A large number of other matters were covered in consultations and/or at the UITP Conference. A few are noteworthy.

A couple of authorities with whom discussions were held have adopted the practice of estimating a minimum realistic tender price when they submit public transport services to competitive tender. They will not accept a tender that comes in below this price, arguing that it is likely to be opportunistic, undeliverable, or both.

There is considerable focus on training bus drivers in being customer-friendly. Some providers use incentive systems to reward drivers for a contribution to patronage growth, fuel economy and such like. This incentive may have a group component and an individual performance component. Driver remuneration, more generally, seems very generous in Europe, with average total package figures between 55,000 to 85,000 Euros (\$A75,000-\$A115,000) being cited.

There is a growing emergence of merged public/private operations in public transport service provision in Europe, with the takeover of Arriva by the German national rail operator Deutsch Bahn being notable. DB wants to use Arriva as a basis for expansion outside Germany. Such industry restructuring has been prompted, in part, by European competition legislation (and some of Arriva's German operations are having to be discarded because of competition concerns). While competitive tenders still attract several bidders in the areas visited (though weakness in the charter/tour market, due to the Global Financial Crisis, was suggested as a contributor to the current strong competition for route services), such market consolidation may reduce the overall level of competition. This reflects Ken Gwilliam's observation at the Thredbo 10 Conference that we have a regulatory cycle, that eventually sees public monopoly replaced by private monopoly (and then again by public monopoly).

In contracting, there is a focus on developing contracts, and relationships, that encourage public transport operators to innovate, rather than to simply run the service as prescribed by the authority. It is early days in resolving this issue.

At a more specific level, Danish PTAs adopt common indexation provisions, which seems a very sensible (and efficient) way to go. There is also a focus on keeping contractual KPIs simple, so that they can be easily understood by all key parties (including bus drivers). Patronage incentives need to be sufficiently large to encourage an operator to pursue growth. Such contractual KPIs are the subject of negotiation between purchaser and provider, reflecting the new interest in co-operation/partnering. Operators remarked that they often find it difficult to deliver on their promises in a tendering environment, which is a risk that Hensher and Stanley have noted on previous occasions. Excessive authority expectations were seen as partly to blame.

Peak bus frequencies of 3-10 minutes are common on major trunk routes, with hourly services being regarded as a minimum in lightly trafficked parts.

Some contracts seek use of smaller buses in areas of low demand, with one jurisdiction utilising a shared taxi contract to complement the route service. This is an on-demand service but use has been predominantly by people with a disability, which was not the primary purpose of the service. Use by a wider range of users is being pursued.

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