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An evaluation of two reforms Report 2014:13

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Summary

In March 2011, the Government tasked Transport Analysis with evaluating two reforms, i.e., the market opening for long-distance personal transport by rail and the new Swedish Public Transport Act. Both reforms were intended to benefit riders by allowing free entry on the market and thereby improving market dynamics, diversifying the supply, and lowering prices, which were together expected to result in an increased market share for public transport. The reformed regional public transport system was also to be coordinated with other social planning efforts, again to benefit citizens and riders. A third goal was to clarify the planning and decision-making process so as to enable accountability in accordance with the EU's principles regarding state aid.

Benefits for riders and citizens

The public transport offering has grown by 2.1% per year in recent years, but, because passenger car traffic has also increased, the share accounted for by public transport¹ has remained unchanged at 16–18% since the 1970s. The supply of rail service has grown the most quickly in recent years (3.5% per year), even though bus traffic continues to account for 79% of public transport. The quality of the supply of public transport has been improved to some degree as a result of greater freedom of choice along major routes and for certain rider groups, and as a result of improved on-time performance by the railroads, despite increased rail traffic.

Prices of public transport have been rising significantly faster than other consumer prices since 2001. One-way ticket prices have increased in particular, and significantly faster than the price of petrol, which means that those who seldom travel have seen a cost increase. The procured regional public transport costs about SEK 40 billion a year, half of which is covered by ticket revenues and half by contributions from municipalities, regions, and (to a small degree) the state.

Over the last ten years (2004–2013) the supply of procured public transport has risen by 20% and the number of trips has increased by 27%, while the total costs have grown significantly (57% in constant prices). The riders have borne part of this cost increase in the form of higher prices, but financing from taxes (in constant prices) has also increased by 81% in the last ten years. Greater benefits for public transport users have a less visible price, but affects all citizens via their tax bills. There is, of course, a limit to how much and how great a share of public funds can be expended on public transport.

Opening up the market for commercial services

One expectation of the reforms was that they would benefit riders via greater innovation, as transport paid for by society would encounter competition (or at least potential competition) from commercial services. Our evaluation shows that there is now a significant commercial component (44%) in *inter-regional* services, particularly in rail travel, where 37% of the service is provided with no subsidies whatsoever. A few new operators have entered the market since the reforms, but so far they account for a few percent of the planned rail service offering in the

¹ Based on calculated transport performance (person kilometres).

2015 Train Plan. The services that are growing rapidly in many counties are inter-regional railway cooperatives offering *subsidised* service.

New commercial initiatives are encumbered by a number of barriers to entry. In the case of inter-regional train service, this pertains primarily to competition from subsidised services. Another important limitation is the Swedish Transport Administration's process of allocating capacity, which, because of its short time horizon and vague grounds for prioritisation, creates conditions of uncertainty for new actors. The lack of a coordinated ticketing system and poor access to unrestricted information/statistics about the market also pose significant barriers to entry.

The situation differs with regard to *regional* public transport, only 2.9% of which is run on a purely commercial basis, the bulk of that being in certain limited niches. The limitations consist primarily of a weak market with low willingness to pay, but new commercial actors also have to compete with tendered service that is usually subsidised to about 50%. Barriers to entry exist in the market for regional public transport as well, largely due to the competitive conditions associated with running a transport service and with access to coordinated payment and ticketing systems, transfer points, and market information.

Actions by the authorities

In previous annual reports, Transport Analysis has noted that the national authorities that are important to the reforms have adopted a passive attitude. This is true of the Swedish Transport Administration in its efforts to improve rail capacity allocation and to support Public Transport Act implementation by the regional public transport authorities (RPTAs). It is also true of the Swedish Transport Agency, which should dedicate more resources to forceful, committed, and proactive supervision and market monitoring.

The RPTAs have a number of key functions in the new Public Transport Act, both as actors in opening up the market, leaving room for commercial services, and as the entities responsible for stronger ties of public transport planning to regional growth policy and to needs of citizens. Transport Analysis considers that the RPTAs are not yet acting in accordance with the principles of openness, non-discrimination, and proportionality. Their efforts need to be expanded if the intent of the Act is to be realised.

The legislation is intended in part to clarify the planning and decision-making process associated with financial contributions from regions, municipalities and, to a lesser extent, the state. The counties' new RPTAs have, since 2012, been responsible for a four-step process: 1) designing programmes of public transport services needed in the county, and goals for these services, 2) making decisions concerning public service obligations (PSOs), based on the programme, 3) procuring subsidised services in cases in which a PSO has been opted for, and 4) officially reporting the costs and efficiency of the public transport services offered as PSOs. This four-step model is to ensure clarity and transparency and serve as the basis for accountability. Decisions regarding PSOs (2) are to ensure that the RPTAs stay within their mandate, i.e., to organise only regional public transport, and to ensure that their decisions can be appealed in a general administrative court.

As a rule, the RPTAs do not appear to view commercial services as a potential resource and as a complement to PSOs, for an efficient public transport supply. Nor does Transport Analysis see any good incentives for RPTAs to alter their behaviour, although greater transparency in terms of follow-up and reporting is indeed an important precondition for this. Deficiencies in all of these four steps are discussed in the report, as is the need for support

from a national authority to supplement the work of the Swedish Association of Local Authorities and Regions (SALAR).

One expectation of the new Act was that, as a result of RPTA efforts, the responsibility for managing public transport would shift from applying a corporate perspective to becoming an integral part of the policy-based management of regional development in the best interests of citizens. In view of the aforementioned price and cost trends and the increasing competition for public funding, this change is very important in preventing a lack of resources from leading to a worse situation for riders and citizens.

A description of the current situation

The results of the reforms may be summarised as follows:

The opening of the passenger rail service market has made progress so far, but there are a number of barriers to both entry and expansion, which must be addressed to prevent this progress from stalling. Transport Analysis has offered a number of proposals in this regard, but the issue will also be addressed further in the ongoing Committee reviewing the organisation of the railway sector (ongoing until December 23rd, 2015).

The reform under the new Public Transport Act must still be viewed as incomplete. Much of the anticipated development of the RPTAs still lies ahead. Public transport planning cannot yet be said to have become an integral and transparent part of regional growth policy. The RPTAs need both stronger support and stronger supervision in exercising their authority.

To date, the opening up of the regional public transport market has, given prevailing conditions, had a very marginal impact on the supply and options available to riders. Bus lines to airports around the country represent the most common niche for commercial services, but this has mostly led to the replacement of subsidised public transport with commercial services, i.e., the total supply facing riders has not changed much. The Nacka–Kista Line in central Stockholm is the only commercial pure commuter line that has been established within a county.² The benefits of the reforms for riders remain unclear. Risks of worsened situations have been identified, particularly in that deficient goals and cost controls can lead to inefficiency and to higher costs for riders and citizens.

Conflicting goals

In some areas, Transport Analysis has identified points of unclarity and conflicting goals such that they may be considered potential impediments to the success of the reforms. First, there is a conflict between the practical expectations of purely commercial services and our theoretical knowledge of the function of the public transport market. There may have been expectations of the opening up of the regional public transport market that would seem to fly in the face of our theoretical knowledge. We know from research that local and regional public transport in a system with no subsidies whatsoever will lead to less traffic and higher prices than are optimal. Public transport is consequently subsidised in many countries like Sweden, and finding a niche as an operator in such a “mortgaged” market under skewed competition will never lead to more than possibly marginal commercial services. The fact that no RPTAs have as yet welcomed commercial operators in their ticketing systems does not make things any easier.

² This line was abandoned February 2015 due to few riders and due to the fact that the operator could not use information systems of the RPTA (mainly travel planner systems).

In the same spirit, the conflict between commercial actors' reactive need for flexibility and public sector actors' proactive responsibility for long-term public benefit has been underestimated. In addition to their responsibility for public transport, the RPTAs are also responsible, for example, for creating conditions favourable to regional enlargement and growth, and for providing generous public transport services to their citizens. It makes sense for the RPTAs to want to prioritise a coordinated, reliable public transport system over one that depends on commercial actors who may discontinue their societal service on 21 days' notice (according to the Act), leading to both additional problems and higher public costs. To achieve better cost coverage and, in turn, an ability to make tax revenues cover more obligations, it also makes sense for public responsibility also for inter-regional service, where the potential for profitability appears to be greatest, even though doing so will reduce the market space available to commercial actors.

The authorities responsible for implementing the reforms also evince a simplistic view, i.e., that a deregulated market will automatically lead to evolution in the desired direction. The ability to ensure societal benefit and undertake corrective action as needed requires effective follow-up and supervision, based on transparent data from the actors.

Finally, conflicts exist between the legislative history of the Public Transport Act and its final configuration in terms of its attitude toward "undue avoidance of commercial transport services". It is today not clear when the PSOs are too generous and therefore push away commercial services. Conflicts on this matter must be handled in court, which is not a very effective procedure.

Alternative paths forward

It is crucial that our policies on the national, regional, and local levels identify their goals with respect to the role of public transport in society. Only then will a basis exist for determining how the management process is to be designed.

In the case of interregional train service, the completed deregulation process appears to have been somewhat successful, and international regulations appear to make re-regulation impossible. However, there are deficiencies and impediments to continued favourable development that should be remedied. The Committee reviewing the organisation of the railway sector, which is under way, will also concretise proposals in this context.

The situation for regional public transport is different. The results so far have been weaker, and international legislation has less sway in determining the path that Sweden will choose. Transport Analysis has discussed four alternative, and somewhat mutually exclusive, scenarios for the further development of our regional public transport.

The simplest scenario, in the short term, may be to *maintain the current arrangement* and let the development process take its course. Three years is a short time to determine the results of the types of reform in question, and we may want to give the implementation process a little more time. For example, the RPTAs could be enhanced, primarily through better supervision, but perhaps also with better support from the national authorities, to complement the efforts of SALAR. Points of unclarity in the legislation could be addressed by resolving disputes in court. This scenario would entail a continued lack of clarity as to whether the regional public transport system is well designed, priced, and scaled, as its goals, grounds for decision-making, and results are not being reported transparently. This would make for new negative "surprises" of, for example, a financial nature, which could affect riders and citizens.

A second scenario could be *re-regulation*, i.e., to return to an arrangement in which the RPTAs can prevent commercial establishment within their counties. This would simplify the RPTAs' job and reduce their problems in terms of conflicting goals. At the same time, an alternative incentive for innovation and enhanced productivity in terms of their public obligation would then be needed.

In a third scenario, *the regulations governing and follow-up of the RPTAs would be intensified*. If we want our public transport to be run, organised, and financed essentially by the local and regional governments, then it is important to create conditions such that it will function more efficiently than at present. This has to do with supervision and requirements in terms of reporting and follow-up, so that the operations can be tested to determine how well they are fulfilling national and regional goals.

A fourth scenario would be to create *true competition in regional and interregional public transport*. Here the focus is on creating greater competition, dynamics and relieving the regional government budget by having a greater share of commercial solutions. This assumes that truly joint solutions can be created and implemented to eliminate barriers to entry. Among other things, the power of the RPTAs to make decisions about PSOs must be subject to clear restrictions. At the same time, mechanisms must be developed to ensure that the commercially operated parts of the transport services are sufficiently stable in the long term. The development of less restricted types of subsidies could play a major role in such a scenario.

In its conclusion, the report offers a list of recommendations, i.e., measures deemed important to the continued development process. Some are of a general nature, and necessary under any circumstances, and some are dependent on which of the aforementioned future scenarios is favoured.



Transport Analysis is a Swedish agency for transport policy analysis. We analyse and evaluate proposed and implemented measures within the sphere of transport policy. We are also responsible for official statistics in the transport and communication sectors. Transport Analysis was established in April 2010 with its head office in Stockholm and a branch office in Östersund.