



BLEKINGE, SWEDEN

## Institutional Framework and Cooperation – Net Cost Contract Trial

### Background/context

The Blekinge region in Sweden covers 3,000 sq km and has a population of 155,000. The largest town, Karlskrona, has 60,000 residents. By European standards, Blekinge is quite rural. It has absolutely no road congestion and public transport plays a minor role.

Swedish public transport authorities (PTAs) have full responsibility for public transport in their regions. After many years of cost reductions through competitive tendering, costs rose during the 1990s. Blekingetrafiken PTA therefore wanted to reduce costs and, if possible, increase ridership through a net cost contract.

### Description of the case

The Blekingetrafiken PTA took the initiative to establish a net cost contract with a certain degree of freedom for the operator to set fares and fix networks and timetables etc. One operator, Swebus, which covered the whole region, was an indispensable partner in the scheme.

The network was decided by Blekingetrafiken and changes were voluntarily agreed between Blekingetrafiken and Swebus. Service intervals were fixed by Swebus. With the exception of school runs, intervals could be changed from 10 to 20 minutes, provided the total number of vehicle kilometres (about 6.5 million/year) was not changed.

Swebus had the right to increase tariffs by 10% in addition to raises in the retail price index (RPI). A 5% increase was introduced soon after this right was granted. Swebus's national Swedish management pressed for further increases and a further 5% raise was introduced after less than a year. Other changes had to be agreed by Blekingetrafiken.

Blekinge's tariff system comprises 10 zones (each local authority has a central and a rural zone). This was never changed by Swebus.

The following changes were implemented by Swebus:

- A degressive tariff was introduced for single tickets.
- Journeys paid with stored-value cards were discounted in percentage terms rather than a fixed amount in SEK.
- Prices for regional season tickets were increased.
- A two-zone season ticket was introduced, aimed at commuters. Previously there were only single-zone and regional season tickets.
- A special night-service tariff has been introduced from time to time.
- Autogiro payment for season tickets was introduced.
- The suggestion to drop the summer season ticket was the only change refused by Blekingetrafiken.

There were, and still are, separate tariffs for single tickets on trains and ships but the season tickets were and are valid. Train and ship services were not operated by Swebus. Implementing the system was no more complicated than when a normal change of operator takes place after a renewed tender. The actors concerned were the Blekingetrafiken PTA and the operator Swebus. Information about tariff changes also had to be communicated to the national through-ticketing system Resplus ([www.resplus.se](http://www.resplus.se)). Apart from the staff of Blekingetrafiken and Swebus, no other experts or consultants were involved.

### Legislation and policy issues

Swedish law states that each region (*län*) must have a PTA that determines regional public transport policy, standards, tariffs, etc. The national government has no influence in this area.

The objectives set by the political board of Blekingetrafiken were, firstly, to reduce costs; and secondly, to improve services and ridership. The board is made up of representatives of the region and of the five local authorities (*kommuner*). The board approved the net cost scheme.

### Cost and financing

The implementation costs (about 20,000) were no higher than the costs incurred when a new operator takes over after a tender has been renewed. During this trial period, the costs not covered by fares (between 40 and 50%) were covered by the regional authority and the five local authorities. This was no different from standard practice under gross cost contracts.

### Results

The revenue increase was small but difficult to determine precisely since, with a net cost scheme, revenues are retained by the operator. Cost savings were substantial. Blekingetrafiken estimates that the net subsidy per journey was 30% lower than with conventional gross cost contracts. Market share increases or modal shift changes were minimal. Customer satisfaction, which is regularly measured, did not change notably.

### Problems

Institutional barriers were encountered during the concept phase. After so many years during which practically all decisions were made by PTAs, there were inevitable difficulties involved in the transfer of power to an operator.

During the implementation phase, the contract required regular meetings between Blekingetrafiken and Swebus to discuss tariff changes and sort out any general problems arising. Tariff changes suggested by Swebus had to be formally approved by Blekingetrafiken. The only change rejected was the removal of the summer season ticket.

During operations, Swebus realised that it had made too low a bid. The company became increasingly cautious about the net cost contract and this cautiousness spread to other operators.

### Transferability and success factors

The approach is transferable if all parties concerned agree on who is responsible for:

- the network;
- timetabling;
- integration/connections between lines (and between buses and train);
- tariffs;
- vehicle standards; and
- customer relations.

Parties must agree that these responsibilities will remain long enough for customers and PTAs to benefit from them.

### Lessons learnt

In giving operators greater freedom to set tariffs, the relationship between operator and PTA is crucial. Operators must be given clear limits concerning tariffs. The trial in Blekinge showed that

- the PTA was reluctant to hand over the powers they had exercised for decades; and
- the operator Swebus was not able to calculate its bid properly and it lost money

### Conclusions

From a financial point of view, the net cost contract was a success for Blekingetrafiken. Competition among bidders had previously been poor and this proved to be a good way for the PTA and the taxpayers to save money. Blekingetrafiken, as other PTAs, has a political board and some board members may have had problems handing over tariff powers to the operator.

Swebus, on the other hand, quickly realised that it had made too low a bid and regretted that it had not used the escape clause enabling it to get out of the contract by 2003. Swebus officials admitted that they should have had a longer-term tariff strategy covering the whole contract period.

According to Blekingetrafiken, the travelling public hardly noticed Swebus's extended powers and the "public transport profile" remained Blekingetrafiken's.

For the contract that took effect in June 2006, Blekingetrafiken sounded out the operators' interests. Nobody wanted to bid for a net cost contract. The invitation to tender specified a gross cost contract and such a contract was signed with the small company Bergkvarabuss, based in the neighbouring region of Kalmar.

### References and contacts

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