Objective and Definitions

These guidelines aim to provide short and structured assistance to public transport authorities/associations and public transport operators on the implementation of public service contracts, incentive schemes and monitoring systems.

Public Service Contracts

A public service contract (PSC) formally specifies the (contractual) relationship between the commissioning public transport authority (i.e. the public authority or the organising entity) and the public transport operator.

According to new EU Regulation 1370/2007 a PSC means "one or more legally binding acts confirming the agreement between a competent authority and a public service operator to entrust to that public service operator the management and operation of public passenger transport services subject to public service obligations; depending on the law of the member state, the contract may also consist of a decision adopted by the competent authority taking the form of an individual legislative or regulatory act, or containing conditions under which the competent authority itself provides the services or entrusts the provision of such services to an internal operator."

Public service obligation thereby means "a requirement defined or determined by a competent authority in order to ensure public passenger transport services in the general interest that an operator, if it were considering its own commercial interests, would not assume or would not assume to the same extent or under the same conditions without reward."1

Public service contracts are the indispensable backbone of efficient and effective market organisation, regardless of whether or not contracts are awarded by competitive tendering. Every city authority that entrusts its public transport services to an operator (even an in-house operator) should establish a PSC for several reasons:

- A PSC defines the stable long-term framework conditions necessary to efficiently and effectively produce public transport services.
- A PSC clearly defines the tasks and responsibilities of both partners (i.e. who is doing what).
- A PSC is beneficial to the authority as it:
  - clearly defines the public transport services to be de-
Incentives

In economics, an incentive is any factor (financial or non-financial) that provides a motive for a particular course of action, or counts as a reason for preferring one choice to the alternatives.

The quoted definition of public service obligation above indicates that the interests of the two contractual partners (authority and operator) do not necessarily need to be the same. Therefore the authority might wish to include incentives in the public service contract in order to encourage the operator to perform (with respect to price and service quality) according to the interests of the commissioning authority.

Monitoring

Monitoring refers to the regular and systematic collection of data on specified indicators to provide stakeholders of an ongoing activity with indications of the extent of progress and achievement of objectives.

These guidelines focus on monitoring systems directed at the relationship between authority and operator. Internal company monitoring systems (i.e. internal performance indicators for management purposes such as Balanced Scorecard, etc.) are outside the scope of these guidelines. The same goes for monitoring systems aimed at measuring the overall quality of the whole public transport system as a basis for the optimisation of the public transport offer.

Monitoring systems which measure the operator’s performance are indispensable in any public transport system for several reasons:

- to verify whether the operator is performing according to the conditions attached to the contract (i.e. fulfilment of financial and quality aspects stated in the contract);
- to decide on possible incentives;
- to decide on the future organisation of the public transport market (e.g. benchmarking among different operators, tendering decisions, etc.).

Requirements

Before setting up a public service contract the following preconditions have to be met:

- a working legal system needs to be in place that allows the enforcement of contracts;
- both contract partners, i.e. the commissioning authority and the operator, have to be legally or at least organisationally separated;
- the commissioning authority has to be willing to make its arrangements transparent and binding (i.e. long-term commitment).

At the present time these conditions are not yet met in all cases.

Public Service Contracts

A public service contract defines the rights and duties of the contracting parties, authority and operator. As can be seen in the figure below, the authority defines the operator’s obligations. The operator has to fulfil the contract and, in return, receives the right to public compensation.
In particular, a public service contract defines:

- the rights and obligations of both parties;
- quantity and quality of services delivered by the operator;
- compensation payments to the operator for delivering the services;
- use and ownership of assets (infrastructure and rolling stock);
- monitoring;
- management (execution) of the contract.

The contract represents a balanced attitude towards the management of public services. Between the two extremes of public monopoly and total deregulation, the contract allows a precise definition of the responsibilities of all parties. In addition, the contract is the expression of mutual and reciprocal commitments which ensure that the players are aware of their responsibilities, to the greater advantage of their customers.

The process of establishing a public service contract can be structured into the four steps depicted in the illustration above and described in the sections below.

Identification of aims

A public transport authority which intends to set up a public service contract with an operator first needs a clear picture of its strategic objectives.

In order to allocate responsibilities appropriately, the market players, i.e. the authority and the operators, need to have a clear idea of what their own interests are and what they want to achieve. It is therefore important that the authorities determine in advance what level of quality they wish to see and what price they are willing to pay. The public authority needs to make clear what it expects from its public transport operators if the required level of service is to be achieved.

If public transport is not to evolve in a haphazard fashion without focus and ultimately with little efficiency and effectiveness, clear public transport policy aims have to be defined before thinking about the actual means to reach these aims. In other words, a political discussion on the general public transport policy of a city/region is needed (i.e. why do we support public transport and what do we want to achieve with it?). An inventory of typical policy aims within public transport is given in the box below.

Once the public transport policy aims have been identified, the local circumstances have to be analysed in order to translate the policy aims into tactical means. To take into account the local framework, it is useful to analyse the local market organisation as a first step. This should provide a good overview of the present division of tasks, competences and responsibilities between authority and operators. Further aspects to analyse include legal, economic and spatial aspects. An inventory of possibly relevant local circumstances to be analysed is given in the box below.

In a next step, based on the public transport policy aims and the analysis of local circumstances, the authority has to take some basic decisions on the desired relationship, i.e. the division of roles and tasks between authority and operator. A non-ambiguous division of tasks, responsibilities and competencies is needed to be able to organise the market in the most efficient way as a precondition for improvement of quality, service and better usage of public funds. Note that this might include the development of a new market organisation structure.

When allocating responsibilities it is wise to ensure that the actors are able to make the best use of their expertise in their

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**MARKET ORGANISATION**

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**SPUTNIC (Strategies for Public Transport in Cities)** is a project funded by the European Commission under the 6th Framework Programme. SPUTNIC is dedicated to challenges faced by local and regional public transport systems in transition. These challenges include the emergence of a competitive environment, changing institutional frameworks and increasingly scarce financial resources. SPUTNIC seeks to help make public transport systems more attractive and efficient by providing: support to stakeholders to anticipate and prepare for emerging challenges; an overview of state-of-the-art knowledge and research; and specific guidelines and practical tools.
field of competence. Also, the consequences of responsibility allocation should be kept in mind. For instance, the allocation of responsibilities largely determines the appropriate risk allocation or the necessary means to control the operator’s performance (i.e. need for monitoring/incentives, see picture below). The following aspects have to be considered when allocating responsibilities:¹⁰

- Knowledge and expertise of operators and authority.
- Willingness to invest in the creation of the required know-how.

This issue should also be looked at from a longer time perspective (i.e. building up of know-how, loss of know-how and sub-

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**Inventory of Typical Policy Aims within Public Transport**

| Transport policy | • Ensure mobility  |
|                 | • Link individual with public transport |
|                 | • Traffic safety |
|                 | • Reliability of services |
| Social policy   | • Guarantee mobility for everybody (people with limited mobility, low income etc.) |
|                 | • Employment conditions of the operator's employees |
| Environmental policy | • Reduce environmental impact of traffic |
|                 | • Quality of life in urban areas |
|                 | • Efficient energy use |
|                 | • Increase market share of public transport/influence modal shift (e.g. by parking policy) |
| Structural and economic policy | • Land-use policy |
|                 | • Site-related factors |
|                 | • Regional structure |
| Budgetary aspects | • Public transport infrastructure policy |
|                 | • Budget available for public transport |
|                 | • Willingness of authority to bear risk |

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**Inventory of Relevant Local Circumstances**

| Existing public transport market organisation | • Allocation of roles and tasks (authority <-> operators) |
|                                              | • Allocation of decision-making powers on the strategic, tactical and operational levels |
|                                              | • Localisation of information and know-how |
| Legal restrictions                           | • EU legal framework on public transport, awarding and contracting |
|                                              | • National/regional/local legal framework on public transport, awarding and contracting |
| Economic restrictions                        | • Economic situation of the operator market (including ability to bear risks) |
|                                              | • Financial/budgetary aspects |
|                                              | • Ability of the authority to bear risks |
| Market structure                             | • Number and size of operators |
|                                              | • Ownership |
|                                              | • Know-how and capabilities |
|                                              | • Efficiency |
| Existing transport system                    | • Infrastructure |
|                                              | • Rolling stock |
|                                              | • Network design |
|                                              | • Level of service quality |
|                                              | • Existing data |
| Other spatial/geographical restrictions      | • Maximum leeway to be given to the operator |
|                                              | • Complexity of implementation and the need to use incentives |
|                                              | • Expected need for monitoring of the operator |
|                                              | • Budget for authority personnel |
|                                              | • Ability of all actors to bear risk, etc |

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The figure above shows the relationship between public transport authorities and operators with respect to market organisation.

**Contract design**

When designing the contract three closely connected issues have to be addressed (see also picture above):

- Planning and design of public transport services.
- Risk allocation.
- Control of performances.

**Planning and design of public transport services**

Planning and design of public transport services can be undertaken by the authority, by the operator or a mixture of both. If the authority decides to give the operator a high degree of freedom (so-called functional planning), there might be less need to describe every aspect in detail, but this will then have to be balanced by adequate contractual incentives inducing the operator to serve passenger demand and realise public transport policy objectives. In the other case, where public transport services are mainly designed by the authority, the contract will contain more detailed service descriptions in order to steer the operator (so-called constructive planning). The second illustration above shows the different types of steering mechanisms.
Note that in any case the definition of the quality level of public transport services is an essential part of contract drafting.

**Allocation of Risks**

Classically, different types of contracts are distinguished according to the allocation of risks between authority and operator. The share of risks is crucial, as for a fair and successful contract the competencies and responsibilities should be distributed according to the share of risks. This share is made according to local circumstances and considerations. There are two categories of risks: the production risk in terms of operating and investment costs and the commercial risk in terms of revenues. According to their allocation, three main types of contracts can be distinguished (see also the figure above):11

- **Management contract**: production risk and commercial risk are both borne by the authority. The contract may include incentive schemes linked to the changes in revenues or changes in costs etc.
- **Gross cost contract**: production risk is borne by the operator while the commercial risk is taken by the authority. The operator is remunerated by a contribution of the authority based on the costs. The remuneration can be modulated by a bonus/penalty scheme according to the evolution of quality, patronage etc., which enables the authority to modify the level of commercial risk.
- **Net cost contract**: Both production risk and commercial risk are borne by the operator. The operator is remunerated by the revenues and a complementary compensation payment for social fares and other public service obligations as well as a contribution of the authority based on the costs. The commercial risk can be modified by adjusting the complementary payment according to the real revenues.

In practice, the different risks are often shared, resulting in numerous forms of hybrid contracts.12 Pure types of gross cost contracts or net cost contracts are very seldom in everyday practice. In the table above the essential advantages and disadvantages of (pure) gross and net cost contracts are shown.13

As a general rule, risks should be allocated according to competencies and responsibilities, because ideally no one should have to bear a risk he/she cannot influence. On the other hand risks should be allocated according to the ability to bear them. Although authorities might be tempted to transfer a maximum of risks to the operators they should be aware that this might come along with a number of negative side effects, especially in the case of competitive awarding:

- The operator will calculate a risk premium for the higher risk (increasing compensation payments).
• A very high level of risk may result in insolvency of the operator.
• The higher the risk the lower the number of bidders (risk as a barrier to market entry).

Control of operator’s performance and incentives
Control of the operator’s performance can take place through monitoring (see under “Monitoring” below) or by using more or less self-fulfilling contractual features (i.e. incentives). Instead of simply writing rules and prohibitions into the contract, which would need to be thoroughly monitored by the authority to be effective, incentives can utilise the profit maximising aims of the operator to achieve the policy aims of the authority. In the case of a monitoring system, performances are controlled by the authority whereas by using incentives the performance is controlled by the operator (in its own interests, see figure “Relationship between Authority and Operator” above). Usually a combination of both instruments is necessary, even more so as monitoring is often necessary to provide the data needed to decide on the incentives.

Incentives are typically of a financial nature. However, threatening to introduce competition could also constitute an incentive for the operator to provide better service quality. Positive incentives are agreements according to which the operator receives a financial benefit for the fulfilment of particular objectives. Negative incentives apply a penalty if the operator fails to achieve certain objectives. Recent gross cost contracts in the “new Scandinavian model” contain bonus-malus clauses for cancellations, punctuality, staff behaviour, cleanliness, customer information and number of passengers. Some of these are easy to evaluate or measure, some are influenced by external factors such as the weather, while some are more ‘soft’ and have to be measured through customer surveys or by using mystery riders (see under “Monitoring” below).

The type of incentive used will vary, depending on the type of contract used and the objectives to be fulfilled. For example, if an operator has no revenue risk (pure gross cost contract) incentives need to be implemented in order to achieve sufficient focus on fare collection and customer satisfaction. If an operator instead bears the revenue risk, the risk in itself might give the needed incentive to achieve the same required customer satisfaction.

We can distinguish two main groups of incentives:
• Revenue or patronage incentives imply that the operator benefits from increasing patronage or revenue. For instance, the operator receives a certain percentage of revenue above a certain level.
• Quality incentives imply that the authority pays the operator a bonus if the level of quality exceeds a certain level. Quality level can thereby refer to overall customer satisfaction (measured through customer satisfaction surveys, as practised in Zurich) or to specific quality aspects (e.g. penalties for cancelled services or irregularities, as practised in Oslo) or to quality aspects in a wider sense such as environmental aspects (as practised in Gothenburg, where operators are paid a certain amount when operating less polluting buses than stipulated in the contract).

For any incentive to be effective it is of vital importance to establish reliable methods of measuring the fulfilment of the underlying objectives, which should be mutually accepted (see under “Monitoring” below).

Incentives can contribute to the achievement of the overall goals of the public transport system. However, there may be large costs associated with the correct management of incentives and it may be hard to design incentives so that they really make a difference. Authorities have to be aware of the trade-off between the positive effect of incentives and the negative effect of risk present in these incentives. Apart from risk costs, incentives may include other potential negative effects. For instance punctuality incentives might tempt the driver to speed or the operator to adapt his timetables (with longer travel times for passengers). In principle, the question (although difficult to answer) is whether the risk premium calculated by the operator is lower or higher than the positive effects from using incentives.14

It should be noted that the real power of contractual incentives might differ from their mere content. This is especially relevant in the case of publicly owned companies. In an extreme case, when an authority influences management decisions of the operator through its position as owner of the company, or when it accepts to take over financial deficits that the public operator incurs (i.e. above contractual compensation), or when the authority does not fulfil its contractual duties in terms of financial compensation for services ordered, then the contract text and its incentivising power tend to remain purely a formality.15

Important elements in the successful use of incentives include the following:
• use only indicators as a basis for incentives which can be influenced by the operator;
• ensure credibility of incentives and sanctions;
• incentive payments should be in accordance with the efforts/costs needed to earn them;
• try to establish a win-win situation by using not only penalties but also bonuses.

Contract structure and content
Once these main issues have been discussed, the actual public service contract can be drafted. Although the contents of public service contracts can vary significantly (according to the issues discussed above), the contract usually contains the following basic elements:16
I. Preamble (i.e. the intention of the contract)
II. Scope of agreement
   − Scope
   − Activities of the operating company
   − Subcontracting
   − Financial responsibilities
   − Overall transport planning
III. Rights and obligations of the operator
### Rights and Obligations of Authority and Operator

<table>
<thead>
<tr>
<th>TRANSPORT AUTHORITY</th>
<th>TRANSPORT OPERATOR</th>
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<tr>
<td><strong>Rights</strong></td>
<td><strong>Obligations</strong></td>
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<tr>
<td>• to define the quantity of services</td>
<td>• to pay compensation to the transport operator for services delivered</td>
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<tr>
<td>• to define the quality of services</td>
<td>- to provide and maintain infrastructure:</td>
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<td>• to monitor services demand</td>
<td>- stops</td>
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<td></td>
<td>- bus lanes</td>
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<td>- priority traffic lights</td>
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<td></td>
<td>• to co-ordinate passenger information and marketing</td>
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<td></td>
<td>- to implement policies and make investments</td>
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<td></td>
<td>- not to interfere in daily operations</td>
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<tr>
<td></td>
<td>• to deliver public transport services (quantity)</td>
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<tr>
<td></td>
<td>- to comply with quality standards</td>
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<tr>
<td></td>
<td>- to adhere to the tariff and ticketing system</td>
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<td></td>
<td>• to receive compensation payments for services delivered</td>
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<td>- services delivered (quantity)</td>
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<td></td>
<td>- services delivered (quality)</td>
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<tr>
<td></td>
<td>• to submit proposals for improvement of services (in terms of demand and efficiency)</td>
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<tr>
<td></td>
<td>- complaints</td>
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<tr>
<td></td>
<td>- turnover (tickets sold)</td>
</tr>
<tr>
<td></td>
<td>- financials</td>
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**Source:** Public Service Contracts in Public Transport, Bruggeman, 2008

The main contract is in principle fixed for the duration of the contract while the appendices might be updated on a regular basis.

One example of rights and obligations of both authority and operator (with a rather constructive planning of services) is given in the box below.

Although a legal document, a public service contract is mainly an economic instrument used to organise the market. Thus for a successful contract, a lawyer should only be engaged to focus on legal assessment once the economic design of market structure and contractual aspects have been completed, and not before.

**Contract Awarding**

The contract can be awarded either directly or through a competition. The necessary procedures and their advantages and disadvantages are outside the scope of these guidelines. However, the information provided here is valid regardless of the awarding mechanism chosen.

**Monitoring**

Independent of the contract model the authorities need to check whether the obligations stated in the contract are ful-
filled. This check can take place either through more or less self-fulfilling contractual features (i.e. incentives), or through some sort of monitoring where certain performance indicators are constantly collected in order to control the fulfilment of the contract. Monitoring systems are therefore an unavoidable part of contract management. They can be seen as alternative or complementary to the incentive instruments incorporated in the contract.

It is important to secure the credibility of the authority and the effectiveness of the provisions of the contract so that the authority is able and willing to identify insufficient performance in case it occurs.

Where performance indicators are not met, the authority must be able to impose fines, withhold part of the subsidy, arrange for compensation or deny extension/renewal options.27

The importance of monitoring systems and their objective is reflected in the following statements:18

- If you do not measure results, you cannot tell success from failure.
- If you cannot see success, you cannot reward it.
- If you cannot reward success, you are probably rewarding failure.
- If you can demonstrate results, you can win public support.

In general, every monitoring system consists of the following steps:

1. Identify objectives and target criteria (e.g. punctuality)
2. Identify indicators to measure the target criteria (e.g. services running more than 3 minutes late)
3. Define target values (e.g. 95% of services punctual) and a threshold of unacceptable performance (if applicable).
4. Define appropriate measurement methods for each indicator (e.g. analysis of fleet management system data).
5. Collect data.
6. Analyse data.
7. Assess results and apply correction measures.

Indicators are necessary to measure the performance. As much as possible they should be:19

- relevant and sensitive (to variation of service provided, not to external effects);
- objectively measurable (with reasonable effort);
- statistically valid;
- simple and transparent;
- customer-oriented (measures “percentage of customers” rather than “percentage of stops”).

Any monitoring necessitates gathering data. In the event of the operator failing to fulfil obligations in the contract, it will be necessary to prove where and to what extent the service agreed upon was delivered (or not). Authorities can collect information from independent sources. Alternatively, the contract can allocate the responsibility of data collection with the operator. In practice, however, the operator might not be prepared to provide information which may show underperformance or even lead to a penalty payment. In any case, the authority needs to be competent enough to interpret the relevant data.20

Although the monitoring itself is carried out after the conclusion of the contract the ability to take measurements and the possible measures to be taken should be already set out in the project service contract. The measurements must be transparent and verifiable for both parties. Each performance target needs to be clear and measurable.

Depending on the purpose of the monitoring, the economic performance and/or quality performance of the operator will be monitored. Consequently, a number of economic and/or quality performance indicators have to be measured and monitored.

Possible economic performance indicators might include:21

- production cost per scheduled kilometre;
- production cost per scheduled operating hour;
- revenues per scheduled kilometre;
- cost coverage (share of production costs covered by revenues), etc.

The measuring of quality performance is usually more complex. On a European level, a general standard for customers of public transport has been available since 2002. The EN 13816 standard was issued by the European Committee for Standardization (CEN) and includes a common measurement of quality in public transport. This standard can be applied by authorities for the quality management of their public transport system or for the quality management of their contracts. The EN 13816 standard can also be used by public transport operators for their internal quality management (e.g. Prague Public Transport Company).

EN 13816 lays out standards for the definition of quality and quality standards in public transport and for their measurement. This includes suggestions of appropriate measurement methods. The quality definition of the norm is based on the quality loop which distinguishes four dimensions of service quality (see box below):

- Expected quality: This is the level of quality demanded by the customer (implicit or explicit expectations). Qualitative and quantitative surveys can be used to identify these criteria and their relative importance.
- Targeted quality: This is the level of quality that the operator aims to provide. It is dependent on the level of quality expected by the passengers, external and internal pressures, budgetary constraints and competitors’ performance. The targeted quality is made up of a reference service (e.g. punctuality: less than three minutes late), a level of achievement for the reference service (e.g. 95% of service punctual) and a threshold of unacceptable performance.
- Delivered quality: This is the level of quality that is achieved on a day-to-day basis. Delivered quality can be measured using statistical and observation methods, e.g.
direct performance measures.

- Perceived quality: This is the level of quality perceived by passengers in the course of their journeys. How a passenger perceives the reality of the situation depends not only on his personal experience of the service but also on associated services, on the information he receives about the service (not only that provided by the company, but also information from other sources), on his personal environment, etc.

The quality loop above illustrates two worlds with two distinct viewpoints, one the customer, the other the operator. Improving service efficiency and quality means closing the four gaps represented by the numbers in the picture above. Gap 1 indicates the degree of customer satisfaction and is usually measured using customer satisfaction surveys. Gap 2 indicates the ability of the operator to focus on the customer’s needs. A wide gap indicates little customer orientation and implies that the operator is not focused on the aspects that are really important for the customer. Gap 3 measures the performance of the operator in reaching its targets. Perceived quality can be very different from delivered quality. A wide gap 4 can stem from a bad company image or personal prejudice which makes the customer undervalue the service provided.

EN 13816 defines over 100 quality criteria that constitute the overall quality of public transport. They are grouped into the following eight main categories:

- availability
- accessibility
- information
- time
- customer care
- comfort
- safety/security
- environmental impact

Depending on the division of tasks between authority and operator and also on local circumstances, the operator can more or less influence the criteria listed above. The scope of influence has to be taken into account when setting up a monitoring system. For instance, there is no point in blaming the operator for late services if the timetable cannot be met due to buses being stuck in rush-hour traffic.

For measuring aspects of quality, EN 13816 suggests three methods which are often combined:

- Direct performance measures which measure the delivered quality.
- Mystery shopping surveys where independent test customers try to assess the delivered quality in a way similar to the average customer.
- Customer satisfaction surveys which measure the gap between perceived and expected quality. The results of these surveys can be summarised in a service quality index (SQI).

All three methods have their advantages and disadvantages. First, they do not measure the same dimensions of quality. While direct performance measures measure the
delivered quality, customer satisfaction surveys measure the gap between expected and perceived quality. Direct performance measures are therefore only dependent on the operators performance while customer satisfaction surveys also depend on external factors such as the attitude of the customer. (The latter of course can be influenced by the operator, e.g. through image campaigns.) Second, not all methods are suitable for every quality criteria. So-called “hard criteria” such as punctuality, equipment of vehicles, disruptions etc. can be relatively easily measured using direct performance measures. “Soft criteria” however, such as friendliness of staff, perceived security, cleanliness of vehicles etc. are more likely to be measured through mystery shopping or customer satisfaction survey. As they can be measured more directly and more precisely, hard criteria are often preferred to soft criteria as a basis for setting up quality incentives within contracts. However, it is often the soft criteria that matter more to the customer and therefore to the success of public transport.

Thus we can see that the different methods are mostly used for different purposes:

- Direct performance measures are mainly used as a basis for maluses.
- Mystery shopping surveys are mainly used as a basis for maluses and/or bonuses.
- Customer satisfaction surveys are mainly used as a basis for bonuses.

In terms of measuring delivered service quality, EN 13816 is complemented by EN 15140 Public Passenger Transport – Basic Requirements and Recommendations for Systems that Measure Delivered Service Quality.

By requiring the operator to grant passengers certain passenger rights (e.g. the reimbursement of taxi costs in the event of disruptions or delays of more than 30 minutes) the authority can shift part of the monitoring tasks to passengers who receive financial or other compensation when the operator does not meet specific quality requirements.

Apart from checking the fulfilment of the public service contract the monitoring system can also be used for benchmarking purposes. Whereas a monitoring system focuses on the contract, i.e. the relationship between the authority and a single operator, benchmarking refers to comparing the performance of different operators (see diagram below). In this way the authority can avoid paying too much for the services commissioned or accepting a quality that is too low, even in the case of a direct award of the contract. This issue is particularly important in view of the new EU regulation banning overcompensation (Article 4). The new regulation even states (Article 6) that EU member states shall, at the written request of the European Commission, communicate all information necessary to determine whether the compensation granted in a public service contract is compatible with the regulation. Authorities therefore have to be able to prove that their payment structure avoids overcompensation, which can be shown by the means of a benchmark.22

Benchmarking figures can be used as a dialogue instrument between authority and operator, thereby establishing a more open and more fruitful partnership. They can also be used as an instrument to demonstrate results and achievements in order to win public support.

Benchmarking can also be used as a decision basis for reassessing the organisation of local public transport services, with respect to tendering for example. This approach is used by some public transport authorities in Switzerland: contracts are awarded directly as long as the corresponding operator performs effectively and efficiently compared to the benchmark; however, if performance indicators indicate an efficiency or quality below average the network is put out to tender. The looming threat of direct competition via tender allows the authorities to establish a stronger negotiating position with operators.

This benchmarking can also help to establish some sort of (indirect) competition, even when there is actually no direct competition on the market. Thus the results of quality monitoring should be made public in order to generate quality competition among operators.

The implementation of a benchmark is often complicated by the difficulty of comparing different information. Performance data from different operators can stem from different sources using different measurement methods. Also, area characteristics (e.g. small city versus large conurbation) and types of transport can vary considerably. In a network made up of metro, tram and bus lines, bus services will have an entirely different function than in a pure bus line network. Also, the tasks performed by different operators might vary from city to city (e.g. from the pure provision of transport service to marketing and network planning tasks), which will result in different cost figures.

Despite these potential variations, it is possible to make the key figures for different types of transport comparable, e.g. by taking certain specific cost-related factors into account such as operating speed, number of passengers carried and spatial characteristics of the transport area. By bringing more key figures into the equation a balanced comparison of the transport performance of different operators can be made.
Sources for further information

- SPUTNIC Project, especially Deliverable 4 Best Practices and Recommendations Report which include the following good practice cases on contracts, incentives and monitoring (<www.sputnicproject.eu/sputnic-products.php>):
  - Public service contract in Gdynia, Poland
  - Incentive contracts of Vasttrafik (Western Sweden)
  - Monitoring and bonus system of ZVV (Zürich, Switzerland)
- Contracting in urban public transport, inno-V/KCW/other, 2008
- Public Service Contracts in Public Transport – An Overview, presentation by SPUTNIC expert Guido Bruggeman held at the Working Group Meeting in Prague, 2008 (see <www.sputnicproject.eu>)
- A Market in Motion, UITP, 2005
- Incentive Agreements in Public Bus Transport, UITP, 2000
- EN 13816:2002, Service Quality Definition, Targeting and Measurement in Public Passenger Transport
- EN 15140:2006, Basic Requirements and Recommendations for Systems that Measure Delivered Service Quality in Public Passenger Transport
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Notes

1 EU Regulation 1370/2007
2 International Finance Institutions such as EBRD or EIB subject their loans to the existence of a PSC.
3 EU Regulation 1370/2007 demands the existence of a PSC whenever an authority decides to grant the operator an exclusive right and/or compensation in return for the discharge of public service obligations.
4 They are, however, treated in SPUTNIC Guidelines to the Corporate Management Cluster.
5 Public Service Contracts – An Overview, presentation by SPUTNIC expert Guido Bruggeman
6 UITP, A Market in Motion, 2005
7 inno-V et al., 2008
8 inno-V et al, 2008
9 A Market in Motion, UITP 2005 (p. 10)
10 adapted from inno-V et al. 2008
12 For instance, in a gross cost contract the authority can shift part of the commercial risk to the operator by introducing quality incentives (assuming that quality is related to revenues). This is successfully practiced by Transport for London who call this contract type a “quality incentive contract”.
13 Borrowed from BAG SPNV, Wolfgang Dippel, Wettbewerb aus Sicht der Aufgabenträger des SPNV, Eisenbahntechnisches Kolloquium Darmstadt, 15 June 2004, and Incentive Agreements in Public Bus Transport, UITP
16 Public Service Contracts in Public Transport, Bruggeman, 2008
18 The World Bank: Ten Steps to a Result-Based Monitoring and Evaluation System, 2004 (based on Osborne/Gaebler)
19 Quality Management & Standards, UITP EMTA Workshop, 27 January 2007
21 Examples from the National Benchmarking Project of the Swiss Transport Authority
22 A Market in Motion, UITP, 2005
23 A Market in Motion, UITP, 2005