



VÄSTRAFIK

## WEST SWEDEN

## Incentive contracts of the public transport authority Västtrafik

### Background/context

Västtrafik has tried different types of public service contracts, all of which can be grouped in two main categories: gross contracts or net contracts.

Gross contracts, the predominant type, have not been satisfactory as operators have tended to focus more on reducing costs rather than building ridership, customer satisfaction and revenues.

Net contracts also have disadvantages due to the uncertainty about who is in charge of supply, timetables, etc. As the operator accepts higher business risks in a net contract he demands more influence than in a gross contract. There have also been fare problems, as the operator in a net contract wants or insists on his own fare system which is not technically or structurally integrated with Västtrafik's system. Other conflicts relate to setting and coordinating fare levels between Västtrafik and the operator.

### Description of the case

In the early 2000s Västtrafik began looking for a contract type that would avoid these problems. Was there a contract that would make clear that Västtrafik was "in charge" while also stimulating the operator to build ridership and improve customer satisfaction?

In recent years a project involving representatives from Västtrafik and the operators has grappled with this question and has resulted in some recommendations. They propose not only how to create a "good" contract, but also

how tender documents should be designed to make this possible. The content of the tender documents is a key factor this lays out a set the rules and defines the respective roles of Västtrafik and the operator over the long term.

The result has been the gradual implementation of "incentive contracts." Most of these contracts have been adopted as old gross- and net contracts have expired, and tenders issued. In some cases incentives have been inserted into existing gross contracts.

In incentive contracts, 60-80% of the operator's compensation is fixed in relation to the total supply (vehicle kilometres). The remainder (the incentive part) depends on the number of passengers. The incentive is based on a fixed compensation per trip and has nothing to do with the fare level or the specific revenue for the routes operated by the operator. The fare system (assortment of ticket types, etc.) and the fare levels are decided by Västtrafik in order to offer passengers an integrated, consistent fare system covering the whole region of Västtrafik.

The fixed compensation and incentive payment comprise the operator's main compensation. However, this is not all. On top of this, the operator can also receive bonuses or be assessed penalties. Bonuses are related to customer satisfaction or, in some contracts, environmental issues such as replacing old vehicles with newer, more efficient, less pollutive ones.

Independent research companies gauge customer satisfaction via questionnaires covering factors over which the op-

erator has control. This includes the behaviour of drivers and other onboard personnel, quality of information, interior cleanliness and climate control (onboard temperature).

If the total customer satisfaction score exceeds a certain level, with each underlying factor meeting minimum standards, the operator gets a bonus. The bonus is defined in advance, often as a percentage, generally 2-5%, of the fixed compensation.

Penalties relate to things such as cancelling of runs, lack of onboard personnel (trains), dirty vehicles, incorrect destination information or lack of such information, incorrect settings of ticketing system, etc.

Data on these issues are either reported on a monthly basis by the operator (for example cancelling of runs, lack of personnel) or measured by Västtrafik through random inspections (factors related to the condition of the vehicle).

If shortcomings are not reported by the operator in the monthly report, but instead discovered by Västtrafik, the penalty is multiplied by a factor of three to five, depending on the quality criteria it concerns.

Penalties are reasonably balanced with bonuses. That means that they seldom exceed 5% of the fixed compensation.

Contracts can be terminated by Västtrafik if problems persist for a long time and the operator does deal with them.

## Legislation and policy issues

Incentive contracts have created no legal problems. The policies behind incentive contracts have been approved by Västtrafik's board and have been discussed with representatives of the operators.

## Cost and financing

There have been no specific costs related to the implementation of the incentive contracts. The development has been a part of the normal work within Västtrafik and the regular contacts with the operators.

Of course there are costs related to the measurement of quality criteria during the contract period, but these costs are quite marginal – less than 1% of the total costs for a specific contract.

## Results

The problem is to isolate the effects of incentive contracts from the effects of other factors such as overall economic or socioeconomic changes in the region, petrol price fluctuations, car-parking policies, etc.

Although scientifically verified studies are lacking, Västtrafik and many of the operators believe that incentive contracts improve ridership, service quality and revenues.

Operators typically want to be more than just "production units" but do not want to expose themselves to the high risk level that a pure net contract entails.

## Problems

Some operators have objected to Västtrafik's setting of fares (affecting the number of passengers), methods for quality measurement, etc. In some cases it has been necessary to adjust the compensation per passenger.

One problem concerns "open" systems, when the registration of a trip is voluntary for the passenger. In this case there needs to be another way of counting passengers besides ticketing machines.

## Transferability and success factors

Västtrafik believes that incentive contracts are efficient and that they should be transferable to other cities and regions.

These contracts must be prepared in close relation with the operators. If they are motivated along with the authority, success is more likely. Contracts should offer potential rewards for both parties.

## Lessons learnt

For Västtrafik this has been, and still is, a trial-and-error process.

There is no standard contract for the whole region. Conditions vary between different parts of the region (urban or rural areas), between different transport modes (buses, trams, trains, boats) and between "open" systems and "closed" ones (compulsory validation of all types of tickets within ticketing machines).

In rural areas with low ridership, Västtrafik's experience is that the incentive part of compensation should be lower than within urban areas with high numbers of passengers.

The implementation of incentive contracts is a process that must be given time so that different kinds of experiences can be built into the contracts gradually.

Contracts should have both penalties and bonuses, and they should be reasonably balanced economically.

Our experience is that it is better to use the tender processes to establish new contract types rather than to implement them in existing contracts.

## Conclusions

Västtrafik is pleased with incentive contracts compared to pure gross- or net contracts. The ambition is to further develop this type of contract.

Our opinion is that incentive contracts have contributed to better quality and an increased number of passengers. Incentive contracts have also been appreciated by most of the operators.

## References and contacts

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