9^{TH} CONFERENCE ON COMPETITION AND OWNERSHIP IN LAND TRANSPORT

Fifteen years of competition in local public transport, Stockholm Sweden.

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1. INTRODUCTION AND SUMMARY

Public transport of the capital of Sweden has been procured in competition since almost fifteen years. Quality to passengers has improved and cost has been reduced. Problems have occurred along the road. Experience and changing external conditions have continuously developed the way of working. Recent decisions in the board of SL – the PTA of Stockholm – confirm that this development will continue. Focus will now be on improved quality management, broadend competition, cost control and development of professional competence on both sides of the table.

Below you will find an overview of the process from 1990 when the basic decisions were taken to 2004 when the board of SL adopted the principles of continued development of contracting of public transport.

2. THE SWEDISH MODEL IN SUMMARY

According to legislation from the late eighties local public transport in Sweden is the responsibility of regional authorities. There is a PTA (Public Transport Authority) in each of the 20 counties, of which Stockholm is one. The PTA is in most cases owned jointly by the county council and the municipalities. Normally the local transport services are financed partly by ticket revenue and partly by local taxation funds, the relation normally being 60/40 %. Bus and train operations are contracted out and performed by private companies. The PTA normally distributes subsidies, sets fares and regulates the system from political and socio-economic points of view.

Long distance bus-lines are in practice free to anyone to operate, while long distance trains are operated by the state railway company. Infrastructure is normally funded either by local political bodies or by the government.

3. SL

In the Swedish capital region the PTA is called “SL”- AB Storstockholms Lokaltrafik. It is 100% owned by the county council, unlike in most counties where also the municipalities are stakeholders. Thus, SL is responsible for supplying the capital region with public transport services. The basic quality standards and regulations are given by the county council, of which the SL- organisation is part. Approx. 2 million people live in Stockholm county.

The SL-services constitute more than 50% of the total local public transport in Sweden. They form an integrated mix of travel opportunities of underground and commuter train lines, buses and local railways weaving together into a seamless system.

Each year SL carries approx. 650 million passengers, corresponding to more than 2,4 million boardings per normal day. The market share in the morning peak is close to 75%.

4. COMPETITIVE TENDERING IN THE 90-TIES

4.1 Organisational change

In order to improve cost effectiveness and management skills in local public transport the county council in 1990 initiated a major review of the existing public monopoly.

The main idea was, and still is, that daily operations are most efficiently performed by private operators while society / the PTA takes the responsibility of financing, planning and co-ordinating the transport system and the infrastructure.

Step by step all activities of SL were put into a number of separate subsidiary companies. Administrative functions were separated from traffic operations and thus formed bus a operating company, a number of train operating companies, a real estate company, a rail-infrastructure company etc and also a PTA-company.

The operations were then, after two years of preparations, put to tender over a seven year period 1993-1999. This included all traffic and station operations.

In 1990 SL had 12000 employees. Today we have approx 400 in the PTA-organisation in spite the fact that our system has expanded and improved considerably. A dramatic change has taken place for everyone working in public transport.

Observe that not only traffic operations were outsourced but also administrative services, internal consultants, maintenance of infrastructure etc.

During this transition, SL was both the owner of operating companies and the purchaser of traffic and station services. This situation called for special solutions regarding independence and neutrality. External reviews were made continuously and reported to the board.

In order to clarify the purchasing role the subsidiaries were sold or outsourced in other ways. For example in 1999 the underground company SL Tunnelbanan AB was sold to Connex (then CGEA). The bus company was in 2002 sold to Keolis in France. The rail maintenance subsidiary was sold in 2003.

Presently SL still owns a minority of the shares of a bus operating company (Busslink) and the rail maintenance company (Svensk Banproduktion). Maintenance of lifts and staircases is still 100% owned due to lack of competition.

4.2 Business model

As mentioned, improving cost effectiveness without deteriorating quality was the overall objective decided by the county council.
Introducing competition into public transport was the major tool of achieving this.

A concept of gros cost contract was chosen, focussing the tenderer on cost efficiency. This was a type of contract where improved efficiency – cutting costs - was the way that the operator could make business profitable during the contract period. A lump sum was paid by SL every month with certain marginal bonuses and fines for punctuality and cancellations.

As mentioned a goal was to get a clear organisational picture, where the roles were well defined and the credibility of the PTA could not be questioned. Credibility was and still is a key word. SL has to have the confidence of the market and has the ambition to be the good example.

Very roughly the partition of responsibilities between PTA and operator was as follows:

PTA
-long term development of transport system
-integration of system incl fare and ticket pricing
-co-ordination of operations
-tendering and contract management
-financing
-branding and PR
-quality standards
-ownership and development of infrastructure

Traffic and station operator
-planning and operation of vehicles and staff
-quality management and customer care
-local marketing and information
-maintenance of vehicles
-fraud reduction and ticket control

The operators should be given as much freedom as possible to use their means of production, within the framework set by SL. Three year contracts with an open end were used for the first three years. From 1996 five year contracts were introduced with an option of maximum five more years. During the second five year period the contracts normally ran with 15 months notice..

Procurement of bus operations were, and still are, made district-wise. The underlying principle being that the operator should be given as much freedom as possible to optimise his resources. That would give the best balance between price and quality to SL. The way of monitoring the operations was self-control and reports from passengers. As a consequence - in the evaluation of tenders - the price was decisive once the basic requirements were fulfilled. There was a firm belief in SL management that the operators would improve and develop public transport if given freedom from interference from public administration.

4.3 Effects

Overall cost for traffic and station services was over time reduced by 25% - approx 900 million Euro a year. Public transport in Stockholm is now approx. 50% subsidised by the local governement - in the beginning of the nineties the rate was 75 %. Traffic services have expanded considerably since.

The number of buses used in operations was reduced by 15% due to introduction of new computer-based planning models. Maintenance was optimised and only performed between peaks and at night, when the buses and trains were not needed in the streets. Administrative staff drive buses in peak hours. The middle management level was heavily reduced.

The lower cost was achieved to 50% during the two years from the SL decision to start tendering up to the actual start of tendering processes in 1993. The threat of competition made the SL-subsidiaries prepare and increase efficiency substantially. In that situation, the SL subsidiaries had no possibility of expansion but only of losing districts to other competitors. By Swedish law a publicly owned company has no right to enter into markets outside the boarders of the district of the respective authority, in this case being the county of Stockholm. The challenge was to lose as little as possible. Under these circumstances actions to reduce cost often were agreed between employers and employees without conflict.

Initially quality in terms of punctuality and rate of cancellations improved.
Not surprising, market knowledge, long term investment in the organisation, passenger needs etc however were considered secondary and started slowly declining. That was one reason behind the decision to use longer contract periods.

The tenderers tried so hard to win the competition that they submitted “too low prices”. The contracts written in the mid and late nineties were - and in some cases still are - loss making all over Sweden. This also diminished the incentive for development and long term commitment. As will be described further on, the parties acted short-sightedly, pushing reinvestments in competence, maintenance etc ahead.

The political decision of introducing competition into the public market of transport was opposed by the unions. During the first years of tendering there were a number strikes and other actions. More efficient schedules were introduced and staff could – for the first time ever – not be sure to keep their job when a procurement was announced. New operators chose freely the drivers they wanted and left others without a job. Obviously that was a very dramatic change. It also had political implications by the time. Considering the strategic need of a stable supply of drivers, technicians and other staff for public transport in Stockholm, SL decided in 1995 to introduce into the contracts the obligation of transfer of employment. This is still applied. Progressively a new collective agreement was processed between the bus operators and the unions giving bus drivers in SL-operations almost the same employment conditions regardless of employer. Autumn 1996 a major step in this direction was taken. This process is presently developed into a common agreement for all bus drivers which will be fully implemented by 2008.

5. THE 1998 DECISION

As mentioned above the gros cost contracts worked well in order to promote cost effectiveness. In the late nineties however it became obvious that there was need for a review of the business model. The driving forces of the contracts were not focussed on the new overall objectives of SL – more passengers, improved passenger satisfaction and cost effectiveness.

After external and internal evaluations of the tendering process and the application of the business model so far, SL turned its focus step by step to delivered quality and subsequently on percieved quality. Both unions, bus and train operators and SL itself took part in the evaluations.

A strategic decision was then taken in autumn 1998 to
-focus on quality to passengers
-strengthen and develop long term business relations
-reduce the pace of retendering once all traffic operations were contracted out
-intensify control and monitoring

Unnecessarily frequent tendering was realized by SL as an obstacle for investment by the operators in competence and management systems.
Good business relations were to be developed and procurements were made only “when necessary”.

SL should take on a more active role in monitoring operations and quality factors.

5.2 Effects

It was highly appreciated by the players on the market when SL in 1998 for the first time accepted not only the lowest price but he best tender with regard to cost and quality.

New methods of evaluating qualitative factors in tenders were used. The obvious need for quality development made SL choose to introduce incentive schemes on top of some existing “gros-cost contracts”. This was expected to be a quicker way to get results.

The incentive schemes have been used mainly in rail operations. They brought several good things and not least experience to both SL and the operators. They have however not been as efficient as we had hoped them to be. With an underlying business model based on fixed price, it was hard to introduce challenging risk-sharing concepts. From an economic point of view the incentive schemes formed an opportunity for the operators to improve profitability which they, as mentioned above, really needed. In this situation it is not surprising that results did not always correspond to expectations. Too often negotiations about additional incentive schemes turned into detailed discussions of covering real cost instead of being focused on results to be achieved.

As mentioned many of the bus contracts were running with 15 months notice, which obviously did not support investment in competence and management methods.

The incentive schemes were focused partly on SL main objectives and partly on known quality problems in the respective district or transport mode. Using the result of passenger perception studies a dialogue was opened with the passengers. SL and the operator could focus improvement on factors that the passengers appreciated as most important and least satisfactory.

In bus and rail services incentive schemes have been used regarding e.g.:
-punctuality
-number of passengers
-staff behaviour
-cleanliness of stations and vehicles
-graffiti
-fraud

The schemes have brought new knowledge to SL and to the operators. Beside technical measurements also mystery shopping and passenger surveys were and are still being used.

Progressively it was perceived by SL that the ability of the operators to realize the quality agreed in the incentive schemes was limited.

5.3 Further structural change

As part of this new strategy the SL organisation was restructured. Early 1999 a decision was taken to sell the underground operating subsidiary. There were three main reasons for this, namely the need to:

-clarify the roles
-quickly improve quality to passengers
-challenge and broaden the SL way of working

In summer the same year a majority of the shares was sold to Connex. An incentive scheme was introduced at the same time. In 2002 the rest of the shares were sold to Connex following a quality review made by SL.

The following year the bus operating subsidiary was merged with another Swedish bus-operator and sold to Keolis.

A customer service department common for the whole SL system was developed in 1999. All passenger information services and complaints is since handled by this common body using one telephone number and one web-site in the interface between SL and the passengers.

5.4 Major problems

As a background to strategies chosen later on a very short summary of some major problematic situations is made here. They also show the slowly growing awareness of all parties involved in the complicated structures that are acting in public transport organisation.

5.4.1 Commuter train services
The transfer of commuter train operations from SJ (the state railway) in the year 2000 became caotic. For almost a year traffic operations were reduced. External reviews have stated the main reasons to be:

-unsatisfactory preparations made by Citypendeln
-no active support from SJ
-political fractions from the unions counteracted the process
-unawareness of SL of the degree of conflict involved in the process
-the commuter business not being in advance defined in a separate organisational body
-not enough focus on take over of staff

The caotic start has had a great deal of influence on the economic result of Citypendeln, on the contractual relation and also on the political discussion on competition in public transport. In 2004 and early 2005 it became obvious that a cancellation of the contracts was the only solution. A number of political parties supported by political fractions of the unions wanted SL to take home the operations. This was however not the decision of the board. SL is right now in progres with a new procurement.

5.4.2 Roslagsbanan

Connex operations on the local railway Roslagsbanan was in 2002 considered unsatisfactory due to high rate of cancellations over a six months period. The reasons being, marginalisation of the operations in the total Connex organisation and a loss marking contract. SL cancelled the contract for quality reasons and performed very quickly a new procurement. From 2003 a new operator offers satisfactory quality, to a considerably higher price.

5.4.3 Swebus

After winning two big bus-districts in 2002 Swebus made a major mistake in planning operations causing many cancellations and unreliable services. SL was forced to use the threat of cancellation of both contracts. Swebus took full responsibility and managed to restore reliable services by the end of the year.

5.4.4 Maintenance backlog

n the sale of the underground company a major backlog of maintenance of rolling stock was identified. SL had to invest in an overhaul of several cars and systems in order to restore normal level of maintenance.

6. THE 2004 STRATEGY

For several reasons business development and procurement was delayed in 2001-2003.

In 2004 however the board of SL discussed and finally in the autumn approved of

-strategy of continued procurement of traffic and station services
-a plan for further procurements covering the next three years

Competition will still be one of the most important tolls for SL in achieving its overall objectives.

The board has also accepted guidelines for the next procurement of bus services and of the commuter train and station services.

In its strategy the SL-board emphasises:

-continued competitive contracting
-customer focus
-long-term sound competition
-cost control
-working conditions
-competence
-infrastructure

Short comments on these issues will be given below.

7. STRATEGIC ISSUES

7.1 New contracts

There is a need to renew the whole stock of traffic operation contracts. The new contracts - replacing the model of gross cost contracts - should focus on the overall objectives of SL: more passengers, higher passenger satisfaction level and cost control.

New contracts will be caracterised by e.g.

-focus on SL objectives including socio-economic factors
-flexible reimbursement pending on fulfilment of requirements
-higher fines when quality levels are not achieved
-greater risk for the operator of cancellation of contract
-monitoring of both delivered and customer perception of quality
-customer related targets and measures
-standardisation
-care of working conditions and take-over of staff

7.2 Customer focus and quality management

As mentioned above the ability of the operators to deliver the contracted service levels has not been satisfactory. The refocusing from production to customer needs is too slow. SL has progressively sharpened the requirements and also taken a number of initiatives in order to focus the operators on quality management. Development has been slow. The industry is conservative and the influence from successful companies in other industries has been very small. This in spite the fact that many international companies under hard competitive pressure have improved both economic results and quality output dramatically by introducing new management systems.

In the ongoing procurement of bus services the quality variable – system of continuous improvement - will outbalance price in the evaluation of tenders. The model has been adapted to SL from the Swedish Institute of Quality Management.

In the tendering of commuter train operations and maintenance and of station operations the contractor must have ISO-certificates within two years after winning the contract.

Customer perception is now gradually being introduced as a base for evaluating the services provided by the operators. Economic incentives are used to encourage improvement and avoid deterioration in the services as perceived by the passengers. The objective is that at least 75% of the passengers should be happy with the services of SL as performed by the operators.

Also mystery shopper investigations are used to estimate quality levels and improvement. Random quality controls, audits, regular meetings and also automatic control systems will also be used.

Customer related quality measures are now being introduced in the ongoing procurements. Punctuality is not only expressed as a percentage of late buses or trains over a time period, but as a figure telling passenger excess waiting time. In the now ongoing procurement of bus services all delays more than one minute compared to timetable is aggregated into excess waiting time, which in turn is incentivised.

7.3 Long-term sound competition

Lack of competition is a severe threat against the SL strategy. The SL-board therefore underlined the need for SL to be active in promoting long term and economically sound competition. The internationalisation of the industry will continue. The bus and rail transport market is dominated by very big players. Normally 3-4 tenders are submitted when SL makes a procurement of bus services, mostly the existing operators. For rail services the number normally is 6-7.

In parallel we see local newcomers emerge and be attractive on local markets elsewhere in Sweden. They will be aggressive and attractive at least as long as they keep efficient and keep customer focussed. New companies sometimes can more easily adapt modern technologies and modern attitudes to the market. It is for the PTA:s to make sure that those companies will get at fair chance.

SL will take action in order to diminish obstacles for new companies to enter into the SL-market. Examples may be to vary the size of the districts, to offer financing solution for buses, to forbid combination of districts in tendering etc. We have a constant dialogue with potential tenderers in Sweden and abroad both in the transport sector and in other industries.

Since 20004 SL has a public plan for the procurements of next three years, making it easier for the market to prepare and adapt.

The use of international standards and measurement also makes it easier for new competitors to enter the public transport tendering system.

It is also important that SL publicly has stated that from 2005 continuous procurement of traffic services will be organised by SL.

SL will continue to own and have control over infrastructure like depots, workshops, terminals, stations and rolling stock. This makes it possible for a smooth change from one operator to another and most important helps to make competition fair and focused on traffic operations and customer service more than real estate etc.

7.4 Cost control

After the extremely low pricing of the nineties, price level has increased. In some parts of Sweden the increase has been more than 30%. Part of this has been due to the method of indexation. In turn this has forced PTA:s in Sweden to reduce traffic services. Measures against cost increase of course are very important.

As mentioned modern quality management methods reduce cost and improve quality. It is therefore a priority for SL increase the pressure for such change in passenger transport.

Offering bus-financing is also a method of reducing SL traffic cost.

Standardisation of requirements also puts a down-pressure on price.

Meticulous analyses are made of the tenders submitted. SL makes its own tender budgets. Loss-making operators do not provide the passengers with good quality services and are normally not good and long term business partners.

SL also makes it clear that increasing standards and introducing new comfort e.g air-conditioning, low-floor buses etc should not be part of the procurement cost but should be decided and financed separately.

7.5 Working conditions

In the early nineties bidders could compete with lower wages and deteriorated working conditions. All SL contracts nowadays state very clearly that the eu-rules of transfer of employment shall be valid and that the wages are not to be lowered during the contract period. It is in SL interest that working in public transport is attractive now and in the future.

Professional leadership, skills in quality management and modern or even generous working conditions will be needed in order to give the people employed a fair chance of giving the passengers what they want and what the PTA:s are paying for. SL is right now taking action to push the operators in that direction.

The SL responsibility for infrastructure also includes indirect responsibility for working environment. SL has not been good enough in this respect and is now in progress of improving.

SL has promoted conditions necessary for long term stability and will continue to do so.

7.6 Competence

Experience tells us that the transformation of this by tradition heavily technique dominated industry to customer orientation takes very much energy and time. New competence and organisation is needed both on the operators side and in the PTA:s.

A common understanding of the goals and of conditions of both parties is a good base for long term co-operation in a traffic service contract.

Experience and competence from other countries and other cultures brought here by new partners have contributed to a positive development and have made necessary changes easier.

There is no doubt that new competence is needed on both sides with a commercial background but also with a social and marketing skill.

8. FINAL COMMENT

The semi-regulated model of SL of organising public transport has been successful. SL will continue tendering its traffic and station services. Competition has made public transport more dynamic and customer oriented and not least, more cost-effective. There is still along way to go.

Of course, experience and conclusions from SL are to a great extent related to the legal and cultural framework of Sweden and Scandinavian law and industry tradition. After fifteen years of hard effort we are convinced that we shall go on developing our model and the ambition is to offer our passengers the best local transport.

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