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Dominating factors contributing to the high(er) costs for public bus transports in Sweden

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ABSTRACT

The purpose of this study is to deepen the understanding of what are the underlying reasons for the increasing cost of public transport in general and bus services in particular in a Swedish context. Data were collected through in-depth interviews with managers at the bus operators as well as the authority organizations. This paper contributes by identifying nine categories that can be the dominating factors behind the increasing costs of public bus services in Sweden. The identified categories of cost drivers are: of traffic appearance (peak times), greening of buses, age requirements, the contract period, the accessibility customization, special requirements on buses, collective agreements (working time regulation), tendering and contracting process, and finally, counterproductive political governance. It can be concluded that many of the cost drivers originate from the circumstances of the process of public procurement, such as different demands for different regions in Sweden as well as the trade-off between the bus operators' wishes for higher flexibility in the contracts and the traffic authorities' fear of more risks and thereby higher bids in the end.

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1. Introduction

The goal of public services to provide high-quality service on a limited budget (see for example [Camén, 2011](#)) places great demands on contracting. Previously, gross contracts dominated Swedish transport procurements in contract type ([Transport Analysis, 2015](#)); a large number of recent procurements was concomitant with other contract forms that impose other requirements of the parties involved. Today, different types of incentive contracts influence how the service is provided and increase the possibilities for higher revenues. However, there are several indications that public transport costs in Sweden allegedly have increased ([Transport Analysis, 2015](#); [Swedish Association of Local Authorities and Regions, 2014](#); [Vigren, 2014](#); [WSP, 2014](#)). A recently published report also claims that the costs of public transport in Sweden will continue to increase in the future ([The Swedish Confederation of Transport Enterprises, 2016](#)). The question is why? Is it because of revised

contract types or changed requirements in the tendering documents of public transport services, or can it be that costs only follow an increased supply of public transport? However, there are different opinions regarding the reasons for the increases in costs. [Swedish Association of Local Authorities and Regions \(2014\)](#) concluded that increased traffic affected costs. [Vigren \(2014\)](#) analyzed different contract forms and the relation to the increases in costs. [Transport Analysis \(2015\)](#) claimed instead that the increases are higher compared to the supply of traffic and that higher public transport costs are not clarified. In order to suppress the increasing costs of public transport in Sweden it is important to find out the reasons behind. Therefore, the purpose of this study is to deepen the understanding of what are the underlying reasons for the increasing cost of public transport in general and bus services in particular in a Swedish context. The level of subsidies and the consequences thereof have not been taken into consideration in this study.

The rest of the paper is organized in the following way: In the next section, the development of competitive tendering in Europe is presented. Thereafter the research method, the data collection and how the analysis was carried out are specified. In the

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subsequent section, the results are presented and discussed. The paper ends with conclusions and some directions for future research.

2. Competitive tendering of bus transport services in Europe

Previously, most European governments had monopolized public transport. In the late 1980s, many nations had converted to the system of competitive tendering. Cox and Duthion (2001) worldwide overview of public transport concluded that the costs for public transport in many countries had decreased due to the conversion from monopoly to competitive tendering. This conclusion was supported by Hensher and Wallis's (2005) overview that showed that as much as 20 to 30 percent decrease in costs for public transport could be attributed to the transition to the new system of competitive tendering. The cost reduction was not permanent however, the trend, originating from the second and third time the system was used, indicated increasing costs (Hensher & Wallis, 2005). Another consequence of the system conversion is that the structure of the market has changed from many, often small, companies to a few large ones (Hensher & Wallis, 2005). Although many European countries benefited from the transition, a few exceptions could be found, such as Italy and France (Boitani & Cambini, 2006). A broad literature review presenting the development on issues in transit economics in general in developed and developing countries can be found in Gwilliam (2008).

The market for public transport in Sweden is deregulated and the system of competitive tendering has been used since 1989 following a national resolution in 1985 that led to a law for public procurement (Elvingson, 2005). The Public Procurement Act in Sweden (Swedish Code of Statutes, 2007:1091; Swedish Code of Statutes, 2007:1092) is based on the 2004 procurement Directive 2004/17/EC and 2004/18/EC. A drastic increase in the public procurement concerning traffic has been identified in Sweden and the structure of the traffic market has, as in many other countries that have transitioned to competitive tendering, changed from many small actors to a few large actors (Elvingson, 2005).

The contract forms used in public transport can be categorized in three different types; gross, net and contracts including any form of incentives. A gross contract implies that the bus operator gets paid only for the related costs (hours or kilometers driven), and the revenues from the tickets go to the traffic authority. This contract mitigates risk; however, there are no built-in performance incentives for the bus operator. If net contracts are used, the bus operator gets all ticket revenues, which means higher risks, but provides incentives. The incentive contracts include some kind of motivation for the bus operator, often regarding the number of passengers or different service qualities levels. The latter form is commonly used in Norway (Carlquist, 2001; Dalen, Moen, & Riis, 2006). The advantages and disadvantages with the different form of contracts have been analyzed in Sonesson (2006).

Arnek (2003) analyzed the gross and net contracts to evaluate which of them that might work the best for public transport procurement. He also emphasized that the uncertainties in net contracts implied higher risks, which in turn further implied higher bids and higher costs. The conclusions showed that for net contracts to work, there have to be opportunities to significantly increase operators' profits if there is an increase in the number of passengers. In Sweden, gross contracts are the most common form. Net contracts have been used in some regions in Sweden and incentive contracts are becoming more and more popular.

Regardless of which form they take, the contracts are often very detailed and will probably lead to low flexibility. An overview of the levels of details in three years of contracts for public bus procurement in Sweden can be found in Lidestam (2013). Furthermore,

Lidestam showed that detailed requirements regarding the sizes of buses on different tours can lead to excess CO₂ emissions and also to higher costs (Lidestam, 2014; Lidestam & Abrahamsson, 2010). Similar results regarding specific and detailed demands in bus contracts are presented in WSP (2014) and in The Swedish Confederation of Transport Enterprises (2015).

3. Methodology

In order to study the underlying reasons, behind the increasing costs of public transport, an explorative qualitative design has been used. The empirical context for this study was public transport in Sweden and more specific the public bus transport service. The responsibility for providing the service is divided between two main actors, the public transport authority and the operator. The public transport authority has the responsibility to provide transport in each county in Sweden and the operators are performing the actual service provided. In total, there are 21 public transport authorities in Sweden, of which three can be classified as large. On the other hand, there are many bus operators in comparison to the number of public transport authorities. Five of these can be categorized as large operators. The operators are selected after a public procurement process according to the Public Procurement Act (Swedish Code of Statutes, 2007:1092 cf.; Directive 2004/18/EC).

Data were collected through in-depth interviews. Respondents from seven different organizations, including both public transport authorities and bus operators, have been interviewed. The three biggest public transport authorities were included, as well as, three of the biggest bus operators. One smaller traffic authority has also been included in the study. Depending on the size of the organization, in some cases, more than one person has been interviewed. The respondents were selected on the basis of their knowledge about the procurement process and their involvement in the decision-making process concerning procurement. This means that the authors mainly have interviewed managers or persons in the management team. An interview guide was used for all interviews in order to provide some structure to the interview but at the same time allowing the respondents to speak as freely as possible. The interview guide was structured into two parts. The first part of the interview guide included general questions, such as the respondent's position in the company and about the organization in general, while the second part focused on costs and possible explanations behind the increase of costs within public transport business in general, and more specific in public bus transports. Questions were also asked about the public procurement process, contracts and how the contracts are achieved. The interviews took place at the respondents' offices and lasted from 60 to 120 min. Each interview was audio recorded and transcribed verbatim. Both authors participated during the interviews. As supplementary sources, the authors used internal and external written material to better understand each organization.

The analysis was carried out using traditional steps in the analysis of qualitative data (Miles & Huberman, 1994), and was inspired by grounded theory approach (see, for example, Strauss, 1987; Strauss & Corbin, 1990). The first step of the analysis started by reading through the transcribed interviews carefully in order to find phrases that could be connected to increases in costs in the area. Thereafter, open coding of the material was conducted by noting comments in each transcribed interview. The comments from each interview were summarized as keywords and phrases regarding increases in costs. The codes in the first phase were held closed to the transcribed interview. The codes were revised, changed and regrouped a number of times. After analyzing and commenting on all of the interviews separately, the comments from each interview were compared and gradually the coding

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