

## REGIONAL RAILWAY TRANSPORT FUNDING IN CONDITIONS OF THE CZECH REPUBLIC AND IN THE PILSEN REGION

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Present situation in financing of regional railway transport does not allow sustainable development of transport services in a region and also often leads to further worsening of situation in rolling stock financing. This paper describes basic problems related to financing of regional transport services from regional budgets. Stability of regional railway transport financing in the future provides the resolution of government of the Czech Republic No. 1132/2009 from the 31st August 2009, for the renewal of rolling stock will be possible to get grants from the Regional operational program (ROP). Regional authorities have to decide how to prepare the long-term contract concerning the public service obligation. The question is how to choose the operator of regional trains and how to get the highest quality of provided services from amount incurred.

**Key words:** public service obligation, transport services, obligation of operation, obligation of removal, obligation of rate, demonstrable loss, selection procedure, Regional railway transport financing, ROP, the renewal of rolling stock.

### 1 Introduction

Regional railway transport financing is one of the main problems of the function of regional and local authorities with the expressive influence on the realization of their lawful duties. Regional assembly in accordance with Act No. 129/2000 Coll., about regions, determines coverage of the basic transport service in the area of the region that is provided by bus or train public transport. In the Czech Republic the regional train public transport is mostly provided by a single operator, the Czech Railways company, Inc. Regional authorities have been undergoing broad discussion with this company every year about the amount of the covering of the demonstrable loss that is sprung from public service obligation in the rail transport without favourable conclusion for both sides. The operator would like to obtain more money, but its requirements are beyond feasibility of a regional budget. The situation seems unsustainable in long term. Therefore it is very necessary to try to find some suitable solution.

Ministry of Transport has started to solve this problem at the end of the year 2008. In the half of the year 2009 there was introduced the suggestion to get the grants for financing of regional railway transport.

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## **2 Transport services and possibilities of regional railway transport financing**

The term transport services means to provide the transport needs of the inhabitants on the area of a region or state. Regions or municipalities order in their independent functions the transport services on their areas. Regions provide the basic transport services; some municipalities can order the additional transport services. This is especially case of larger cities with the municipal public transport financing from the budget of this cities or from municipalities which are interested in an integrated transport system.

The transport services of the area are provided like so-called public service obligation. Public service obligation means obligation of the transport company, that the company would not take over in its own commercial interests at all or what it take over in other conditions. Regional authority obligates to pay to the operator the demonstrable loss including the fair profit. The public service obligation can be divided into:

- Obligation of operation
- Obligation of removal
- Obligation of rate

Obligation of operation means for the operator to ensure on any transport infrastructure, where is it authorized to operate with licence to make all necessary steps to ensure assigned norms, fluency of operation, the regularity and the capacity. Obligation of removal is the obligation to accept passengers or goods for special rate or particular conditions. Obligation of rate means to let some categories of passengers or some kinds of goods to use assigned rate endorsed from public administration.

How to set the public service obligation it is described in the Act No. 266/1994 Coll., about railways. The contract about public service obligation is related with the concept of demonstrable loss – money paid by the state in case of operating in transport needs of state or by region for ensuring transport services in its territory. Demonstrable loss is defined as the sum of economical authorized costs and the fair profit minus sum receipts and profits achieved by operating in the public service obligation.

Nowadays we can see high usage of individual vehicles on transport market and it is necessary to ensure high-quality of transport services as the competitive and efficient alternative to individual automobile transportation. The railway has important role and should be the backbone of public transport systems. For realization of systems of high-quality offer in public transport there are important financing possibilities of each orderer (region or state).

## **3 Possibilities in making contracts about public service obligation.**

Resolution of the government of the Czech Republic No. 1132/2009 from the 31st August 2009 ensures the stability of regional railway transport financing. This resolution promises to regional authorities benefit from the state form realization of transport services with regional railway to the year 2019. For the renewal of rolling stock it is possible to get the grant from ROP. Regional authorities need to make the long-term contracts with one operator or several operators. Every region can choose how to make this contract. It can be ordered directly (to address one operator) or choose the best operator in a tender (selection procedure). Every region authority would have the same aim: to get higher quality of provided services for the same sum of money from their budgets.

Regional authorities can enter the long-term contract directly without a tender (selection procedure). But there is no methodical instruction how to address the operator directly or how to choose him for this type of contract. If a regional authority will want to get the grant from ROP for the renewal of rolling stock, there is necessary to have made the contract from a tender, because the supplement of notified form requires the fair and transparent selection of the operator. For regions that want to get the grant form ROP,

it is not acceptable to make the contract with the operator directly without the tender. In this case there is a big risk that the grant will have to be returned.

Advantages of making contract in the selection procedure for choosing the railway operator

From the experience with tenders for choosing an operator from abroad (e. g. Germany) and also from the Czech Republic follows that the realization of the tender brings always better price and higher quality in comparison with the current situation to the orderer. We can see good example in the tender realized in the Liberec region for the assurance of railway transport from Liberec via Zittau to Varnsdorf. The tender was realized by Liberec Region, Usti nad Labem Region and German transport federation ZVON. From the end of the next year it will be operated by the company Arriva for cost price CZK 112 (EUR 4,50) per train kilometre. The Czech Railways, joint stock company as the current operator wants from the Liberec Region CZK 136 per train kilometre realized by old rolling stock in the first term of year 2009.<sup>1</sup>

In the case of making contract with the operator chosen in the tender the orderer can define articles of incoming contract already in the contractual documents of the particular order. The tenderer has to accept the draft of the text of the contract. In this case the orderer can avoid the lengthy negotiation about the condition of the contract, it is necessary to undergo directly engaged contracts. In this case it forms the compromise between signatory powers, the orderer can not achieve the best supposed articles of the text of the contract and abidance by requirements for qualitative or other indicators. The contract issue on the basis of the tender will bring better quality to the orderer that will regard primarily the passengers.

On the basis of the above arguments it was decided in the Pilsen Region on tendering selection procedure for the operator on the lines No. 160 Plzeň – Blatno u Jesenice, 180 Plzeň – Domažlice město a 181 Nýřany – Heřmanova Huť. Next there is supposed to make a contract with the winner of this tender for the next 15 years and with the possibility of getting grant from ROP.

#### 4 Parameters of the commission for the tender in the Pilsen Region

The object of the tender is the operator of trains operation on lines No. 160 (Plzeň – Blatno u Jesenice), 180 (Plzeň – Domažlice město) and 181 (Nýřany – Heřmanova Huť). These lines can be seen on the figure No. 1.

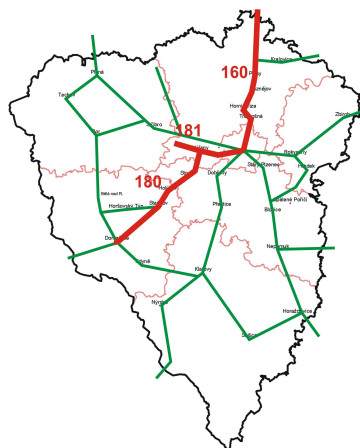


Fig. 4 The object of the selection procedure in Pilsen Region – lines No. 160, 180 and 181

<sup>1</sup>From ČTK 16. 3. 2009 <http://www.ceskenoviny.cz/regiony/liberecky/zpravy/liberecky-kraj-hrozi-pokutou-za-zpozovani-vlaku/365872>

For these lines the new operating concept of trains (time table) was proposed. The beginning of realization of this new concept has been supposed since the time table 2011/2010. The contracting output of the railway transport is supposed in the amount of 1 812 thousands train kilometres per annum.

In demands on quality of rolling stock there are differentiated 2 categories. Category A supposes the operation with new rolling stock with the design speed at least 120 kilometres per hour, vehicles will have to meet emission limits equivalent EURO III. Vehicles will have to have minimally 40% low-floor, seating with head and hand restraint, air-conditioned interior or visual and acoustic information system. Vehicles of category B needn't to be newly made, with the design speed at least 80 kilometres per hour, satisfying emission limits equivalent EURO II. These vehicles must be equipped with disk brakes (except the vehicle for the line 181) and the central door opener. The standard is the seating with head and hand restraint.

The draft of the text of the contract is part of the contractual documentation. The orderer will pay to the operator the compensation for operating transport services in the frame of public service obligation on the basis of the offer price from his offer. Revenues from sales of fare will first 2 years belong to orderer (so-called brutto-contract), after this transition period of 2 years (from the time table 2013/2014) will belong to the operator (so-called netto-contract).

Companies being interested in operation of regional trains on lines No. 160, 180 and 181 could hand over their offers till 19th October 2009. It is supposed that with the winner of the tender it will be made the long-term contract for a term of 15 years.

## **5 Contract assurance of trains on other lines in the Pilsen Region**

On other lines the Pilsen Region supposes a transition to a sequent realization of tenders according to chosen functional units.

There will be signed a contract with the Czech Railways directly for 10 years until all lines will be in contracts incurred from tenders. This contract will contain supposed implementation schedule of tenders in particular years and functional units. If the Pilsen Region chooses in a tender the operator for operating trains on lines 160, 180 and 181, trains on these lines will be taken out from this contract. In case of lines which are in territorial scope of more orderers it will be necessary to narrow cooperation of these orderers. It is possible to accept the issue of the tender of neighbouring orderer or to make a tender together with other employers.

## **6 Conclusion**

In the case of making a long-term contract for public service obligation in the railway transport tenders seem to be the most efficient solution to choose an operator. The Pilsen Region chooses the alternative that supposes transition to sequent realization of tenders in chosen functional units. There will be made a contract with the Czech Railways directly for 10 years until all lines will be in contracts incurred from tenders. This contract will contain supposed implementation schedule of tenders in particular years and functional units.

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