

## 0123 Summary of auditing the service provision and the financing of public transport in cities

Public transport in cities is part of the local regular public passenger transport service. The aim and function of it is to meet the transport requirements of the general public related to their everyday life, that is to their regular travel to work, to schooling and education, to health care provision, to spare time activities, to cultural programmes, to arranging official matters, and to shopping.

Due to the change of the political, social, and economic systems as well as to the accelerated increase of motorisation, the public transport requirements had changed until 1996. Because of the increase of passenger car traffic and the closure of the big industrial companies the number of those commuting to work using public transport had decreased. In the surveyed cities, the transport companies had decreased their capacity and the number of vehicles.

The importance of this service, however, continues to be high. Nearly 3.8 million people use the system of public transport of the capital city, while, in the other cities, 1.8 million people use it on a daily basis. The accessibility, promptness, convenience, quality, and fares of public transport are factors that influence the well-being of the great general public to a considerable extent.

In the surveyed cities the transport companies have been serving the transport requirements with a number of vehicles totalling to 3920, unchanged since 1996. Of these 1,440 buses, 802 trams, 168 trolley buses, 410 underground, as well as 294 city train carriages are operated in Budapest. In the four cities in the country, 623 buses, 96 trams, 87 trolley buses are operated. The length of the transport network has not changed in effect, 1,090 km in Budapest, and a total of 600 km in the surveyed towns. In the audited cities in the country, the assets value of the transport companies is 17.7 billion HUF, of which the net assets is 11.3 billion HUF. In Budapest, the BKV Co.'s asset value is 188.2 billion HUF, of which the value of the net assets is 153.5 billion HUF.

In 1996, the income of the BKV Co. from passenger transport was 35.8 billion HUF, of which 13.6 billion HUF was generated from the fares, 9.4 billion HUF was consumer price supplement, 10.8 billion HUF local government and 2.0 billion HUF state support. In 2000, the income from passenger transport increased to 58.3 billion HUF of which the income from fares was 25.3 billion HUF, the consumer price supplement was 14.5 billion HUF, the local government support was 18.0 billion HUF, and the state support was 0.5 billion HUF.

The State Audit Office, focusing on the considerations of expediency, effectiveness and lawfulness, has audited the public transport of Budapest, Szeged, Debrecen, Miskolc, and Győr. The aim of the audit was to reveal how the local governments provided for public transport, how the support system of the transport companies and the professional control activity worked, and if financial management was efficient and economic.

The audit revealed the measurable parts of service provision, the advantages and disadvantages of certain systems in terms of control, task provision, financing, and the anomalies in financing. The report shows the state and conditions of assets in technical terms (vehicle fleet and tram track), and the fields that are necessary to be developed, allowing

for the standard of services and environmental protection. It provides a comprehensive picture about the real problems of public transport in cities. It gives support to the reform of the state control system, which is underway already and is necessary to the preparation of the accession to the EU. It helps the owner control to assess the financial management and standard of services provided by the Company.

The audit tried to find out how the service standard of city public transport changed – improved or deteriorated, if the resources available for the services increased, if quality change is in line with the change of resources; if there is a marked difference between the country and Budapest; and if the financial support resulted a clear improvement in the services for the public.

The main findings are the following:

all in all, the quality indicators of transport services, with the exception of Szeged, have not improved. The circulation speed of the vehicles with the BKV Co. and the DKV Co. in Debrecen has decreased. The Volán companies providing--- -bus transport – with the exception of Győr, where circulation speed has improved – this service indicator is not measured. Crowdedness in Budapest has become worse, while it has not changed in the cities in the country. Offer and choice of the transport services provided by the companies is not based on and justified by concrete surveys of the transport requirements carried out previously.

The ageing of the vehicle fleet has continued with all transport companies. With the exception of the tram fleets of Debrecen, Szeged, and Miskolc, the average age of the vehicles in the surveyed cities has not stopped to grow. The latest tram purchase by the BKV Co. has not changed much the average age of the trams of the Company. The continuous ageing of the vehicles of the companies, along with the increase of the maintenance costs, results in the devaluation of the assets belonging to the general public, irrespective of the fact that whether the State or the local government is in charge.

In the field of public passenger transport services, the scope of basic provision is not defined in concrete legal terms. Basic service provision, according to the professionals' understanding, is satisfying transport requirements related to everyday life with public transport vehicles on a standard and in accordance with the requirements defined by the State or the local government responsible for the service provision. The numerical definition of basic provision in public passenger transport is not possible. The legal regulations of the European Union do not define either the notion of basic provision, but contain provisions about public service obligation, or requirements according to the latest draft, which are included in the contract to be made with the service provider. The provision, organisation, and maintenance of local public transport services are regulated by the legal rules on the railway and the public road transport, as well as on the local governments. Under these legal rules provision of local public transport services is the task of the local governments.

Not every local government has a development policy or strategy of obligatory force designed – and approved by the general assembly – to develop the standard of services. It is not a general practice to make contracts between the local governments and

the service provider companies based on the development policy as to the quantity and quality requirements of provision, or to the local government resources made available.

The provision of public passenger transport services, and that of public city transport within this, is a loss making business. Reasonable availability expected by the general public, like acceptable frequency in the timetable and running period, results in unused capacity in the hours outside the peak hours, and produces less income.

The comparison between the previous SAO audits surveying public transport in cities and the findings of the present check show that the local governments and the companies ease the difficulties in financing mainly by the postponement of the development of the vehicle fleet.

The system of the legal regulations in force is not consistent, and has some internal contradictions. In the state or local government financing system with scarce resources and operating on a not normative basis, if the support for the local governments does not meet the increased demand for resources, the companies are forced to restrict the services, or to resort to other supplementary sources of income, affecting the standard of service in an unfavourable way, like depletion of the assets and the postponement of developing the equipment.

The Government resolution on transport policy, brought in line with the Parliament resolution, made policy guidelines and set strategic aims in terms of responsibility, extent, development, and financing of service provision, as well as price regulation, fares and financial policy. Prior to making these resolutions, the professional administration of the KHVM had not dealt so much with the public transport in towns. The reason for it was mainly the fact that the service provision of local public passenger transport belongs to local government authority. The distinct – state and local government – forms of local passenger transport service provision, given the existing legal regulations for the different sectors of transport, do not facilitate the establishment of a consistent and transparent control.

The local government owned transport companies were transformed into joint stock companies between 1994 and 1996. The new business ventures fully received the public property managed by the legal predecessor. Thus, the public property once in state then local government ownership became the property of companies. As a result, the principal assets assigned to public service performance, getting out of local government ownership, can not be utilised under market conditions similar to the state owned business assets. The companies that have local government principal assets enjoy monopoly and it can cause problems when the regulations of the European Union will be taken over.

The Act on Local Governments does not contain guarantees and appropriate controls for the protection of public property in the local government sector. The accountability of local governments – due to the transformation of public property of limited negotiability into company property – is not complete in the absence of clarity and consistency of the legal regulations. The regulations of the Civil Code define the subjects of only one form or class of public property, those of state property, and make provisions about the management and safeguarding of assets. The other form of public property,

the local government owned property, is not even included in the regulations of the Civil Code.

The strategy of the companies providing public transport is confined to maintain working order and the expected service standard since their general financial standing and the conditions of financial management do not make it possible to carry out the necessary, and technically justifiable, replacement of assets and the timely development activities.

The results of the business activity of the transport companies show a contradictory picture. The prices set by the authorities are only in part market-based, the costs, however, depend completely on the market conditions. The business results, the economy, and efficiency indicators of the companies are not entirely realistic.

In the surveyed cities, on the basis of the audit findings, and despite the significant but not normative public support, the indicators of service standard like frequency have not improved, the vehicles are still overcrowded and rapidly ageing. The classification of the assets given to the companies is not right, the current legal regulations of service provision and financing are not consistent and have some internal contradictions.

The State Audit Office recommended the Government to initiate the amendment of the acts on local governments and on the assets in order to classify the assets serving public function as principal assets. To consider the introduction of a normative support system for the development of passenger transport in cities. In the course of the current legal harmonisation work, the Government should take into consideration the existing anomalies and internal contradictions of regulation. We have recommended the audited local governments to revise the asset elements taken irregularly into the companies and to draw up timetables that reflect the actual results of passenger turnover surveys.

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