



Funding public transport under pressure. The case of Amsterdam

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Introduction

This PM is written within a K2-project on changed conditions for public transport during Covid-19, with particular focus on costs and revenues and measures made by public transport authorities to mitigate the challenges. The PM presents the main data collected about the Amsterdam case. First it explains how public transport is organised in the country and in Amsterdam, indicating who is responsible for funding, planning, and delivering these services. Afterwards, the report describes the repercussions of Covid-19 in the Dutch PT sector with a look into main challenges and concerns brought by the pandemic across three thematic dimensions: the operations of PT, PT funding, and the future of PT.

The organisation of public transport in The Netherlands

The national government, currently through the Ministry of Infrastructure and Waterways (hereafter MI&W) is the public transport policymaking authority in The Netherlands. The MI&W provides the sector with earmarked subsidies used for operational costs and small infrastructure projects. In addition, the MI&W is responsible for the organisation of heavy rail services: aside for a minor piece of the rail network composed of few regional lines tendered to private companies, the bulk of rail services are awarded to the national railway company (NS) that plans and operates intercity and regional trains.

The responsibility to plan regional PT, however, has been decentralised since 2001. Currently, there are fourteen regional transport authorities (hereafter PTAs), twelve of which are the governments of provinces and two other are task-specific metropolitan transport agencies. According to the Dutch Law on Passenger Transport, the PTAs must competitively tender concessions to operators that have exclusive rights to provide PT services in their respective concession areas. The law also establishes exceptions to this rule, allowing direct award of concessions to municipally-owned operators in major cities. Almost all concession contracts in The Netherlands are net-cost, so that the commercial risk connected to revenue fluctuation is the responsibility of operators. Operators in most cases have considerable freedom to design service characteristics; the

PTA sets minimum requirements, frames objectives, and maintains close dialogue with operators throughout the contract duration. Fare prices in the Netherlands are distance-based and constituted by two components: a fixed national boarding fee and a regional per-km fee set by each PTA. A single nationwide smartcard is valid across all PT modes and operators.

In addition to this formal structure and statutory bodies, there are other relevant informal governance players in the Dutch policymaking and planning for PT, which are organised as cooperation platforms.

One example is the National Public Transport Council (NOV-B as in the Dutch acronym). NOV-B's board includes representatives from the MI&W (chair), operators (representatives from NS, municipal concessions and from concessions in more rural areas), and PTAs (representatives from provinces and from metropolitan regions). NOV-B was initially devised as a forum for discussions involving public transport payment methods, but over time the scope of discussions at NOV-B was gradually expanded to include other topics related to PT operations. Still, until the current crisis, NOV-B has not been very active and the board would usually meet twice a year. Other similar cooperation platforms exist as associations of PT operators – this is OV-NL – and association of PTAs – this is DOVA. They work as discussion for a where stakeholders can share experiences, discuss business matters, and define common positions on these matters.

Amsterdam Region

The responsibility to plan PT in the Amsterdam Region belongs to a metropolitan authority, the Vervoerregio Amsterdam. Amsterdam's PTA plans and tenders concessions for bus, tram, and metro services in the city of Amsterdam and 14 surrounding municipalities. There are four concession areas: Zaanstreek, Waterland, Amstelland-Meerlanden and Amsterdam city. For each of these concession areas, a single operator is granted exclusive rights to provide PT, usually in ten-year long contracts.

The concession in the city of Amsterdam, by far the largest in terms of demand, is directly awarded to the municipally-owned operator GVB. In recent years GVB has been observing growth in demand; in 2019 the company carried 938,000 passengers on average in working days (875,000 in 2018) and total passenger journeys increased to 295.7 million (276.9 in 2018). The concession in Amsterdam has a high cost-recovery ratio and by the time of the outbreak of Covid-19 GVB was able to pay operations with the resources obtained from passenger fares. The current concession contract between the PTA and GVB is until 2024, but the PTA and GVB have initiated discussions to end this contract earlier and renew the concession with a new 10-year contract starting from 2022.

Covid-19: PT crisis and response to it

On March 12 the Dutch national government has put in place emergency measures to limit the spread of the coronavirus, such as the closure of schools and childcare centres, the closing of various economic activities such as cafes and restaurants, extended home office arrangements, social distancing rules and restrictions on gatherings and events. Importantly, the national government also issued a recommendation for people to avoid using PT except for essential travel.

Following the adoption of these measures, PT demand has rapidly declined in the entire country. The first drop in passenger numbers was in fact already noticed on 11 March with the threat of the virus looming (a decrease of 20% compared to 2019 levels). A few days later, on 16 March, i.e. the first Monday after the measures had been announced, the passenger numbers dropped by 74% compared to 2019. NS saw demand falling from 85% to 17% of 2019 levels between week 11 and week 12 in 2020, reaching a lowest at 9% of 2019 levels. Throughout March, April and May, overall demand for PT reached levels between 80 and 90% lower than 2019.

In the meantime, however, the continued provision of PT was deemed essential, not only for people working in vital economic sectors (health care, police, food chain, etc.), but also for people dependent on PT for their mobility needs. The Dutch government indicated to PTAs and PT operators that normal supply levels should be kept, regardless of declining passenger numbers. Specifically, the government and operators agreed on scaling down timetables slightly in April and May, whilst ensuring at all times minimum service levels. From 1 June 2020, timetables were scaled up to full capacity, but the seating capacity was limited to 40% due to the need to ensure social distancing on board (1.5 metres). The governmental recommendation to only use PT for essential journeys, avoid rush hours and crowds, and to work from home as much as possible remained in place.

During summer some restrictions were lifted and diverse economic sectors reopened. In PT in particular, the recommendation to avoid using buses, trains, and trams was also put aside. As a result, there was an increase in demand reaching an average of 50-60% of 2019 levels. Stakeholders in the sector estimated that by the end of 2020 overall passenger numbers could be around 80% of what they were in 2019.

Since November, however, the overall number of infections and hospitalisation increased again with the second wave of the pandemic. A new and more stringent lockdown was imposed eventually affecting PT demand again. On top of that, the general guideline for the public to avoid using PT was back in place. Since January 2021 a night curfew has

been implemented too. PT demand has fallen substantially again and the national government allowed PTAs and operators to find ways to slightly reduce service levels to compensate for some of the costs of keeping the system running.

By April 2021, PT demand in Amsterdam is around 35% of 2019 levels. Timetables are working at around 90% of normal levels. The PTA and operators in the region have worked in a transition plan required by the MI&W and they draw a very pessimistic outlook for coming years with the possibility of losses of more than 1 Billion Euro until 2030. In this context, the PTA and GVB have not yet been able to agree on a timetable for 2022. Negotiations for renewal of GVB concession contract have been put on hold given huge uncertainties in relation to passenger levels.

The operational challenge

Following the events described above, Amsterdam's PTA and GVB were suddenly and unexpectedly thrown into an operational rollercoaster. The need to urgently revise and agree on the downscaling of services and, soon after, new upscaling was unprecedented. The operator normally adopts two timetables during the year, the regular timetable and a special schedule for summer months with slightly reduced supply.

The immediate response to the sudden change in demand was to allow GVB to act more freely to address the needs of the moment. The operator soon had to develop various scenarios based on their database and knowledge of traveller behaviour. The scenarios were the basis for decisions on changes to supply levels, cutting or revising lines or altering the frequency of services. At the same time, interactions with the PTA increased in frequency across the various levels of decision-making.

Other important issues related to operation involved corona safety measures such as extra cleaning, discussions on the installation of screen to protect drivers, and general operational guidelines on how to ensure passengers could travel with enough space and, after June, wearing a mask. A 'PT Protocol' adopted in agreement between PTAs, operators, and traveller associations. Safety measures for the use of PT.

During summer 2020, with the reopening of economic sectors and increase in passenger numbers, the PTA and GVB hoped for a recovery. Discussions for an early concession contract renewal were taking place, as well as plans to make the fleet zero emission and an overall governance reform in PT in the Amsterdam region. Decisions on service levels continued to follow the same procedure,. Being mainly based on scenarios developed by GVB. Decisions were to be aligned with the demands established by the PTA in the concession contract or in arrangements made specifically in view of changes brought by

Covid-19. Interviewees from both the PTA and GVB report trusting, cooperative, and respectful relations amid the decision-making during the crisis. In September the PTAs and operators each region were tasked by the MI&W with the preparation of transition plans looking into the adjustments needed in coming years. Such plans were to be delivered in April 2021. Also in the period of September/October, GVB and the PTA agreed on an adjusted timetable for the first semester of 2021.

The operational situation took again a more challenging direction with the worsening of the pandemic during winter and the new fall in PT demand. The expected recovery was no longer a possibility for coming months with a stringent lockdown that continues valid at the time of writing – April 2021. Faced with great uncertainty about future demand and about financial support from the national government, the PTA and GVB have drafted a very pessimistic transition plan. In the worst case scenario demand in 2022 will be on average 35% lower than in 2019 and the operator might lose around 130 million Euro.

Importantly, this dramatic scenario led the PTA to adopt a new posture in relation to network planning and timetable preparation for 2022. The decision was to work jointly and closely with GVB in the elaboration of these tasks and not simply supervising and approving their plans. According to interviewees this change has affected the relationship between the PTA and GVB – consensus has become more difficult. Whilst the PTA has already agreed on a timetable for 2022 in the other three concession areas, the issue has not been resolved in Amsterdam. It is relevant to keep in mind that the situation is more complex of course. It is the largest concession and the only one that could rely entirely on fare revenues to pay operational costs. Discussions about demand scenarios and timetable are very sensitive. Moreover, interviewees report and demonstrate exhaustion after more than one year intense work dealing with the crisis. This has also effects on the way actors engage with each other. The physical and mental demands of the period have been extraordinary.

The financial challenge

The Dutch authorities estimated a deficit of approximately EUR 550 to 750 million in regional PT and approximately EUR 750 million to 1 billion in the Dutch national rail network in 2020. In the case of GVB, accounts reported in media suggest an approximate loss of around EUR 20 million per month in connection to reduced demand and increased fare dodging (especially on buses, where front doors were closed to protect drivers that, however, normally check passengers entering the vehicle and paying their fare).

Differently from the on operational challenge in which discussions were mainly concentrated at the regional level, between PTAs and operators, the financial challenge

imposed by Covid-19 was primarily addressed at the national level. The expectation and demand from PTAs and operators was that the national government would provide the sector with financial support to overcome the demand crisis.

NOV-B became the main forum for negotiation and decision-making on the crisis. Several working groups were formed gathering representatives from the different sector stakeholders. One of these working groups was specifically tasked with the financial dimension of the crisis. Negotiations involved very frequent interaction and in certain moments NOV-B's board, described above, would meet twice a week.

After an intense period of negotiations, on June 5, a political commitment was announced. In addition to maintaining the normal payment of subsidies, the national government promised to pay operators an availability fee to compensate losses in ticket revenues, making sure that 93-95% of operators' costs between March 31 and the end of 2020 were covered. Operators committed to bear the remaining 5-7%, accepting a loss for 2020, whilst also waiving to distribute dividends nor pay severance payments or bonuses to directors nor repurchase their own shares.

A second and more intense period of negotiations ensued though, and it was not until October/November 2020 that a new agreement was reached on the exact terms for the implementation of said availability fee. After long and detailed discussions about how to assess costs from operators, forms of payment etc., it was defined that the aid would take the form of direct grants provided by the Ministry of Finance that would be channelled through fourteen PTAs to regional operators. This was regulated by Regulation no. IENW / BSK-2020/201912 of the State Secretary for Infrastructure and Water Management, of 20 October 2020. In November as well, the deal was approved by the European Commission (State Aid SA.58738 (2020/N) that had to be involved as the authority regulating State aid to economic sectors of EU member countries. The estimated maximum budget is approx. EUR 1 550 million, of which approximately EUR 550 to 750 million will be allocated to support regional transport and approximately EUR 750 million to 1 billion to long-distance PT. This agreement was regulated.

The concern with 2021 was always present though, since the availability fee initially only covered 2020. The topic of additional financial support has been present in NOV-B discussions from early on, and in September 2020 the national government indicated that a similar financial scheme would be valid for the first semester of 2021. PTAs and operators would not have to bear costs in this new agreement though, but instead would be allowed to slightly reduce service levels so that there would be no deficit in operations. Based on this commitment, some PTAs and operators are defining timetables

and other plans until July 2021 only. In addition to this adjusted timetable for 2021, the MI&W has also required PTAs and operators to deliver a long-term transition plan indicating scenarios and expectations in terms of passenger levels and alternative sources of revenues.

In February 2021 the MI&W announced that the availability fee would also be paid for the third quarter of the year. In April a new announcement confirmed the extension of the aid scheme until the end of 2021. This has given PTAs and operators some extra air, but there is still fear in relation to the coming years and very pessimistic scenarios are predicted. Unless the national government provides additional funding to counterbalance loss in demand, the PTAs expect immense losses.

The PTA in Amsterdam has indicated that the absence of government support jeopardises all political ambitions of the region connected to sustainability, housing, and job creation. There is concern that the downscaling of services will have to be so drastic that a negative spiral can be triggered – lower quality of services will attract even less passengers, lead to new cost cuts and so on.

The future of PT

A third important dimension of the crisis response refers to stakeholders' concerns with the future of PT as a sector. Essentially, there is still a great deal of uncertainty regarding how and for how long the crisis and its consequences will be affecting PT services. This spans across issues related to unknown future demand levels, what kind of financial impact a reduced demand might have, whether State aid will be available for after 2021 and, in view of all of this, what kind of service should be planned and provided.

As already indicated, the transition plan prepared by the PTA in Amsterdam estimates huge financial losses in the absence of government support. Another important concern involves future tender processes. Whilst there is no clarity about future financial support from government and passenger levels are extremely uncertain, PT operators – especially foreign ones – will be unlikely to bid for new concessions. Some contracts in The Netherlands – and in the Amsterdam region – had to be extended in an emergency character and respective tenders have been postponed. In the case of GVB, the negotiations for an early contract renewal were put on hold. The priority now is to bring back passengers and survive the financial crisis. There is too much uncertainty to think about a long-term contract and new ambitions for the concession.

A relevant issue that gradually gains traction amongst PT stakeholders is the view that the crisis provides an opportunity to “reset the system”. Under current scenarios, it will take several years until demand reaches 2019 levels. This creates the need and the space for



pushing PT in new directions, mainly by exploring new mobility technologies and service models.

In this sense, the transition plan prepared by the PTA and operators in Amsterdam proposes a number of measures that can, in combination with financial assistance from the national government, enable a redefinition of the mobility system in the region and the possibility to achieve political ambitions of the region connected to sustainability, housing, and job creation. To attract travellers back to PT and reduce the funding deficit, the PTA and operators in the region state that they intend to promote Measures in communication and marketing campaigns; Measures to improve the travel product, for example investing in new payment methods (paying with a bank card); save costs on service adapting to the changing transport demand and more online services; savings on personnel and smart deployment of personnel to increase efficiency; smart improvements in the network agreed with municipalities, e.g. changes in the location of bus stops, improvements in walking and biking routes, and measures to spread passenger flows; facilitating the introduction of MaaS. Finally, the possibility of a price increase in fares has been dismissed by the PTA for the time being.