

THE OPERATION MODELS OF MUNICIPAL COMPANIES OF LOCAL PUBLIC TRANSPORT

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Abstract

The economic and legal circumstances of the operation of local public transport are a set of framework guidelines, which form the image of the sphere of transport activity of local governments. The purpose of this paper is to analyze the economic and legal circumstances of the organization and operation of the transport system. This paper presents models of solutions for the organization and operation of the local public transport system: the current model and the new market model. Individual statements are presented in the final conclusions of this work. The article is further supported with illustrations.

Keywords: *local public transport, transport system, models of organization of local public transport system.*

1. Introduction

High quality of service and public good – this is what people usually expect from public utility companies. Their activity is of great significance for the local community. Water shortages, temporary loss of electricity, gas or transport services may have a great impact on people and very often are connected with unfavorable economic effects.

The thesis of this dissertation is that a municipal company of local public transport, by its relation to the owner (a commune), does not make use of the full organizational and financial capabilities and potential of providing the highest quality services.

The aim of this paper is to present the performance of the municipal companies of public utility of the local public transport in the current organizational and financial environment. Moreover, a development direction has been proposed that could be an interesting alternative in comparison to the current system. This article has presented the alternative path of action for

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further conduction of works within the scope of constructing a performance model for the public transport system in Poland.

This elaboration has determined the features of municipal companies of public utility, including also the companies of local public transport, presented the character of the public goods provided by those companies, as well as their meaning for the local community. The legal and economic circumstances for the performance of municipal companies has been described through a presentation of their formation, relations with the local government entities, competences, scope of operation, and the eventual paths of development for the system of providing local transport services.

2. The functioning policy of the public utility municipal companies of local public transport

The political system changes on the turn of 1989 and 1990 introduced a new economic order. According to art. 6 of the Local Government Law of 8 March 1990, the commune is responsible for all the public issues of local character that are not reserved for other entities. This means that all public matters of commune (local) significance belong to the commune as the local territorial corporation. This article has also indicated that the satisfaction of the collective demands of the public is a part of the assignments of the commune. In practice, this means that the commune conducts activities of public utility character through, among others, municipal companies of public utility.

Such companies, as territorial, especially local, government organizations, are of great meaning to the public sector, since their main function is to operate in order to satisfy the needs of the citizens as the inhabitants of a particular area. The public utility municipal companies may be, then, considered as a complex whole that has characteristic features for all organizations that distinguishes itself with a specific system of public organization values and doctrines that find resemblance in its mission and goals. The mission and formal goals of public utility companies show a general character of interaction with the environment. In the general overview, they are established due to the public goals (Grzymała, 2011, p. 13).

The collective needs of the community satisfied by the public utility municipal companies are especially related to (Dylewska & Filipiak, p. 451):

- waterworks and supply of water, sewer system, removal and cleaning of municipal waste,
- maintenance of order and cleanliness, and sanitation facilities, dumps and disposal of municipal waste,
- provision of thermal energy and gas,
- local public transport.

During the first half of the 1990s, during the qualification of the degree of works on doctrines and ideas about local governments in relation to the economic demands of the contemporary economy, it was stated, that the interpretation of tasks of the commune authorities set in the Local Government Law (Act of 1990) had been expanded and deepened. It was stated that the provisions of this act about execution of public tasks of local character and satisfying the collective needs of the community must be re-interpreted in the expanded terminology context that was to provide the commune with the proper legal bases required to execute any needs of the members of its local self governing community. The above thoughts resulted in creation of the Act of 20 December 1996 on municipal management (Act of 1996).

This act determines the rules and forms of municipal management of local government units *that concern execution of own assignments by this unit in order to satisfy the collective needs of the self governing community* (Act of 1996). Municipal management concerns, in particular, the public utility municipal companies, including the companies of local public transport the task of which is to satisfy the collective needs of the population on a current and continuous basis by providing publicly available services.

The character and form of dependencies between the local government units and the public utility municipal companies are regulated by the Act on municipal management. Unless otherwise specified, the decision-making authorities of the local government units, according to the act, decide on the choice of the method of conduction and form of operation for public utility municipal companies.

The municipal companies that provide public utility services by execution and organization of local public transport, are usually in the form of commercial law companies. The companies of local public transport in the form of limited liability or joint-stock companies are regulated by the Commercial Companies Code (Act of 2000).

Entities that provide services of local public transport may also be organized in the form of budgetary entities or enterprises that do not have legal personality. A self governing budgetary entity operates on the basis of a statute, which determines, in particular, its name, office and scope of activity, including the basic activity. In accordance with the Public Finance Law (Act of 2005), budgetary entities are such organizational entities of the public finance sector which cover their expenditures directly from the budget, while the collected revenues are respectively paid into the account of the government budget or the budget of the local government unit.

During the reform of the public utility municipal companies, they gained a partial autonomy within the national economy system. The economic and organizational independence of a local public transport company may be

analyzed from the perspective of the realized functions and the scope of activities. This means that the entities which manage the company, make, as a matter of fact, almost all decisions concerning the company. This, however, does not change the fact that the development direction given by the entities of local government within the public sphere of the municipal sector may be prescriptive and oblige the public utility municipal companies, including the municipal companies of local public transport, to perform ordered behavior at the expense of their own visions of development. The economic policy that formulates the boundary conditions for determining the character of economic space which holds the position of the resolution of the decision-making authority and, thus, being actually the local law, obliges the executive authority to comply with its provisions during every day work (Grzymała, 2010, p. 86). In the face of that, all the municipal entities (including the companies of local public transport) that participate in the activities of a particular economic space are obliged to comply with the regulations of the enacted economic policy.

As the element of the local public transport, urban public transport is one of the most common services that an average citizen of our country may encounter every day. There are three models of managing urban transport by the communes (Komunikacja w liczbach [Transportation in numbers], 2012):

- 1) Choose a management entity for public transport from the administrative structures e.g. the Municipal Transport Authority in Warszawa, the Municipal Infrastructure and Transportation Board in Kraków, the Road and Transportation Board in Łódź.
- 2) A proper department of the city office e.g. the City Office of Białystok.
- 3) Assignment of all the responsibilities to the urban transportation company.

Among the entities of urban public transportation in Poland, ninety-eight of them function as limited liability companies, three as associations of communes, four as joint-stock companies, twenty-six as budgetary enterprises, and eight as self governing budgetary entities.

3. Circumstances of the functioning of public utility municipal companies of public transport

A public utility company, which organizes local transport, must be facilitated with proper tools in order to be able to carry out the tasks ordered by the owner. For the funds paid and left at the disposal of the public utility company by its owner open new possibilities of economic actions for the company, creating the foundation for its economic and legal independence. They are the first and, at the same time, the most important form of owner's contribution in a public utility company. The source for acquiring share capital by public utility

municipal companies, in accordance with particular acts, is the contribution made by the commune in form of the property of the entity, the place of which was taken by the public utility company.

The decision-making authorities of local governments decide on the level of prices and fees, or on the manner of determining the prices or fees for municipal services of public utility character, as well as for using the public utility objects and facilities of local government entities. The cost of offered services must be formed in a way that can be socially accepted by the members of the self governing community. This results in the necessity of distributing service production costs among their actual recipients and the community – as a whole. In practice, such a mechanism means that the decision-making authority is obligated to finance the activity of the public utility municipal company, especially in the case of companies such as the companies of local public transport, the activity of which is usually unprofitable, yet necessary in order to satisfy the needs of the local community (Wolański, 2011, p. 55). During the period after the political system changes, it is possible to distinguish several forms of owner's contributions in a company of local public transport used depending on the finance and subject model of balancing the services of public utility character.

In the past, the financing model for the activity of municipal companies providing transport services was based on the same principles that concern the activities of a business company. They provided services of public utility nature and received, in return, a particular payment from the users of those services. It is, however, important to remember that according to the above analyses, the level of prices and fees, as well as the scope of the transport service and the extent of trips at reduced price or free of charge is regulated by the decision-making authorities of the local government units. A trip of a passenger who paid the reduced price or travels free of charge makes the carrier incur the same costs as in the case of a passenger who paid the whole price for the service.

A construction in which the size of income was uncorrelated with costs resulted in the necessity of increasing the capital in public utility municipal companies of local public transport by the owner (the second basic source of financing).

In such a model, the public utility company that operated, for instance, in the form of a joint-stock company, could be recapitalized by an issue of shares the total of which is included in the commune. The difference between the nominal and the issue price increases the reserve capital, which covers the loss resulting from provision of public services and goods. The above mentioned mechanism has been presented by the following formula (Famielec, 2008):

$$KZ = n(C_e - W_n) \tag{1}$$

where:

KZ – share capital

n – number of issued shares

C_e – issue price of shares

W_n – nominal value of shares

Increasing the equity in the municipal companies of local public transport allowed the carrier to receive funds from the owner. Such funds were used to cover the losses resulting from the procurement for such transport work and could not be covered with the income from sales of tickets at the prices set by the City.

Another way of financing public transport (that is currently used) concerns the proposition that makes a substantial change in the scope of assigning rights to responsibilities i.e. the authority, the entity ordering the transport work pays for execution of the service, the tariff settler accepts, in particular, the financial results of its usage. In this model, the particular emphasis is put on the public utility of the public transport systems, with the inclusion of the principle of distributing the functioning costs of the transport service contractor – between the consumer of the service who makes the fractionated payment that is not equal to the aggregated functioning costs of the whole system, and the financing of the transport activity from public funds in order to realize the public interest of the members of the local government community. The boundary circumstances of the transportation organizer in this model has been presented by Figure 1.



Figure 1. Boundary circumstances of the transportation organizer in a town or city

Source: Own analysis based on Kołodziejczyk (2004) and Wolański (2011).

The method of financing public transport is based on the assumption that the commune, on the basis of a proper agreement, orders provision of services of public utility character to a municipal company. The agreement concluded

between the above mentioned entities sets out the scope and extent of ordered services and the form and amount of payment for their execution. In the case of such a model, the payment made by the commune to the company for execution of the ordered services constitutes the form of contribution. Figure 2 presents the process of procurement of a transportation service.

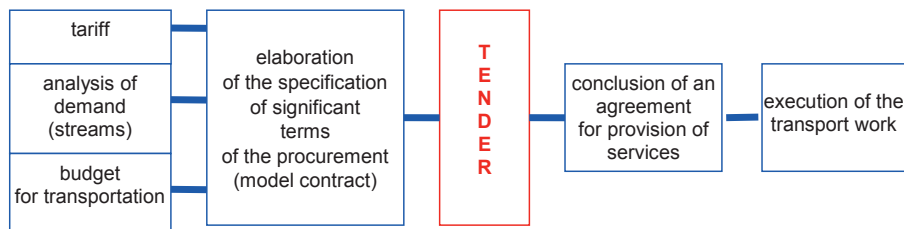


Figure 2. The process of procurement of a transportation service by the commune
Source: Own analysis based on Wąsowicz (2009).

The main responsibility within the organizational and financial area lies with the unit of the local government. The carrier and the public utility municipal company of local public transport perform a marginal role in the creation of transport policy and managing the transport system as a whole. It is the commune that determines the tariff, balances the public expectations concerning individual costs of transport with the budget capabilities, plans the service, organizes tenders for execution, and provides sales and control of tickets. The carrier only concludes an agreement with the city as a result of the conducted public procurement.

The commune, through the transport authority, determines the transport policy of the city or town, determines the availability of particular areas, prepares the timetable, monitors the quality of transport services (manages its own traffic control units), and manages the transportation infrastructure. The general idea of financial flows has been presented in Figure 3.

The presented model of financing of public transport used to be applied, among others, in Kraków and Łódź, and nowadays is used in e.g. Warszawa or Gdańsk. However, it has one significant problem related to the obvious conflict of interests when the company providing transport services is owned by the commune. In such cases, the commune has a double function, one of the owner and the other of the ordering party. In other words, the City is on both sides of one transaction i.e. of ordering and procurement of transport services. It may, theoretically, make the City act to the detriment of the Company or block the tender proceedings by other contractors.

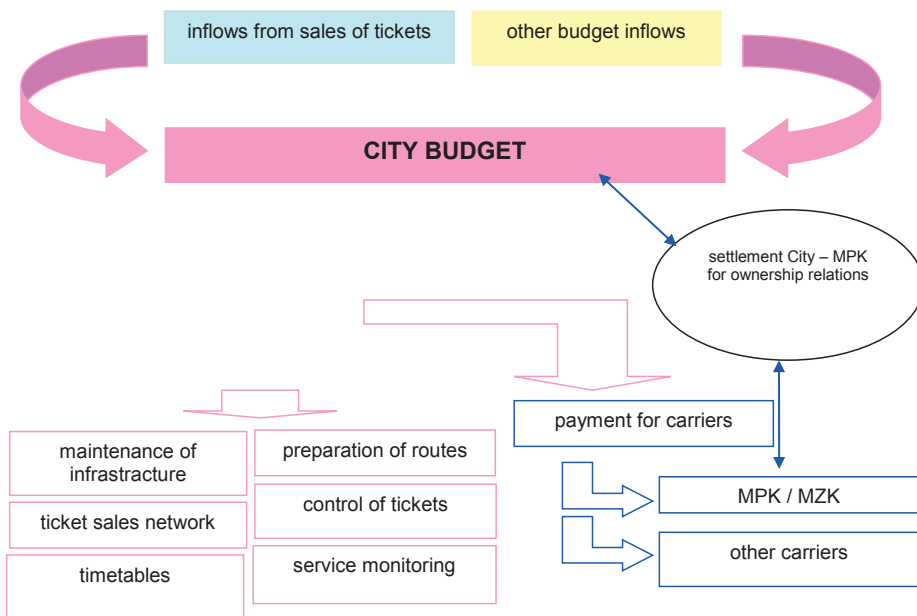


Figure 3. Financial flows in the organization model of urban transport on an example

Source: Own analysis based on Wąsowicz (2009).

Currently, the presented model has been replaced with the so-called provision of transport services without a bidding process – entrusting. This simplifies the procedure for procurement of transport work. On the same organizational and financial principles, instead of organization of tenders, it is possible to entrust provision of services to a public utility municipal company of local public transport. The principles of entrusting transport services are set out in Regulation (EC) no. 1370/2007 of the European Parliament and Council of 23 October 2007 on public passenger transport services by rail and by road and the repealing Council Regulations (EEC) no. 1191/69 (EEC) no. 1107/70 (Regulation EC, 2007). Unfortunately, the so-called entrustment does not free the organization system of local public transport services from the discussed problems. On the contrary, it perpetuates them.

This provokes a question whether it would be advisable to use another model that within the scope of urban transport would be aimed at separating the role of the urban transport company, being a commercial company, from the duties of the city. This would mean that the city must not use its ownership position during the procurement of the service, but it might take into account only the commercial, not social and public, orientation of the public utility municipal company.

4. The directions of market facilitation of the public utility municipal companies of local public transport

The basic assumption of the original model of organizing and financing public transport is to propose appropriateness of market orientation of any activities on the market of public transport services. Its characteristic is to function with maximum autonomy and be independent from the budget subsidies of the local government. In practice, it enforces adjustments of the price level of provided services to the costs of transport work made by the company. Figure 4 presents the boundary circumstances of the transportation organizer in the proposed model.

The way of financing public transport in this model is based on the assumption that the carriers operating on a particular market present the offer to the consumers on the basis of the analysis of incurred costs and the market acceptability of prices. Healthy competition, as well as the offered quality of services, is a very important factor that determines the price. In this model, one of the consumers is the commune, which balances the social expectations concerning individual costs of transport with its financial capabilities and employs the carrier's tariff (as in the case of neighboring communes). The commune establishes the scope of concessions for purchase, selects the carriers from whom it orders the service in the case of a particular offer. The carriers, including the public utility municipal company, conduct all of the matters that concern the transport and determine the tariff.

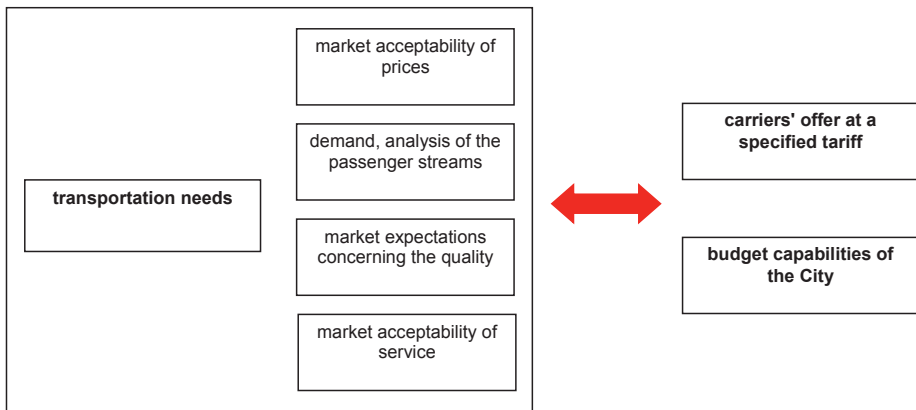


Figure 4. Circumstances of the transportation organizer in the commercial model

Source: Own analysis based on Wąsowicz (2009).

The commune determines the availability of particular zones of the urban agglomeration and, on the basis of its own analyses of streams and demand, it specifies the requirements for the carriers and monitors whether they fulfil the traffic parameters included in the offer. The entrepreneurs of the local public transport elaborate the offer of supply of services for a particular tariff and, on the basis of their own analyses of streams and demand, they shape the transportation system.

The local government unit determines the level of financing transport outside the standard offer (concession purchase, additional transport), impose penalties on carriers for non-executed transport offers, finances transport work (or purchases concessions) within the area that is not covered by the commercial offer of the carriers. Public utility municipal companies of local public transport gain income from sales of tickets, acquire payment for additional services (through the basic service) to the City, and, moreover, search for other sources of financing by using the spare resources available.

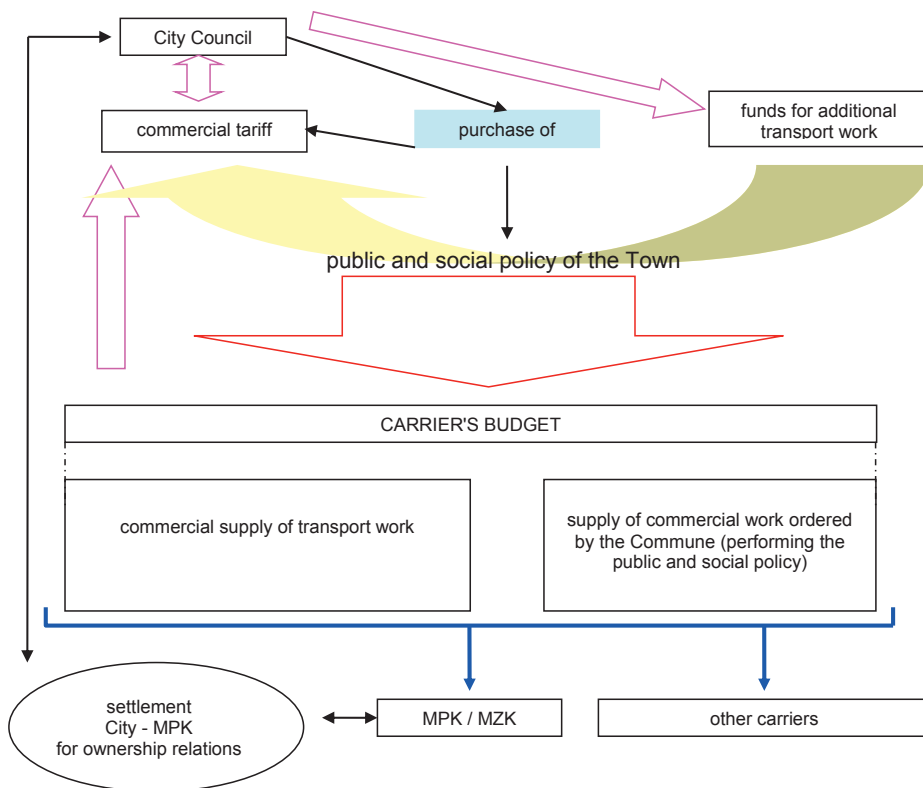


Figure 5. The idea of financial flows in the commercial organization model of urban transport

Source: Own analysis based on Wąsowicz (2009).

An important element of the presented solutions is the fact that the Commune still remains the owner of the public utility municipal company of local public transport and, thanks to this, it can create policy of activities for this entity through establishing, for example, its break-even point. Being justified from the point of view of the nature of provided services, non-profit activity has influence on the carrier's price offer on the market of provided services. Figure 5 presents the idea of financial flows in the proposed organization model of urban transport.

As the basic assumption that conditions this model, one must take into consideration that the fundamental goal is to provide enhancement of the quality of municipal services provided by the entities of local public transport. A goal corresponding to the main goal is, without a doubt, releasing the city authorities from the inconvenient role of the facility that creates the apparent market of public services.

This is a significant matter since, as it has already been mentioned, in the current model of performing the communal management the commune is the ordering party – the provider – the recipient of the set of municipal services offered to its public users. In practice, this means that the commune holds a total monopoly for creating and purchasing products of the publicly available municipal services.

Summing up, the organizer of urban transport has a slightly different role in the case in which the market has several, not one, entities providing transportation services at a similar scope of potential actions. This is convenient, since methods of competitiveness may lower the partial costs that are incurred by the commune on the respective transportation lines, but it results in the need of controlling the actions of the (supply) participants of the system, so that their competition would not result in decreasing the efficiency of the system as a whole.

However, the presented model, based on solutions used, among others, in Edinburgh and Dresden, has some disadvantages. There is a major threat that the competition concerning passengers might result in a "race to the depot" or a significant lowering of the standards at the expense of the comfort and safety. Thus, the result will be reverse to the premeditated one. In the case of services of public utility character, quality is the most important matter and that is why a deep analysis of the eventual directions of changes should be treated as a basic factor.

5. Conclusion

The result of introducing the regulation of the transport system, set by organizational orientation of the presented models, is its ability to

commercialize. This means a susceptibility to the orientation changes of sources of equity capital – units performing the transport component of the commune municipal services sector. The issue that constitutes the development direction of the orientation for public transport model is the relation of the contractors of municipal transport service to the issue of public utility of the conducted activities. The effect of actions that lead to ownership changes in the system components is the withdrawal from the monopoly model of the transport company to the model of a market with freedom of competition among carriers. A barrier of the process is the character of natural monopoly of the performed profession that determines the natural tendency of the local government transport system to solve the duties of "local public transport" through administrative and legal regulations.

It is then visible that the presented solutions for communal management systems in the sector of organizing networks for public transport have their advantages and disadvantages. The basic task for finding an optimum solution for an urban area is to choose the path of development. Aiming at gradual changes in the current resource, which constitutes the legacy of previous periods, would lead in the direction of the model demanded from the point of view of the changed interests of the self governing local community. This provides a warranty of having time to react to the events related to inertia of the system that is obligated to a constant and continuous provision of services at a given level of quality, with constant and continuous implementation of organizational changes.

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- Ustawa z dnia 20 grudnia 1996 roku o gospodarce komunalnej, Dz. U. 1997 nr 9 poz. 43 z późn. zm
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- Rozporządzenie (WE) nr 1370/2007 Parlamentu Europejskiego i Rady z dnia 23 października 2007 r. dotyczące usług publicznych w zakresie kolejowego i drogowego transportu pasażerskiego