

# Contract State - IM

## Two aims

- è **Ensure infrastructure funding**
- è **Ensure efficient infrastructure management**

**The topic is rather „sexy“ at the present time**



# Contract State - IM

## Why contracts ?

**Contracts are better than regulations since the latter are imposed unilaterally**

**In the case of a contract :**

- ▶ **State and IM are partners and will cooperate**
- ▶ **Both can give a usefull input**
- ▶ **They can build up the necessary mutual trust**

# Contract State - IM

## Today difficult situation in most countries

since IM has limited influence on his revenue (user charges and State contributions)

Uncertainty of revenue has negative effects :

- ▶ **Planning is not sustainable**
- ▶ **Execution of plans has a tendency to be disrupted**
- ▶ **Dilemma : Too much/not enough staff**
- ▶ **The future quantitative and qualitative service offer is not really foreseeable for infrastructure users**
- ▶ **At the end : increase of cost for customers via charges and for taxpayer**

# Contract State - IM

## The contract can

- ▶ help to reduce costs and
- ▶ ease or even avoid heavy fluctuations in infrastructure management (stop- and go-policy)

and is therefore in the interest of both  
partners

# Contract State - IM

## The contract will help to

- ▶ **change the conflictive relationship between State and IM into a longer-term partnership of trust based on mutual rights and obligations**
- ▶ **ensure the financial balance of the IM's accounts over time**
- ▶ **bring about sustainable funding of railway infrastructure**
- ▶ **avoid stop/go effects, decrease life-cycle costs and thus contribute to a longer-term reduction of infrastructure costs in general and user charges in particular**
- ▶ **ensure managerial independence of the IM**
- ▶ **improve transparency of financial transfers from the State to the IM**
- ▶ **introduce longer-term predictability of user charges and service quality**

# Contract State - IM

## The contract will help to (continued)

- ▶ ensure an optimal performance of the railway infrastructure
- ▶ maximize traffic safety on the railway network
- ▶ optimize the use of existing infrastructure capacities
- ▶ dimension the infrastructure capacities according to market needs and improve the performance standards
- ▶ reduce infrastructure operating costs
- ▶ minimize disruption of services by better planning and carrying out maintenance and investment activities

# Contract State - IM

**The contract is, however, not a miracle solution since it cannot abolish the sovereign decision power of Parliament in budget matters**

**The Parliament votes the budget on a yearly basis**

**On the other hand, the modification of the contractual amounts has to be justified publicly (transparency) within a contract revision procedure**

# Contract State - IM

## What has to be done ?

**In the case of Macedonia it has been proposed**

- ▶ **to introduce a five year contract on a „rolling“ basis**
- ▶ **to amend the railway law which will have to regulate the matter by**
  - **obliging the State to fix its financial contributions to railway infrastructure for five years, and afterwards each year for the new fifth year**
  - **obliging the State to fix precise performance targets for the IM and the latter to attain them**
  - **obliging the IM to establish a five year rolling business plan**

# Contract State - IM

## What has to be done ? (continued)

**The five-year business plan will have to contain**

- ▶ **a five-year rolling maintenance program**
- ▶ **a five-year rolling investment program**
- ▶ **a five-year rolling forecast of revenue from infrastructure charges and from other sources**
- ▶ **a five-year rolling infrastructure dimensioning program**

# Contract State - IM

**Allocation scheme contained in the contract**

<b>Year</b>	2010	2011	2012	2013	2014
<b>Maintenance expenditure</b>					
<b>Investment expenditure (renewal, upgrading, new construction)</b>					
<b>Total</b>					

# Contract State - IM

**Selection of possible performance targets contained in the contract**

<b>Year</b>	2010	2011	2012	2013	2014
<b>Infrastructure cost per line-km</b>					
<b>Infrastructure cost per train-path-km sold</b>					
<b>Infrastructure cost per t/km</b>					
<b>Train-path km sold (total)</b>					

# Contract State - IM

## Selection of performance targets contained in the contract (continued)

<b>Year</b>	2010	2011	2012	2013	2014
<b>Train-path-km available</b>					
<b>Revenue per train-path-km sold</b>					
<b>Train-path-km sold (passengers)</b>					
<b>Train-path-km sold (freight</b>					

# Contract State - IM

## Selection of performance targets contained in the contract (continued)

<b>Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Number of signalling failures per mio train-path-km</b>					
<b>Number of broken rails per mio train-path-km</b>					
<b>Number of low speed sectors (outside of construction works) per mio train-path-km</b>					

# Contract State - IM

## Selection of performance targets contained in the contract (continued)

<b>Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Degree of punctuality passenger traffic in % (less than 5 min delay at end station)</b>					
<b>Degree of punctuality freight traffic in % (less than 60 min delay at end station)</b>					

# Contract State - IM

## Selection of performance targets contained in the contract (continued)

<b>Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Total amount of train delays in minutes (attributable to IM)</b>					
<b>Number of derailments per mio train-path-km</b>					
<b>Number of overhead wire incidents per mio train-path-km</b>					

# Contract State - IM

## Selection of performance targets contained in the contract (continued)

<b>Year</b>	2010	2011	2012	2013	2014
<b>Percentage of line-km under temporary speed restrictions</b>					
<b>Revenue from user charges freight</b>					
<b>Revenue from user charges passengers</b>					

# Contract State - IM

## Direct legal requirements

- ▶ **determine essential elements of contract like a**
  - **performance target scheme for the contract period**
  - **financial contribution scheme for the contract period**
- ▶ **lay down role and responsibilities for all stakeholders involved**
- ▶ **In particular, fix management autonomy of the IM, as to the use of funds**
- ▶ **fix need of Parliament's approval of the contract and its amendments**
- ▶ **determine conditions for conclusion, execution and amendment of contract**
- ▶ **impose the creation of a neutral monitoring authority with qualified staff**
- ▶ **name an arbitrator for the case of litigation**
- ▶ **introduce a reporting procedure with information obligations**

# Contract State - IM

## Indirectly related legal requirements

- ▶ **Responsibility of the State to develop rail infrastructure as a principle**
- ▶ **Responsibility of the State to ensure over time the financial balance of the IM's accounts**
- ▶ **Efficient decision procedure regarding the network size (closure/opening of lines and stations/terminals)**
- ▶ **Participation of railway undertakings in the maintenance and investment planning process and its essential contents**
- ▶ **Sustainable definition of infrastructure**
- ▶ **Services to be provided by the IM**
- ▶ **Need of approval of the general level of infrastructure charges and of the charging system by the competent Government authority**
- ▶ **Detailed rules as to fixing the infrastructure user charges**

# Contract State - IM

## Recommended steps

1. Obtain basic agreement for concept proposal within Government
2. Elaboration of Railway Law amendments (by MoT in cooperation with Systra)
3. Adoption of amendments by Parliament  
In parallel :
  - ▶ Elaboration of contract text on the basis of Systra draft contract
  - ▶ Elaboration of tentative business plan containing 4 sub-plans
4. Negotiation between MoF and MoT as to the figures to be integrated in the five-year financing scheme
5. Negotiation between IM and MoT as to the figures to be integrated in the performance target scheme. Monitoring of negotiation by Court of Accounts.