

ACCOUNTING AND FINANCE

EFFECTIVENESS PROBLEMS AT URBAN PUBLIC TRANSPORT – FROM THE PERSPECTIVE OF THE EUROPEAN COURT OF AUDITORS

Sándor Nagy

***Abstract:** In my article I concisely deal with the questions and structure of performance audits, the general and unique characteristics of public transport from the perspective of external auditing and the notion of „public good”. I shortly outline the remarks of the European Court of Auditors regarding the effectiveness problems which can be observed at EU co-financed projects.*

***Keywords:** public good, urban public transport, external auditing, European Court of Auditors, performance auditing*

INTRODUCTION

The urban public transport as a public good/public service plays a special role owing to its contribution to „public welfare” at state level – or as we discuss, at EU-level. Therefore the utilization and sound financial management of public resources spent on community transport projects are relevant and justified. In the EU the logic of finance can be derived from the notion of European Added Value (EAV), which essence is the generation such impacts and long-term effects which cannot be realized at local, regional or member state level. The European Court of Auditors (ECA) is responsible for the independent, external auditing of the EU's budget and public finance management. In its performance/value-for-money audits (*called special reports at this institution*) the aspects of sound financial management are analyzed focusing on pre-selected thematic fields of EU spendings. By the examination of economy, effectiveness and efficiency dimensions the ECA could get a deeper insight into them.

EU ADDED VALUE EFFECT, THE EXTERNAL AUDITING AND THE LOGIC OF PERFORMANCE AUDITS

Public spending at the european level should meet two criteria: (1) it should generate positive *net benefits* – the benefits of investments or

public services should exceed the costs of public spending; and (2) the *net benefits* of EU public spending should be larger than those at the regional or member state level. The European added value (EAV) can be derived from several factors such as the limitations of wasteful competition and government failures; quality from greater choices; benefit spillovers, production efficiency – in a nutshell the emergent synergies (RAND CORPORATION 2013).

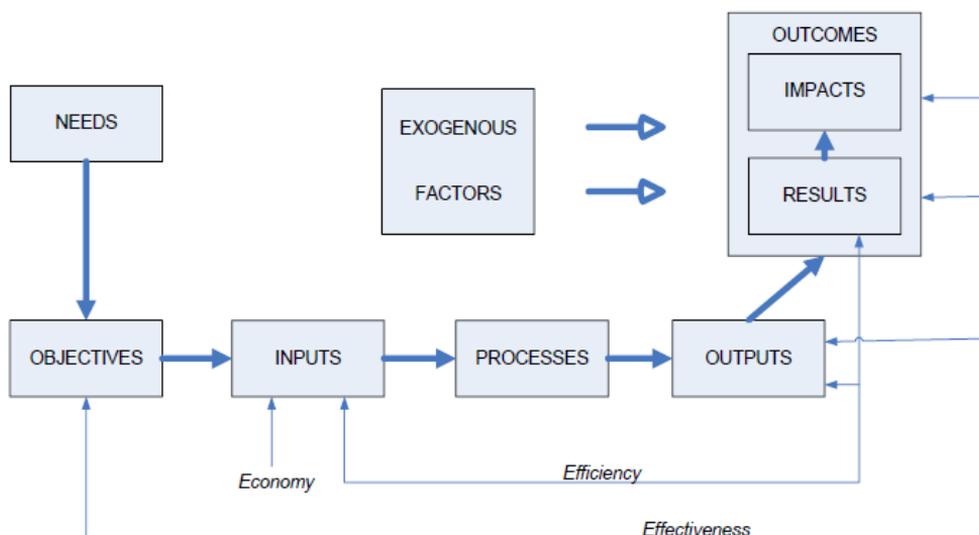
The EAV is getting enjoy increasing attention in general and in the public finance management as well. The European Court of Auditors (ECA) is the independent, external auditor of the EU-budget and the public finance management. As an EU-institution it has the supreme level mandate to audit the existence of the „3E” (*economy, effectiveness, efficiency*) and to monitor the progression/development of the accountability system. By doing this the ECA performs several audit types: (1) financial audits, (2) compliance audits, (3) performance audits, (4) follow-up audits and recently (5) landscape review.

Regarding the performance audits the ECA formulates the following thoughts:

„...Auditing performance involves assessing different aspects of the public intervention process, including inputs (financial, human, material, organisational or regulatory means needed for the implementation of the programme), outputs (the deliverables of the programme), results (the immediate effects of the programme on direct addressees or recipients) and impacts (long-term changes in society that are attributable to the EU's action). (ECA homepage)”

The following figure depicts the analytical framework of a certain performance audit dealing with the public intervention under scrutiny. The „economy” refers to the cost reduction of inputs without endangering the planned or given level of outputs or results. We can talk about „efficiency” in the relation between inputs and outcomes (results and impacts). The efficiency increases if the amount or quality of outcomes raise while the inputs are unchanged. The problem of effectiveness arise when the public intervention does not produce the expected outputs or outcomes (ECA 2013).

Figure 1, Analytical framework of performance audits (ECA)



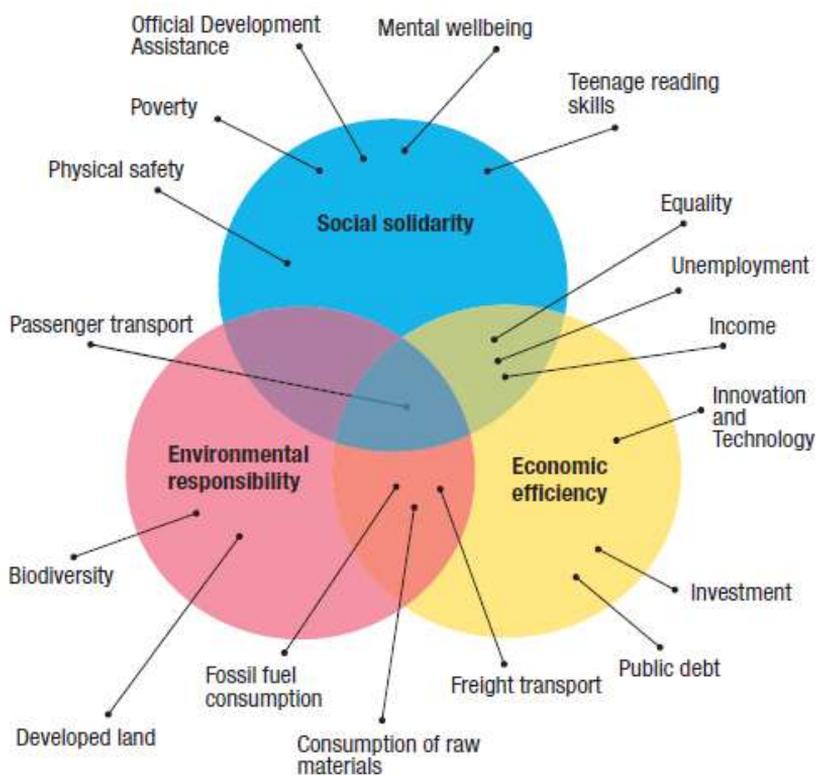
Source: ECA (2013)

THE URBAN PUBLIC TRANSPORT AS A SPECIAL „PUBLIC GOOD/PUBLIC SERVICE”

The theory of *pure public goods* can be attached to SAMUELSON (1954, 1955). He highlighted the basic characteristics of this economic notion: it is *not excludable*, and the consumers do not compete for obtaining and enjoyment (*non-rival*). Of course many interpretations and reinterpretations exist (*see* STIGLITZ 2000).

The urban public transport can be considered as a special public service. Its importance can be detected in its broad and diverse contribution to the sustainable development which could derive from the evolvement of the European Added Value. The emplacement of the community transport into the sustainability dimensions can be easily observed in the next illustration created by the SWISS FEDERAL STATISTICAL OFFICE (2013).

Figure 2, Switzerland's overview of key national indicators, categorised according to three qualitative objectives



Source: (SWISS FEDERAL STATISTICAL OFFICE 2013 quoted in OFFICE OF THE AUDITOR-GENERAL NEW ZEALAND 2013)

I list below the most distinctive attributes of the community transport:

- there are no revealed and clear consumer preferences for public goods (HOLCOMBE R. G. 1997)
- no market (*benchmarking*) indicators contrary to the competitive sector
- it is not a pure public good: urban service only locally disposable, not free for all (*excludable*) and rivalrous (crowded vehicles)
- financed not only by public money, it can be produced by private sector as well
- long-term thinking should be necessary, and long-run effects and impacts should be taken into account and measured
- financial profitability emerge on long-term or never, but could induce positive social effects (*urban development, static competitive advantage...*)

- no direct (*evolutional*) selection on market: often monopolistic structure
- regulatory tool: *for instance* it could underpin other regulations *e.g. congestion charge*
- tries to solve several problems (*e.g. market failures, urban development issues, „green” challenges*)
- could serve short-term political interests (votes for re-election)

The European Union – subordinated to EAV and the public welfare in the community – identified the problems and challenges of the urban public transport and elaborated its ideas and priorities (EC 2004, EC 2011, ECA 2014, STEAD D. 2007). In larger settlements, cities and agglomerations growing urban population, commuters, persistent traffic jams can be expected up to 2050. The air pollution and the number of the traffic accidents should be radically reduced in the same time.

In the future the urban public transport will enjoy the same priority as the development of Trans European Network (TEN), since the long-range travels' initial and arriving stage take place usually in crowded urban regions (EC 2011). In this context the eliminations of negative externalities should also be harmonized with the EU 2020 Strategy, moreover there is a strong need for integrated, holistic approach and the issues of complexity should be taken into consideration as well.

The European Commission's crystal clear objective – due to the circumstances mentioned above – is the sustainable urban transport: freedom of movement, increasing the quality of life of current and future generations – including health, security, environmental conditions, inclusivity – for anyone should be provided the access to quality transport services (*e.g. elderly or disabled citizens*). In order to realize them urban mobility strategies and plans must be made and the EC supports research, fosters better management reactions and disseminates good practices and knowledge.

OBSERVATIONS OF THE EUROPEAN COURT OF AUDITORS

The ECA has been reporting about several field of EU intervention affecting the public transport (*see e.g. ECA 2010/No. 8 Special Report – TEN & rail; ECA 2012/No. 4 Special Report – seaports; ECA 2013/No. 5 Special Report – road investments*). In 2014 the Court's first Special Report was dealing with the urban transport – „Effectiveness of EU-supported public urban transport projects

2014/No. 1”. The auditors addressed the following questions in order to analyze the performance: (1) Were the projects implemented as planned in the grant applications? (2) Did the services provided by the projects meet user needs? (3) Did the projects achieve their objectives in terms of utilisation? In the publication 26 projects were selected. In the last two financial/programming period (MFF 2000-2006; MFF 2007-2013) the EU spent in total 10.651 million euros on urban transport from ERDF and CF funding. Poland, Hungary, Greece, Portugal were the „winner” recipients/beneficiaries: PL (2882 m), H (1528 m), GR (1414 m), PT (1073 m). Germany, Romania, Slovakia, Lithuania, Bulgaria lagged behind: D (62 m), RO* (92 m), SK (126 m), LT (130 m) and BG* (143 m) (*RO and BG EU membership from 2007) (ECA 2014).

In connection with the first question the ECA found only 4 projects where significant implementation delays were found. The maximum was 4 years in Italy at a metro line extension. The second question focusing on consumer/travellers preferences. These preferences in terms of public finance sustainability seem slightly paradoxical: punctual, frequent, comfortable, clean, easily accessible and affordable. The third question analyze the utilization of services financed by the EU. This is the aspect of examination which affect the effectiveness. The ECA revealed some projects where the utilization was significantly fewer than in forecast. In five cases the rate of actual users compared to planned was under 50%. These outstanding cases encompass metro and light metro constructions. According the observations of the auditors the main factors of underutilization were the insufficiencies in design and planning processes (not well-founded feasibility studies) and weaknesses in mobility policies (lack of coordination between transport methods and parking strategies or the lack of urban mobility plans). The overall conclusion of the report is that the EU co-financed urban transport investments' performance (*the contribution to EAV or EU-level public welfare*) is negatively affected by the underutilisation (ECA 2014). To understand and the measurement of performance – in a wider context – is not an easy task. Usually the following indicators are used: numbers of passengers, trips, kilometers traveled, rate of occupancy, the total savings in traveling/commuting time compared to other means of transport, the reduction of pollutant emission and the cost reduction (*it refers to the sustainability of public finances*) achieved by the replacement of bus services especially in case of new tram, light metro and metro lines (EC 2009).

CONCLUSIONS

Spending the public money wisely, their proper utilization and its transformation to public welfare became essential especially in the era of financial and economic crisis, emergent sovereign debts of member states and the needs for hunting greater efficiency. The community transport in this respect has an outstanding importance. The European Court of Auditors conducted a performance audit focusing on this special field (Special Report 2014/No. 1). Based on its observations the ECA made the following suggestions: a wider indicator set would be necessary in accordance with the user satisfaction surveys, expected benefits such as a reduction in pollution, noise and congestion, better road safety and monitoring emergent behaviour of users. However, in similar performance audits not only the effectiveness problems, but the efficiency questions and the detection of impacts should be taken into consideration as well. Moreover all the dimensions of sustainable development should be assessed on project and external auditing level.

References

- EC (2004): Towards a thematic strategy on the urban environment. COM(2004) 60 final, European Commission.
 Link: http://ec.europa.eu/environment/urban/towards_com.htm
- EC (2009): A „konvergencia” célkitűzés keretében a magyar régiókban az Európai Regionális Fejlesztési Alapból és a Kohéziós Alapból származó közösségi strukturális támogatásra vonatkozó „Közlekedés operatív program” részét képező „Budapest 4-es metróvonal I. szakasz” nagyprojektről. A Bizottság határozata – CCI No 2008HU161PR003. B(2009) 6793, European Commission.
- EC (2011): Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system. SEC(2011) 358 final, European Commission.
- ECA (2013): Performance Audit Manual. Overview. European Court of Auditors.
- ECA (2014): Effectiveness of EU-supported public urban transport projects. Special Report 2014/No. 1., European Court of Auditors.
 Link: http://www.eca.europa.eu/Lists/ECADocuments/SR14_01/QJAB14001ENC.pdf
- HOLCOMBE R. G. (1997): A Theory of the Theory of Public Goods. In: Review of Austrian Economics, Vol. 10, No. 1 (1997) p.1-22. ISSN:0889-3047
- OFFICE OF THE AUDITOR-GENERAL NEW ZEALAND (2013): Public sector financial sustainability. Discussion Paper. ISBN 978-0-478-41022-8.
- RAND CORPORATION (2013): The European Added Value of EU spending: Can the EU help it member states to Save Money? Exploratory Study. Bertelsmann Stiftung, Gütersloh, Germany.

Link: http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-5FC258A0-DBB4BC45/bst_engl/xcms_bst_dms_38323_38324_2.pdf

SAMUELSON P. A. (1954): The Pure Theory of Public Expenditure. In: The Review of Economics and Statistics, Vol. 36, No. 4., p. 387-389.

SAMUELSON P. A. (1955): Diagrammatic Exposition of a Theory of Public Expenditure. In: The Review of Economics and Statistics, Vol. 37, No. 4., p. 350-356.

STEAD D. (2007): The European Green Paper on Urban Mobility. EJTIR, Vol. 7, No. 4 (2007) p. 353-358.

link: http://repository.tudelft.nl/assets/uuid:0605f22c-2783-4137-ad3e-fcc498896579/2007_04_06european.pdf

STIGLITZ J. E. (2000): Economics of the Public Sector. 3rd edition, W. W. Norton & Company, New York.

SWISS FEDERAL STATISTICAL OFFICE (2013): Sustainable Development – A Brief Guide 2013: 17 key indicators to measure progress, Neuchatel, p.23.

NOTE ON THE AUTHOR

Sándor Nagy: economist, assistant professor; University of Szeged, Faculty of Engineering Department of Economics and Rural Development, Mars tér 7. 6724 Szeged, Hungary; phone: +36 62 546 000; email: nagys@mk.u-szeged.hu