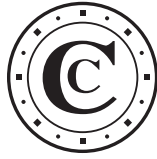


Cour des comptes



Chambres régionales
& territoriales des comptes

ENTITIES AND PUBLIC POLICIES

REGIONAL EXPRESS TRANSPORT AT THE TIME OF OPENING TO COMPETITION

Late reforms,
necessary clarification

Public thematic report

Summary

October 2019

 **DISCLAIMER**

This summary is intended to facilitate the reading and use of the report of the Cour des comptes.

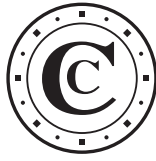
Only the response of the Prime Minister is provided at the end of the report.

Summary

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Introduction

TER includes all regional transport by trains and coaches provided by SNCF Mobilités, with the exception of Île-de-France and Corsica. They carry about 900,000 passengers a day in 7,000 trains and 1,300 buses. The trains concerned run on 20,489 kilometres of railway lines, 11,853 of which are electrified. TER's activity is structured around three services: periurban services; services between regional cities; and services to isolated areas.



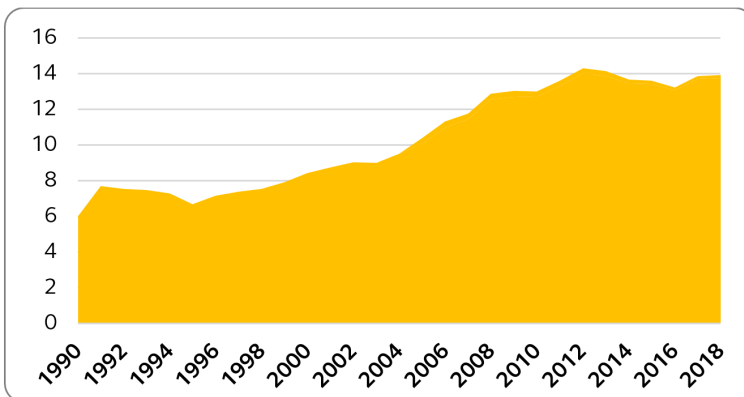
1 Strong commitment from regions, a still inadequate service

The activity is subsidised by the regions, which devoted major expenditures to it over the 2012-2017 period. These contrast with poor service quality and declining ridership.

After significantly increasing their transport offer, the regions, which had become transport organising authorities (AOTs), stabilised it between 2012 and 2018. They continued their efforts to renew rolling stock (€3.3 billion between 2012 and 2017), rejuvenating and modernising the fleet as a result. They also implemented pricing policies favourable to users, subscribers in particular, with a view to improve the attractiveness of TER and encourage modal shift.

But the most notable fact over the 2012-2017 period is the regions' increasing commitment to investment in the regional rail network and stations, the aim being to improve customer service. Such investments reached around €2.1 billion between 2012 and 2017. However, the rail network and stations are owned by SNCF Réseau, while the Stations & Connections activity is SNCF Mobilités' responsibility. It has therefore become essential to clarify the regions', the public rail group's and the State's respective roles in financing regional infrastructure, by making it possible for regions to own the infrastructures they already finance: this would enable them to better control renewal, development and deletion choices, as well as management and maintenance procedures.

TER traffic, in billions of passenger-kilometres, 1990-2018



Source : Cour des Comptes, based on SNCF Mobilités

Strong commitment from regions, a still inadequate service

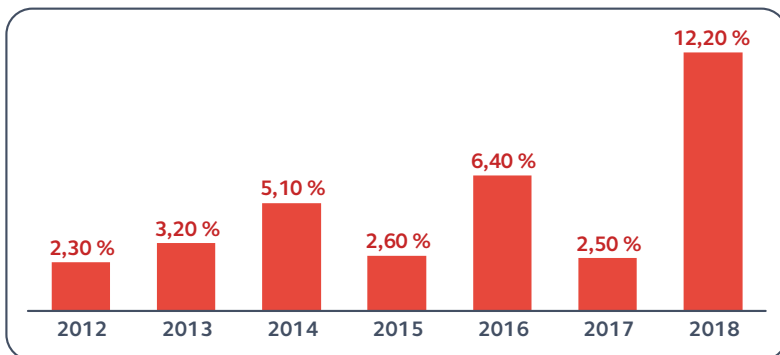
Paradoxically, the regions' increased expenditures have been accompanied by a decline in ridership, particularly among occasional customers. TER traffic, which had doubled between 1995 and 2012, decreased steadily up until 2016, with a slight rebound in 2017.

The drop in ridership from 2012 onwards is partly due to external factors such as competition from new modes of transport, carpooling and

intercity bus transport in particular¹, the decrease in some territories' populations, and the drop in fuel prices between 2012 and 2016, which encouraged the use of private vehicles.

It may also be explained by factors specific to the public rail group, which weaken its service quality, which has been marked since 2012 by too many train cancellations and an increase in the number of late trains, particularly in comparison with European averages.

Evolution of the non-fulfilment of the service offer



Source : Cour des Comptes, based on SNCF Mobilités

The strikes in 2014, 2016 and 2018 aggravated the operator's management difficulties. Deterioration in service quality is also attributable to the poor state of infrastructures and the consequences on train punctuality of the increase in renovation work, for which SNCF Réseau is responsible². The network

used by the TER is in a very poor state, particularly as regards lines with the lowest ridership, which, in 2017, accounted for 9,137 kilometres of the 20,489 kilometres of lines used by TER. Its deterioration has led SNCF Réseau to increase traffic delays and even suspend service for safety reasons.

¹ Known as «Macron buses» since the activity's organisation was liberalised by Act no.2015-990 of 6 August 2015 for growth, activity and equal economic opportunities.

² Cour des comptes, *Rapport public thématique : SNCF Réseau : des réformes à approfondir*. La Documentation française, décembre 2018, 99 p., disponible sur www.ccomptes.fr.

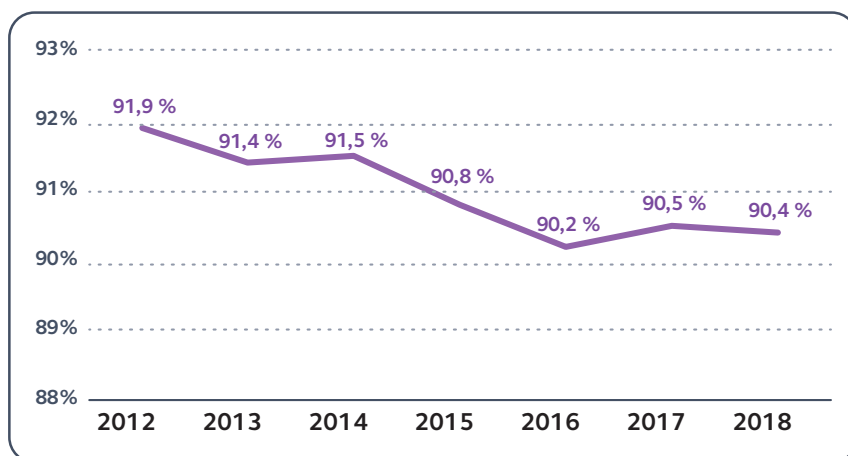
Strong commitment from regions, a still inadequate service

Although agreements between the regions and SNCF Mobilités provide for penalties when services are not provided, most such mechanisms are still insufficiently incentivising. If regions increased their levels of incentives, this could encourage SNCF Mobilités to take further corrective measures.

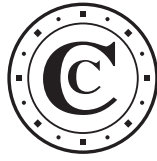
Finally, the observation of the overall decline in ridership should not obscure the very considerable disparities in the various lines' situations. The average is reduced by certain low-ridership lines, with many trains carrying fewer than 10 passengers. The same is true for stations: in 2016, there were 285 railway stations averaging fewer than three passengers a day. Closing

these low-ridership lines and stations, which could be justified from an economic point of view, or even from an environmental point of view when services are provided by diesel-powered trains, is not the only option, however. Several other solutions are possible in order to ensure service to territories that are often isolated: transport plans can often be improved; lines can be managed more economically by an operator other than SNCF Mobilités; regular or on-demand buses, minibuses or taxis can replace certain trains. In order to make such choices, it is essential that the regions have an economic, social and environmental analysis available for each low-ridership regional line.

Evolution of service regularity



Source : Cour des Comptes, based on SNCF Mobilités

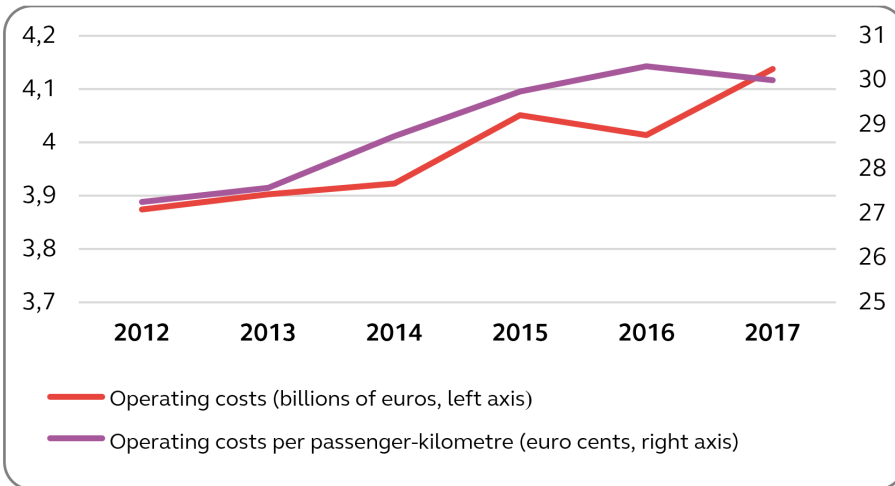


2 An expensive, increasingly subsidised activity

Regional express transport's operating costs, which amounted to €4.1 billion in 2017, are constantly rising. Responsibility for these high costs is shared between the regions and SNCF Mobilités. The former do not always seek to rationalise the activity, proposing poorly optimised transport plans or maintaining levels

of service at stations (counters) or on board trains (ticket inspectors) whose efficiency is questionable. The latter provides the service at a very high cost, in particular due to inefficient work organisation, low staff versatility and overly automatic wage increases.

Operating costs of TER trains and coaches, 2012-2017



Operating costs for 2018, which were impacted by the consequences of the spring strike, are not included in the graph: they amounted to €4.2 billion with the operating cost per passenger-kilometre averaging €0.303.

Source: Cour des Comptes, based on SNCF Mobilités

However, the TER activity generates a high operating margin for SNCF Mobilités (in 2017, it amounted to €231 million, 5.6% of turnover) as well as generating strong growth in cash flow (€808 million at 31 December 2017).

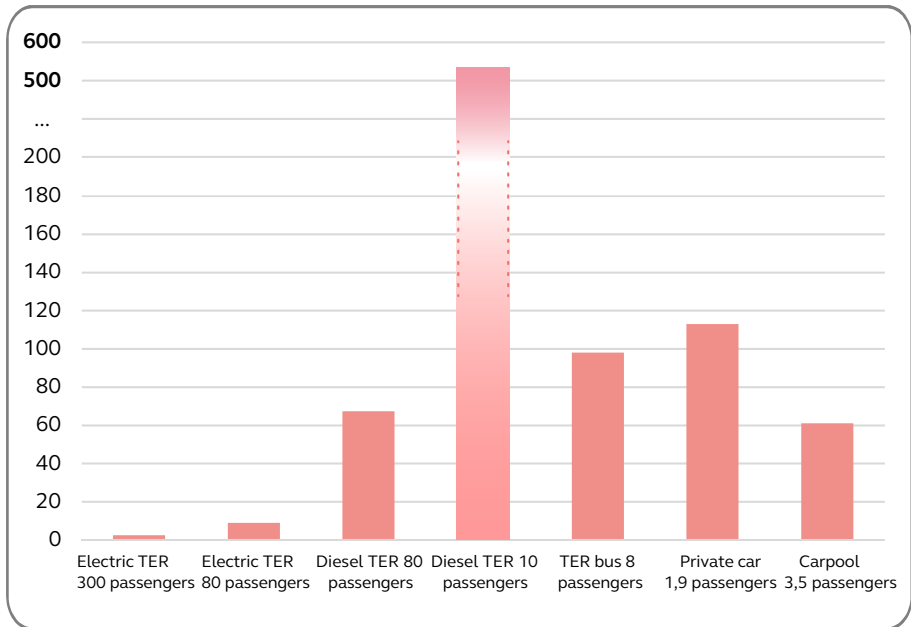
Profitability varies considerably from one region to another. Greenhouse gas emissions from different modes of transport in 2016 (in grams of CO₂ per passenger-kilometre) (from -6.9% of turnover to +14.6% in 2017).

An expensive, increasingly subsidised activity

Calculation of the cost of TER must also include investments in infrastructures and rolling stock, the cost of the special pension scheme for railway workers, and the externalities of this mode of transport, which include various inconveniences that potentially generate costs for communities: accidents, greenhouse gas emissions, local pollution by

nitrogen oxides and fine particles, noise and congestion. It is clear that TER's environmental performance is unequally virtuous, and very mixed as far as greenhouse gas emissions are concerned: while emissions per TER electric train passenger are negligible, diesel-powered TER trains' per-passenger emissions are very high when they are not full.

**Greenhouse gas emissions from different modes of transport in 2016
(in grams of CO2 per passenger-kilometre)**



Source: Cour des Comptes, based on SNCF Mobilités and ADEME

Total costs, which are certainly varied in kind, including operating costs, investments, the railway workers' pension scheme and environmental costs, came to around €8.5 billion in

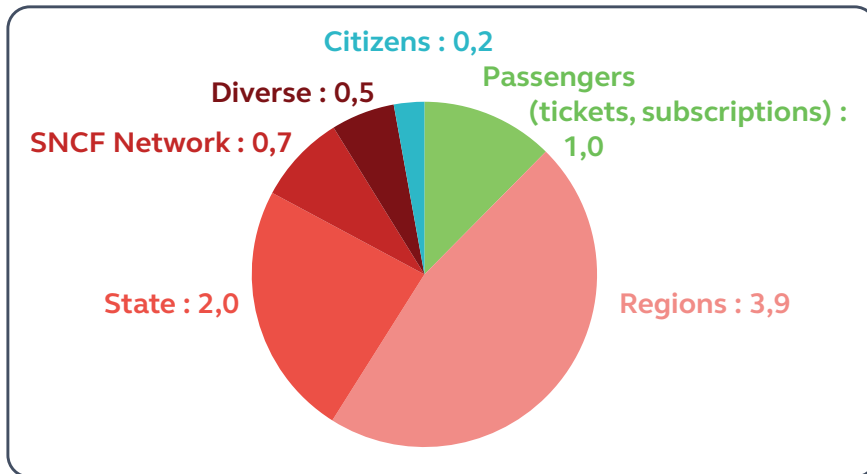
2017, an average cost per passenger-kilometre of 61 euro cents; given the current train occupancy rate, this makes the TER the most expensive mode of transport.

An expensive, increasingly subsidised activity

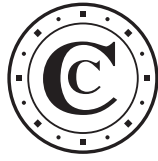
88% of TER costs are covered by public subsidies, with passengers only paying 12%, or about €1 billion out of a total cost of €8.5 billion. This situation is due to the pricing policies implemented by the regions, which have continuously reduced passenger participation in service

costs. This is true in particular for subscribers, each of whom enjoys an average of about €12,000 a year in public subsidies. This evolution of fare grids raises the question of distribution of TER financing between taxpayers and users.

Financing of all TER costs, in €Bn, 2017



Source : Cour des Comptes, based on SNCF Mobilités



3 Still insufficient preparation for opening up to competition

Relations between the regions and SNCF Mobilités are by their very nature unbalanced, due to the latter's monopoly situation: numerous clauses in agreements are particularly slanted in its favour. The Act of 27 June 2018 for a new rail pact, which provides for universalisation of competitive awards of new contracts from 2023 onwards, provides an opportunity to rebalance their relations.

The technical and financial data possessed by SNCF Mobilités are essential to the regions for two reasons: first, for management of the activity, for which the data it communicates is sufficiently precise or exploitable; second, if the market is to be opened up to competition, SNCF Mobilités will have to provide additional data so that the regions can prepare their calls for tenders. Such communication should also concern industrial and commercial data accumulated by SNCF Mobilités during its monopoly period, such as data relating to train maintenance.

Most regions still do not fully understand what means need to be implemented if they are to open up to competition successfully. To rectify this, they must lose no time in improving their departments' competences, in particular by making greater use of technical, legal and financial expertise profiles.

Faced with the prospect of opening up to competition, regions reacted in a variety of ways: four of them (Occitania, Burgundy - Franche-Comté, Brittany and Centre-Val de Loire) did not at this stage wish to plan a schedule or procedures for opening up to competition; four regions (Auvergne-Rhône-Alpes, Normandy, New Aquitaine and Pays de la Loire) planned to open up certain routes to competition over the 2019-2023 period, but do not as yet appear to have done so; three regions (Grand Est, Hauts-de-France, Provence-Alpes-Côte d'Azur) have already indicated their willingness to put certain lines into competition by initiating competitive tendering procedures.

Still insufficient preparation for opening up to competition

For its part, SNCF Mobilités was late in becoming aware of the urgent need for change. Since 2013, more direct allocation of resources and outlays to the TER Directorate-General has made it possible to strengthen local management and implement measures to improve the activity. But it was only from 2016 onwards that the TER Directorate-General developed and

implemented a strategic plan, CAP TER 2020, aimed at reducing costs and improving quality. However, the TER activity continues to come up against structural constraints over which it currently has no control, in particular as regards the cost of the rail group's support functions. Spinning off the activity would be a good way of addressing these difficulties.

Conclusion

Foreign examples show that the success of regional transport depends on a combination of four factors: regionalisation, a sufficient share of the cost borne by passengers, good network condition and openness to competition.

France currently lags far behind as far as the last three success factors are concerned. As regards costs, foreign examples raise the question

of higher contribution from TER passengers. Improvement of the state of the network is necessary and requires clarification of the respective roles of the different actors. Finally, the opening up to competition, if only gradual, must now become effective in order to confirm its role as a lever for improving the performance of regional express transport.

Recommendations

The Court makes the following 9 recommendations:

1. Transfer ownership of regional infrastructures (secondary network and local stations) to regions that so wish and leave them the choice of management and maintenance methods (State and regions).

2. Increase the requirement on service quality levels expected of the operator and step up incentives (penalties and bonus/malus) (regions).

3. Carry out a social, economic and environmental analysis of each low-ridership line enabling each region to choose between the following options: develop the line, maintain it by managing it more economically, organise it with another mode of transport or eliminate it (regions, SNCF Mobilités and SNCF Réseau).

4. When drawing up specifications, ensure that operating costs are kept to a minimum, in particular by

keeping levels of staff presence at stations and on board trains to a strict minimum (regions).

5. Revise transport plans with a view to making them more reliable and improving train regularity (regions, SNCF Mobilités and SNCF Réseau).

6. Review the level of passenger contribution to TER costs, particularly in relation to service quality (regions).

7. Ensure the reliability of information likely to be requested by regions pursuant to the Decree of 20 August 2019 (SNCF Mobilités).

8. Improve regions' technical, legal and financial expertise in order to prepare future calls for tenders effectively (regions).

9. Spinning off the TER activity and transfer most of the support functions currently provided on its behalf by SNCF and SNCF Mobilités (SNCF and SNCF Mobilités).