4. TENDERING AND DECENTRALIZATION OF REGIONAL RAIL PASSENGER SERVICES IN THE NETHERLANDS (1997 – 2005)

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SUMMARY

Introduction

In the Netherlands, tendering of regional rail services has begun. In 1994, the government started tendering regional bus services as an experiment and in 2001, a law was established which gives a structural juridical basis for tendering public transport: The Law for passenger transport 2000.

In 1998, the government started, on an experimental basis, the process of decentralization and tendering of regional rail passenger services. On 1 January 2005, the Law for Passenger transport became valid for regional rail passenger transport. Since this time, there has been an official and juridical basis for tendering and decentralization of regional rail services.

This paper describes the experiences and insights of the Dutch central government on the tendering procedures which have taken place since 1997. Special thanks are given to the representatives of the Dutch regional authorities who have contributed their experiences in producing this paper.

The Dutch Situation/Context

The Dutch rail network covers 2 811 km; 2 064 km are electrified and 924 km are single track. There are 390 stations. Only a small part of this network is competitively tendered.

“ProRail” is responsible for building and maintaining rail infrastructure, allocating rail capacity and rail network management. Therefore, it is responsible for the operation and maintenance of the whole railway network, including the parts on which services are tendered.

“NS” – Netherlands Railways is the operator for passenger services on the main network. NS saw growth in passengers of 1.8% in 2004, with the number of passenger kilometres increasing from 13.8 billion to 14.1 billion. The increase in passengers in 2005 was 4%.

The responsibility for regional transport has been decentralized as far as possible in the Netherlands in the last decade. The responsible authorities are more often represented by regional authorities than by the central government. The central government determines the primary national goals in the transport sector and funds regional public transport through the regional authorities. The central government handed a concession for the operation and maintenance of the railway network to ProRail until 2015 and for passenger services on the main railway network a concession has been given to NS also until 2015.

The aim of decentralization and tendering procedures in the Dutch passenger transport policy is to have “better, more effective public transport”. Achieving gains in efficiency is also a goal, but not the most important goal. In this respect, it is relevant to know that the Dutch government has decided to give the same level of subsidies to regional authorities as before the decentralization process started. This system gives the regional authorities an incentive to either improve the quality of service or cut the cost while maintaining the same quality or level of service in the tendering process. If they cut costs, the money can be spent on other public transport modes.

The regional authorities are responsible for the tendering procedures and determine the goals, specifications, service delivery and possible sanctions when companies do not live up to their contracts.

The Dutch Experience Up-to-Date

Since 1998, 13 regional rail passenger operations have been decentralized (approx. 8% of heavy rail transport) and 10 were competitively tendered. These were mainly northern and eastern services which have little interference with services on the main rail network. The Minister of Transport decided that 4 more regional rail services (2 in Limburg and 2 in Zuid-Holland) will be decentralized in 2006 and will be tendered by the regional authorities ('provinces') which will be responsible for them.

Seven of the tendering procedures focused mainly on the goal of minimum-subsidy (Groningen + Friesland + Zutphen-Apeldoorn) and 3 on improving the quality and quantity of supply.

Table 1.

Regional authority	Nr. of services	Year of decentralization	Year of tendering	Duration of current franchise (in years)
Friesland	2*	1999	2004	15
Groningen	3**	2000	1999+2004	15
Groningen-Leeuwarden	1*	2005	2004	15
Gelderland Winterswijk-Zuph/Doet	2	1999	2007	10
Gelderland Doet-Arnhem	1	2001	2007	7
Gelderland Zutphen-Apeldoorn	1*	2004	2003	5
Twente/ALMA	1**	1998	1997+2005	5
Twente/ZHO	1*	2003	2002	10
Gelderland Ede-Amersfoort	1*	2006	2005	15
Limburg	2	2006	2006	8+2
Zuid-Holland	2	2006	2006	10?
Gelderland Tiel-Arnhem	1	2006	2007	10?
Overijssel	2	2006/7	2006/7	2

* Service is tendered once. ** Service is tendered twice.

The Results

The results of this relatively new policy are quite good considering quality of services offered and the efficiency that has been gained in the operation: Either a regional authority has gained quality improvements such as extra supply, new rolling stock and/or a higher frequency of rail service, or the winning operator has subscribed for a substantially lower financial compensation (20-50%) while providing the same level of service.

Considering Dutch standards, a relatively large franchise of 6 regional rail services in Groningen and Friesland (2004/2005) received a very attractive winning offer, whereby, for 15 years approximately 50% less subsidy per year will be needed and the operator will be obliged to supply new rolling stock starting in the autumn of 2006. The operator will also have to implement the new national travel pass or "chipcard" without extra cost to the regional authorities. The national chipcard will enable people to use one debit card for different types of public transport.

Table 2.

Regional authority	Extra supply first time	Extra supply second time	New rolling stock first time	New rolling stock second time	Lower subsidy first time	Lower subsidy second time
Friesland**	+	+	N	Y	N	Y
Groningen**	0	+	N	Y	Y	Y
Groningen- Leeuwarden*	+		Y		0	
Gelderland Winterswijk-Zutphen/Doet.	+		Y		N	
Gelderland Doet.-Arnhem	+		Y		N	
Gelderland Zutphen-Apeldoorn*	0		N		Y	
Twente/ALMA**	0	+	N	Y	Y	Y
Twente/ZHO*	++		Y		N	
Gelderland Ede-Amersfoort*	++		Y		Y	
Limburg	?		?		?	
Gelderland Tiel-Arnhem	?		?		?	
Zuid-Holland	?		?		?	
Overijssel	?		?		?	

N = no **Y** = yes + small extension ++ large extension - small decline **0** = same as before
* once tendered ** twice tendered

Which rail transport companies operate in the Netherlands?

Thanks to the tendering (and decentralization) process, several new transport companies have entered the Dutch market for rail passenger transport. The companies currently operating are NS, Connexxion, Syntus (partly owned by NS and Connexxion), and Arriva (formerly Noordned). Other rail operators which have made bids in the tendering procedures are Connex and 'Stadsvervoer Nederland' (part of HTM).

Evaluation

On the basis of the two evaluation studies[1] on the process and content of the decentralization and tendering of regional public transport in the Netherlands, the following conclusions can be drawn:

Conclusions on decentralization

In Gelderland, Groningen and Friesland a better connection between regional policy and local needs has been established. The regional authorities have taken their responsibility for their policy in this field. So far, mainly organizational changes have been made. The decentralization also has accomplished efficiency gains. In the beginning, decentralization was accompanied by extra requests from local authorities for funding from central government. The Central government so far has been quite determined to decline these requests.

Of course, the regional authorities have had to learn a lot about these new responsibilities. The lessons learned from this experience are very valuable in this respect, not only for the regional authorities concerned but also for central government and the other regional authorities.

Conclusions on the introduction of tendering

The introduction of competition (comprising both competitive public tendering and direct award of contracts with the threat of public tendering) in regional public transport has led to a substantial increase in supply of public transport and a substantial improvement of efficiency (cost/revenue-ratio) in the rail part of regional transport. Tendering of regional rail services has led to a larger efficiency gain (20-50%) than directly awarding the contracts (0%-10%). The money gained by improving efficiency in regional train transport has in most cases been used to improve the level of service, most often by increasing supply (connections or higher frequencies of services). During the day and in more densely populated areas, this has led to an increase in the use of the services (especially in Gelderland and Twente on trains operated by Syntus). Services that where added in the night time or in thinly populated areas, have not created a corresponding increase in ridership. In these cases, the supply of public transport was mainly an attempt to improve the "social function" of public transport. There the gain in efficiency achieved by cutting the costs of the contract was not translated into an increase in the use of public transport or a better cost/revenue-ratio.

1. The policy goal of increasing the number of public transport passengers has not been achieved in most cases, Syntus being the most notable exception.

   The most important factors explaining this have been the continuing growth in ownership and use of cars plus the fact that public transport apparently still is not able to respond sufficiently to the demands of car-users.

2. The aimed improvement in cost/revenue-ratio has been realized in the regional rail sector.

   This can be explained by low operation costs compared to the former operator NS (instead of a conductor on every train, mobile teams inspect tickets and provide information; higher productivity of the personnel, lower operating costs of rolling stock and lower overhead costs). Operation of the national rail network is more complex thus a comparison with the national passenger operation by NS is difficult to make.

3. The transport companies focus very strongly on the demands of the regional public authorities and not so much on the demands of the passengers.

   The developments in passenger use seem to be related to the way the demands of the customers are being incorporated. When the regional authorities determine what has to be done, they quite often seem to aim especially at the improvement of the ‘social function’ of public transport in their service delivery specifications. The regional authorities do not place emphasis on the provision of services to maximize passenger numbers. When the TOC’s can determine what new initiatives will be undertaken, they are seldom inclined to implement changes sought by the customers. Apparently the stimulus to do this is feeble. Customers do have the right to comment on the specifications for the bids, but apparently this has not yet led to widespread satisfaction with consumer organizations or growth of passenger use. Quite often political or policy-motives influence the tendering process.

4. There has been only a very small amount of public transport innovation in the period studied.

5. In a few cases (Gelderland, Twente) the regional authorities have succeeded in achieving a better integrated public transport system. In these cases, bus and rail transport is offered by one multimodal transport company.

6. The number of people employed in the whole public rail transport sector has not declined.

   The new operating companies need less employees but the remainder of the employees still works for NS. Labour conditions have not changed.

7. An important lesson to be learned is that supervision/monitoring by the regional authorities on the execution of the regional franchises has to improve. For instance, the regional authorities let the transport companies hand in figures of their own achievements/performance on the basis of figures and statistics from the operators and not on the basis of specific, external studies and checks. The experience gained in the northern part of the NL in 2000 and 2001 has shown that if the authority seriously checks the performance of the TOC, they can really get what they have contracted from the transport company.

8. There is a need for some flexibility in contracts. More freedom to propose modifications to services during the franchise period, modifying the original offer would be desirable, for example reduction of service on underused routes in return for increased services on busy routes. To prevent disagreements, it is important that during the tendering procedure it is clearly set out how proposals for changes in the original offer will be judged by the regional authority.

9. Until 2005 a deficiency of the subsidizing system in the Netherlands was that the subsidy from the central government to local authorities for year X was based on the revenues of the year before the current year (x-2); hence there was a long time lag. The subsidy also depended on the development of passenger use on a national scale. In the current financing system this has changed, a fixed lump sum will be allocated each year to regional authorities. The regional authority will only increase the subsidy if the TOC meets the targets agreed in advance (i.e. growth of passenger use) and will reduce the subsidy if the TOC does not meet the agreed targets.

Attempt to explain the results of the tendering procedures

A clear study result was that public tendering procedures lead to a larger gain in efficiency than the direct award of contracts. The threat of competition and the possible gain or loss of a franchise largely explains this. The example of the Achterhoek (Gelderland) shows that tendering also can be a way to achieve a better connection between rail and bus transport. The experiences in Groningen and Friesland and the experience with the public intermodal tendering procedure around the rail service Zutphen-Oldenzaal (2002) have proven that very positive results can be achieved with a public intermodal tendering procedure.

Experience as to whether it is better to assign responsibility for development of the transport offer to the regional government or the transport company, is not unequivocal. When the development function was allocated to the transport company, the result was less innovation than expected. When the development function was allocated to the regional authorities, this lead to more ideas and plans but also to more prescription. Moreover, the results expected were not all successfully achieved.

The franchises which have been evaluated in these studies are relatively small, even for the Dutch regional rail market. They contain in general 1 to 3 rail services per tendering procedure and only the most recent combined rail tendering in Groningen and Friesland (2004/2005) made up of about 6 rail services, the largest rail tendering to date in the Netherlands.

Small and medium size transport companies have proven to be very capable in offering passenger services for this scale of tendering. Every rail tendering procedure in the Netherlands has resulted in at least 3 offers.

The period of franchises without investment in new rolling stock is normally 5 or 6 years. Where there has been (or will be) a commitment by the TOC to invest in new rolling stock the period of the franchise has been extended to 10 or 15 years (Gelderland, Groningen + Friesland, Twente). It is laid down in the passenger law that 15 years is the maximum period for a franchise in the Netherlands. These periods have so far proven to be workable.

In the regional rail transport sector the regional authorities very often demand the introduction of new rolling stock. In practice, this rolling stock has to be bought or leased and large investments with financial risks are involved. To limit the risks for transport companies, the franchises only concern small and not very crowded services. To limit depreciation costs, the legal limits on the length of franchise periods are not too short.

Under the 2000 Law for passenger transport, the transfer of all the personnel involved in the current operation of public transport is obligatory. This is an important obligation, which in theory could lead to difficulties in the tendering procedures and a loss of efficiency. Up until now this obligation has not resulted in any real problems. TOC's are still capable of improving the efficiency of their operations and implementing changes they think are necessary. This is also caused by the fact that NS operated all these services with one conductor on every train, whereas the new operators use mobile teams. NS still needs a part of the personnel concerned in the tendering procedures for their own operations, and it operates with a larger overhead than the new, smaller companies. Thus the cost savings achieved by the tendering procedures have not damaged overall employment, but the productivity of the personnel concerned with the new TOC is higher than before and they earn less supplements for extra work.

Thus far there has not been enough innovation in public transport, this is the general view in the Netherlands. One reason could be that the development function is allocated to the regional authorities instead of the TOC's. To improve innovation by the TOC's, they should be rewarded by keeping the possible gain in passenger revenue instead of obliging them to reinvest this gain in extra supply in slow areas. This way the TOC's might be stimulated to operate in a more customer-oriented manner. An adequate bonus/malus-regulation might prevent the TOC's from promising too much in advance, without hindering them from taking specific risks connected with customer oriented innovation.

Rolling stock

An important aspect in tendering is the demands on investments for rolling stock. Many regional authorities have made a large number of demands with regard to new rolling stock accessible to people with impaired mobility. These demands result from the regional authorities' desire for new rolling stock and the central governments policy to attain more accessibility in public transport. Since the international market for second hand rolling stock with good accessibility for the disabled is very limited, this means that this demand forces the transport companies to invest in or lease new rolling stock. This is especially a problem if the new rolling stock must be available right from the start of the franchise period and the time between the assignment of the franchise and the start of the franchise is too short. Recently some regional authorities in the Netherlands have realized that it is not possible to deliver new rolling stock if this preparation period is too short. Now they seem to be willing to accept the use of existing rolling stock for the first one or two years of the franchise and give the winning TOC the time to order new accessible rolling stock.

A couple of regional authorities (Limburg, Zuid-Holland, Gelderland and Overijssel) have realised that it is better and more efficient if they choose one new standard type of rolling stock for their regional rail services. They are discussing the possibilities to choose one standard type of rolling stock in order to improve offers from the TOC's and from the European rail industry.

SUMMARY

1. What was done the right way?

The results of the relatively new policy and legislation, which prescribe more use of competition/tendering for rail (and road transport services) in the regions are quite good as far as efficiency, supply and the kind of services that have been offered in the bidding procedures are concerned. The costs of rail services are reduced and the quality of service has improved. But the goal of increasing the number of passengers has not been reached.

All franchises have received a better offer than the status quo and the experience with Groningen and Friesland indicates that the larger the franchise, the better the offer.

No transport companies are excluded from the tendering procedures with the exception of those municipal transport companies whose services have still not been tendered.

The Dutch government has recently (December 2005) decided on the basis of the earlier mentioned evaluation studies that it will:

- Continue with the implementation of competition (tendering procedures) for public transport in the regions.
- Continue to give as much responsibility as possible to the regional authorities in this process. Custom-made public transport-systems are required given regional differences.

2. What problems were encountered?

The problems that were encountered in the tendering of regional rail transport are:

- Dependence on the incumbent NS (i.e. NS owns existing rolling stock; rail ticket-integration is only possible via renting ticket vending machines from NS; the revenue-settlements have to be made by NS).
- Very small licenses (only 1 route) make it difficult to get a good offer or to include new rolling stock (i.e. Valleiline/2005).
- The admission procedure for new light rolling stock laid down and executed by Prorail was not clear.

3. What adjustments were made or are being considered?

In general the system of tendering and decentralization of regional public transport works satisfactorily.

On the basis of the evaluation studies the following adjustments have been made:

- A limitation of the number of "non-core" personnel that has to be transferred when a franchise changes hands.
- Central government is promoting the introduction of a chipcard for ticketing in the entire public transport system by 1.1.2008. This gives operators a direct and clear view of the number of passengers they transport and the revenues they will make.
- Implementation (by ProRail) of a more flexible and transparent admission-procedure for new, lighter rolling stock; a lot of documentation on the existing procedures criteria for admission of new rolling stock have been published and disseminated among the regional authorities and the TOC's.

- Central government is promoting co-operation between the different regional authorities and stimulating the search for a new standard type of light rail rolling stock.

NOTE

1. The study on decentralization and tendering of regional public transport by Mu Consult (1999-2003). The evaluation of the Law on passenger transport 2000 by Twijnstra Gudde (2005).

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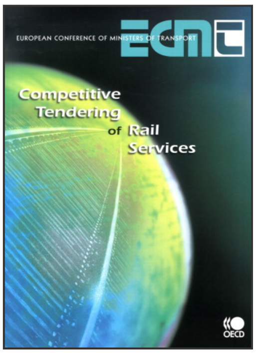
ABBREVIATIONS

AFI	Annual Financial Improvement
BOT	Build, Own and Transfer
BR	British Rail
CEO	Chief Executive Officer
CER	Community of European Railway and Infrastructure Companies
CN	Canadian National Railway Company
CPTA	County Public Transport Authorities
CUP	Capacity Utilisation Policy
DB AG	Deutsche Bahn AG (German Railways)
DfT	Department for Transports
DOI	Department of Infrastructure
DSB	Danish State Railways
EWS	English Welsh and Scottish Railway (freight operating company)
GDP	Gross Domestic Product
GNER	Great North Eastern Railway
GOVIA	Partnership of Go-Ahead and Keolis (train operator)
ITC	Independent Television Commission
MBO	Management Buy Out
MTL	Rail subsidiary of MTL Holding (operator of Merseyrail services)
NAO	National Audit Office
NEG	National Express Group
NERA	National Economic Research Associates
NPV	Net Present Value
NR	Network Rail
NS	Dutch National Carrier
OPRAF	Office of Passenger Rail Franchising
PSR	Passenger Service Requirement
PTC	Public Transport Commission
PTE	Passenger Transport Executive
RBI	Rail Business Intelligence
ROSCO	Rolling Stock Leasing Companies
RRPS	Regional Rail Passenger Services
SJ	Swedish State Railways
SRA	Strategic Rail Authority
TOC	Train Operating Company
WAGN	West Anglia Great Northern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