

# Experiences of Rail Liberalisation



**Public Transport  
Conference, Oslo**

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# Key statistics

- **54,500** employees
- **2.2 billion** passenger journeys every year
- Significant presence in **14 countries**
- **19,500** buses
- **715** trains
- **221** trams/metro
- **474** patient transport ambulances/cars
- **19** waterbuses
- **16** years in mainland Europe
- Revenue **€3.8 billion**



# Our operations

Our scale and our expertise mean that we can operate a range of transport modes across our businesses, working to a range of business and contracting models.



**BUSES**

- Local, commercial services
- Contracted services
- Sightseeing tours
- Airport – landside/airside
- School services
- Tendered services



**COACHES**

- Contracted services
- Private coach hire
- Tour services
- Inter-urban



**TRAINS**

- Rural, commuter lines
- Long distance mainlines
- Station management
- Under/Overground
- Contracts
- Maintenance



**WATERBUSES**

- Canal/harbour buses
- Contracted services



**TRAMS/METRO**

- Joint ventures
- Contracts
- Station management
- Under/Overground
- Maintenance



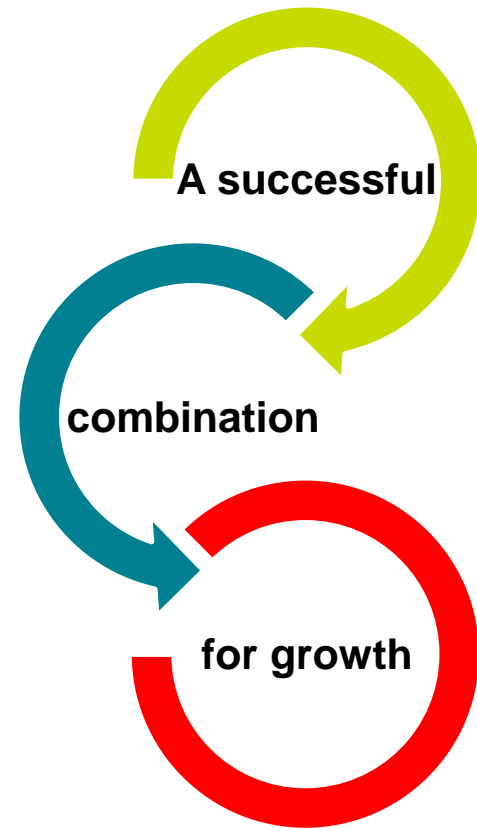
**CARS & AMBULANCES**

- Non-emergency patient transport
- Special educational needs transport
- Social care transport

# Arriva and Deutsche Bahn

- Part of Deutsche Bahn group since 2010
- Shared belief in future evolution of the European transport market
- Combined wealth of international presence and experience
- Strong financial backing and capital firepower for development and investment
- DB understands and embraces the value we create:
  - ✓ Invests in existing management team
  - ✓ Invests in Arriva brand
  - ✓ Continues to support Arriva's role in the European transport market
- Economies of scale – procurement and sharing of best practice

**Arriva is the growth engine in regional passenger transport outside of Germany**



# Liberalisation – delivering benefits

- Liberalisation of markets combined with competitive tendering delivers:
  - Service developments and unlocks private-sector investment-volume and quality (*e.g. improved passenger comfort, on board services, punctuality and reliability*)
  - High levels of safety and security
  - Customer-orientated strategy which encourages modal shift
  - Innovation which enables organic service/patronage growth
  - Positive impact on employment/social conditions
  - Greater transparency of contractual relations
  - Lower subsidy requirements and improved value for money (typically 20-30% cost saving for transport authorities)
  - Reduced revenue risk without removing control of key aspects of transport policy objectives





# Norwegian White Paper

- Positive aspects
  - Good base for liberalisation of the railway market and strengthening the role of the rail network in Norway;
  - Clear split in roles and responsibilities between policy and operations;
  - NSB becoming a more commercial rail passenger company;
  - More customer focus by competition between operators;
  - Real estate ownership transferred from NSB and Jernbaneverket and put into a separate entity;
  - independent responsibility to ensure the safety and preparedness
- Potential Challenges
  - Rolling stock ownership maintenance monopoly ;
  - Creating and maintaining a level playing field with state owned operators;
  - Clear contracts between Railways Directorate and operators with right market mechanisms and incentives to improve quality of the passengers service;
  - Room for open access?



# Arriva's experience

- Rail passenger operations in seven European countries (*Czech Republic, Denmark, the Netherlands, Poland, Portugal, Sweden and the UK*)
- Experience of various passenger rail tendering models in both mature and emerging markets
- Delivering via a range of contracted services:
  - ✓ Net cost contracts (e.g. some UK, Denmark, Netherlands, some Sweden, Poland)
  - ✓ Gross cost contracts (e.g. some Sweden; some UK)
- Innovating in 'deregulated' rail services:
  - ✓ Leading open access rail operator in UK via Grand Central
  - ✓ Exploring new opportunities for open access rail services in UK via Alliance Rail
  - ✓ Trialling Arriva-funded service in Prague, Czech Republic



# Denmark - Jutland

- Esbjerg-Niebüll
- Esbjerg-Skjern
- Skjern-Struer
- Struer-Thisted
- Aarhus-Skjern
- Aarhus-Struer
- Vestbanen
- Esbjerg-Nr. Nebel





# Denmark



- Net cost and output-based specification framed to reward innovation
- Initial contract delivered €40m savings despite replacement of 2/3rds of fleet and increased train kms
- Consistently high performance and customer satisfaction ratings.
- Decline in patronage reversed and 15% growth achieved
- Re-tendering further reduced subsidies by 10%
- Arriva offer was 15% cheaper and had the best quality rating
- The remainder of the fleet renewed, kms increased and the service continues to operate with excellent standards of reliability and customer satisfaction



# Netherlands

- Liberalisation started in 1998; 15% of network currently tendered
- Regional authorities trialled net cost via JV between Arriva and NS (1995-2005) in Friesland and Groningen regions
- Arriva offer included timetable enhancements to improve integration and customer service; delivered client body savings
- Re-won as sole operator 2005-2020

## Arriva solution:

- Increased train kms to 7 million (from 5.3m)
- Procured 43 new Stadler trains
- Constructed new maintenance depot
- Reduced subsidy requirement by 50%
- Further rail contracts started (Dordrecht-Geldermalsen 2006  
Achterhoek Rivierenland 2012, Limberg 2016)
- 48 new trains acquired to deliver new contracts, excluding Limberg
- Best performing train operator in the Netherlands

### What do our partners in the Netherlands say about Arriva?

"Arriva is very results-orientated and that compels us to continually improve our service too. It is because Arriva is so demanding that we have come together to achieve performance that we previously never thought would be possible."

– Anne-Marie van den Bos, director of passenger transport, ProRail speaking following results which highlighted 95-100 per cent of Arriva Netherlands' rail services running on time.

"Arriva has closely examined what the Dutch authorities and passengers expect from a public transport company. They offer an outstanding level of quality at competitive prices."

– Rikus Spithorst, Voor Beter OV (Improving Public Transport initiative – Netherlands).



# United Kingdom



- Fully franchised since 1997; now 19 franchises - majority net cost
- UK model has delivered:
  - 73% increase in journeys
  - 65% increase in patronage (annual passenger kms)
  - 24% increase in train kms operated
  - Revenues and TOC-controlled costs increased net surplus to £1.7bn (£400m) flowed to UK government for reinvestment

## Arriva in UK rail market:

- 3 franchises (net cost); 2 concessions (gross cost) and 1 open access operation (100% commercial)
- Investment: €56m invested by Arriva in UK rail over past two years
- Improvements: rolling stock refurbishments in all operations, station investments and new routes
- Innovation: m-ticketing, 10-minute retailing and reservations, inventive timetable planning to increase capacity
- Performance: three business in UK's top five for punctuality



# United Kingdom



- Very large (up to 40m train kms p.a.) concessions clearly defined
- Generally net cost
- Tendered as “going concerns” with trains, depots and staff
- 7-9 year duration (12 years+ if major investment)
- Co-operation between operators to retain network benefits (e.g. through- ticketing, information and assistance)
- Maximum fares and minimum service levels regulated but considerable commercial freedom
- Include management of all except a handful of the largest stations
- Some aspects of process overly complex and costly
- 65% Passenger growth and low variable track access charges have incentivised service expansion (train kms +24%)
- Some franchises are very profitable and operators pay a significant premium for the franchise. Others receive substantial subsidies.



# What can we conclude?

The best liberalisation model for any country depends on:

- Policy objectives
- Funding available
- Legal structures
- Maturity of market

But in the majority of areas where liberalisation has been introduced:

- Quality and reliability of service has increased
- Government funding per km has reduced
- Customer scores and feedback has improved
- Passenger numbers have grown significantly
- The examples seen in Netherlands, Denmark, Sweden, Germany and UK provide excellent examples for Norway as the country enters this exciting new era



# Thank you for your attention

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# Key elements

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## **Net Cost or Gross Cost?**

- Either can deliver client benefits and be attractive to bidders
- Gross Cost easier to implement but can be inflexible and need more complex performance regimes and change mechanisms
- Mid-contract migration from Gross Cost to Net Cost can be an attractive option

## **Size**

- Minimum concession 15 trains/1m train kms per annum. Below this bidding and mobilisation costs can have a disproportionate impact
- If franchise transfers as a “going concern” no upper limit on the size.
- At outset of tendering more modestly sized tenders (1-2m train kms) will attract most bidders.
- Where staff and a maintenance depot do not transfer to the concession and/or new fleet is required, concessions of up to 8-10m train kms may be practicable.
- Generally 2-5m train kms might be considered ideal
- Routes should form a “natural network”

# Key elements

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## Duration

- “Transfer as going concern” franchises can be as short as 5 years
- Other low investment concessions need minimum 7 years
- Modest investment concessions and/or those requiring staff recruitment and training 8-10 years is appropriate
- If significant fleet renewal required 10-15 years will provide best value
- Good practice to offer 2-3 years extension if operator delivers on commitments

## Staff transfer

- Will depend on national legislation and social policies
- If staff do not transfer this limits the size of concession that can be mobilised. High training costs = higher tender price and can be very disruptive for displaced staff
- Voluntary transfer can be effective
- Flexibility to renegotiate employment terms is sometimes offered by tendering body
- Engagement with Trades Unions throughout process is very important

# Key elements

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## Transfer of Rolling Stock

- Existing modern and suitable fleet should be made available to all bidders
- Models that can be adopted to achieve this include:
  - Trains treated as a concession asset (as in Sweden)
  - Establishment of a ROSCO
  - Contract requirement to purchase existing fleet on pre-advised terms
- Refurbishment of existing fleet can provide the best value-for-money
- If new trains are required then residual value protection may enhance affordability
- Rolling stock procurement has a key impact on necessary concession length and mobilisation timescales

## Scope

- Ideally all customer-facing activities (including station operation) as this enables operator to upgrade the “whole-journey experience”
- Allow the operator commercial freedom to determine best approach to train maintenance but if possible offer suitable depot/site
- Output based specifications that enable bidders to focus on improving resource efficiency
- Ideally some flexibility to vary fares and other aspects of the product offer



# Key elements

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## Industry-Wide Arrangements

- Effective Regulation to ensure non-discriminatory access to infrastructure, essential facilities and services of appropriate quality at a predictable price
- Effective and timely arrangements for the resolution of disputes with other industry players and between the operator and the client body
- Industry-wide bodies to operate national products, promote performance improvement, customer service and safety improvement etc.
- Appropriate “back-to-back” performance regimes can incentivise all industry players to up their game.

## The Concession Contract

- Financial risks to party best able to manage them
- Focus on outputs and processes – not too prescriptive
- Adequate indexation
- Performance regimes are simple, proportionate and based on realistic targets
- Transparent and predictable fares regulation, revenue allocation arrangements etc.
- Avoidance of over-burdensome reporting requirements
- Adequate commercial freedom to focus on innovation and quality of service delivery

# Key elements

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## Bidding Arrangements

- If many bidders expected then pre-qualification and short-listing
- Comprehensive bidding information (ITT and, depending on complexity, provision of data room)
- Include copy of draft concession contract
- Clarification/Q&A process
- If possible, organised site visits, meetings with current management and key personnel
- Clarity of client body requirements, objectives and aspirations
- Transparent bid evaluation and award criteria
- Adequate time for:
  - bid preparation and internal approval (**at least** 3 months)
  - bid evaluation, clarification and award
  - concession mobilisation that properly reflects requirements for staff recruitment and training, acquisition of fleet, depot construction etc