Open Access versus Exclusive Franchise: Problems of Introducing Private Sector Competition to Rail Systems Operating both Inter-city and Local Services

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European community transport policy aims at stimulating competition by allowing open access to the rail network to any company wishing to operate trains. This idea appears to be in conflict with the apparent impracticalities of offering anything other than an exclusive franchise to companies wishing to operate local rail services or frequent long distance services.

The paper explores the nature of this conflict by examining the progress of privatization legislation and its possible implications in the West Midlands U.K. The use made of local rail services as a feeder to inter-city services is reviewed, and the extent and the benefits of shared terminal facilities in the West Midlands is examined. The proposal for the provision of a separate station for inter-city travellers — two miles from the existing Birmingham city center station at New Street — is reviewed with particular reference to operational implications and to practice elsewhere, where new stations have been built to serve new high speed rail services. Arrangements for local rail access to Lyon Part Dieu TGV station and to Shin-Yokohama shinkansen station are used for comparison.

1. Introduction

Since coming to power in 1979, the Conservative government in the U.K. has pursued a determined policy of privatization. The state airline has been sold, and in 1985 the bus industry was deregulated. The fact that legislation for the privatization of the railways has come so late in a lengthy program is indicative of the difficulties of attempting to organize the railway business in any way that can introduce the private sector incentives to efficiency without destroying the integrated management of infrastructure and operations that is a characteristic of the great majority of national railway organizations. The easy tasks have been done. Those aspects of the railway business that could readily be managed separately, such as catering, are now carried out by separate companies. Railway equipment, such as rolling stock, is acquired after competitive tender among private sector firms.

The basic difficulty of a wholesale privatization of the industry, i.e. its unprofitability, has led to the idea of the franchising of services. After the 1985 Transport Act, the use of franchising has become familiar in the bus industry. If a public transport authority wishes to provide a service that is not commercially attractive, it is empowered to seek, by competitive tender, the lowest price at which a commercial company would undertake to provide the socially necessary service. It is tempting to suppose that a similar approach could be adopted for the provision of unprofitable railway services. Unfortunately, the analogy between bus and rail franchising is limited, particularly because of the scale of infrastructure costs in the provision of rail services, which have no obvious parallel with the bus industry.

It is this disparity between the treatment of track costs that lies at the root of the idea that the problems of franchising might be overcome if rail track and rail operations were funded and managed separately. This idea does not reflect the experience of railway companies over the past 160 years. However, the earliest lines in Britain were conceived as open access infrastructure, because that was how the canal industry had previously evolved. The operational problems of allowing open access soon changed what was accepted practice.

Fresh application of open access came in the U.K. in the 1980s in two ways. Companies such as Foster Yeoman and Redlands that carried quarry products were allowed to operate their trains on B.R. track as was a company offering luxury excursions using vintage carriages. This appears analogous to the granting of trackage rights (running powers) to AMTRAK by private railways in the U.S. The concept gained momentum with European Community Directive 91/440. This envisages separation of railway operations and infrastructure management from provision of railway transport services with compulsory separation of accounts and optional organizational or institutional separation. Thus the directive, effective in 1993, gives groupings of railways from two or more member states the right to run both passenger and freight services between those countries and through any intervening countries, and individual railway companies have the right to run international combined transport freight services anywhere within the community.

To date, recent European experience of open access has been limited to infrequent services. Franchising has been limited to a few rural Swedish services. Unfortunately, gaining experience by experiments, as was undertaken in Hereford before bus de-regulation, is fraught with problems. Indeed, when the Chief Executive of B.R. was questioned by a committee of Members of Parliament about the transition from the existing regime to a franchising system, he was emphatic that there was no question of trial running. There was no equivalent to the closure of a factory during the summer holidays and re-equipping whilst there was no production. The chairmen of the parliamentary committee, the conservative M.P. Robert Adley asked the chairman of the British Rail Board, Bob Reid:

> *These proposals are new. They have never been tried anywhere else in the world?*
> *They are new. They are British.*
> *They have not been costed by you or your department?*
> *They have not been costed.*
> *There will be no experiments before implementation?*
> *There will be no experiments. The command structure stays secure until it moves from one situation to another.*

The government's approach to transition problems is to reorganize B.R.'s operations so services are matched to future franchises with a company ready-made for the franchisee to take over. If the franchisee went bankrupt, there would still be a business in place that could be run by a receiver until the franchising authority could find another owner or operator. For this to be possible, it would be necessary for the franchising authority to have a lien on all the rolling stock used, and this might make if difficult for a franchising company to raise money to purchase its own rolling stock.

2. The Legislation Proposed

British government proposals, set in the White Paper of July 1992, state an intention that franchises will be designed to provide for competition. However, the document also states that the franchisees must provide specified service standards covering minimum frequency, etc. The essence of a franchise is that it imposes obligations upon an operator. For intensive suburban services, such as serve London's terminals, the possibility of a second operator challenging the franchisee is rendered virtually impossible by operational and safety considerations. The track authority and the body charged with safety validation could not permit it, and the franchise holder would certainly not want it! Brian Cox of Stagecoach (a potential franchisee) pointed out that the government must resolve the conflicting demands of protection for franchisees receiving a subsidy and for open access under EC directives. There would be competition **for** the market (during tendering for the franchise) but not competition **within** a particular market.

The proposed legislation is cast in very general terms. The 1992 white paper envisaged that franchise holders would pay a track authority, Railtrack, for the right to use infrastructure and that basic infrastructure costs would be met by payments from franchise holders, who would if need be receive payments from the franchising authority as part of the franchise terms. The proposal, therefore, differs from the Swedish 1989 reform in which the state railway was split into an operating company and an infrastructure company called Banverket. Railtrack is expected to be funded by the operators, whilst Banverket is funded directly by the state. The 1993 Railways Bill contains no direct reference to this track authority and defines no limits for the time or scope for franchises. There is provision for British Rail Board to dispose of its assets (Clause 74), and there is provision for vertical franchises (Clause 30), whereby the franchise holder assumes responsibility for infrastructure including track. But Civil Servants told the Transport Select Committee that the government anticipated that any such franchise would be very much the exception. The vagueness of the terms, albeit cast in precise legal language, must stem from uncertainty as to the wishes and likely actions of potential franchisees.

3. Reaction of Potential Franchisees

The government has published nothing concerning the responses it has had to invitations to express interest in franchises, using the argument that this a matter of commercial confidence. There are only four companies publicly known to be interested apart from various possible BR management buyouts. They are Virgin, Richard Branson's airline with eight planes that is expanding worldwide; Sea Containers, that bought Sealink ferries in an earlier privatization and subsequently re-sold; and Badgerline and Stagecoach bus companies that have expanded rapidly since the de-regulation of the bus industry in 1985. The form franchising eventually takes is circumscribed by whatever legislation is course enacted, but it will also depend on the terms offered by the franchising authority and the terms franchisees prove willing to accept. The Director of Franchising is given great powers under the proposed legislation. A merchant banker, Roger Salmon, has been appointed to shadow the post prior to the passing of legislation.

Sea Containers have expressed an interest in taking a franchise for a whole sector of Network Southeast's commuter services including the track. Clearly, a franchise including infrastructure avoids the fundamental problem of the operator's performance being at the mercy of the infrastructure company, who have no free market incentive to efficiency. However, the retention of long distance cross country services becomes less secure if there is no national infrastructure company responsible for timetabling, etc. Likewise, Brian Cox, the managing director of Stagecoach Rail has expressed fears that Railtrack could function as an inefficient monopoly utility and suggested that any serious operator would want the option to buy the whole operation, including infrastructure, at some point.

If it is practicality that will determine the scope for the application of the concept of open access, then away from the congested approaches to London's terminals, there must come a point when the use of track is sufficiently light for the concept of open access not to be prohibited by operational and safety considerations. Local transport on the suburban rail networks of the conurbations will continue to be organized by Passenger Transport authorities, although thy will place contracts on a franchising basis. The greatest uncertainty seems to be how inter-city and local services will relate to each other, particularly where inter-city and local trains share the same track and significant numbers of inter-city travellers arrive on local train services, having under present arrangements purchased tickets for the whole journey at the suburban station nearest their home. Infrastructure changes may make it easier to separate, physically and administratively, inter-city and local rail services under different managements.

4. The Proposed Legislation in Relation to the Principles of Competitive Tendering

What is currently proposed for British Rail departs markedly from the principles of competitive tendering set out by Cox and Love (1991). The Bill meets the first criterion, that the government should retain full policy control, determining which services are purchased, establishing quality and safety standards, administering contracts, and monitoring service performance. It does this by the creation of Quangoes (Quasi Autonomous non-governmental organizations) headed by a director of franchising and by a railway regulator.

The second criterion — that the government should foster a competitive market — is less easy to meet, for effective competition requires:

Wide participation, yet only a small number of companies have expressed interest.

Limitation of contract duration (usually no more than 5 years), but this period would only permit the leasing of rolling stock, not the purchase of new equipment, which is perhaps the greatest need of British Rail in 1993.

Limitation of tender size, so that smaller companies have an opportunity to participate. This may prove difficult to reconcile with operational considerations and the network configuration, discussed below.

No government specification of labor arrangements except compliance with applicable law. U.K. law would not prevent wage reductions and staff dismissals, but the applicable European Community legislation would prevent such changes on transfer from employment by British Rail. Thus, cost savings from this source would not be possible.

5. Practical Problems in Imposing Service Obligations upon Franchise Holders

Even if the timetabling problems of allowing access to different companies can be overcome, there remain difficulties in allocating responsibility for any service delays. Inter-city's impact monitoring system records delays to trains and allocates to particular departments each minute of that delay. For the East Coast Main Line, a recently electrified route, and the West Coast Main Line, a route electrified in the 1960s, the delay figures for September 1992 were as shown in Table 1. These figures indicate that delays to trains on two major routes can be ascribed mainly to causes that under government proposals would fall within the control of Railtrack, the monopoly infrastructure company, rather than the franchise holder.

6. The Interdependence of Intercity and Local Rail in the West Midlands

In the West Midlands, the major intercity station is at New Street, and it serves both intercity and local passengers. The station was rebuilt in the 1960s as the basement of a shopping center and is now classified as an underground station. It is well located in relation to the traditional shopping and commercial area. Certainly it is better placed than, say, Manchester, Piccadilly, and Victoria stations. However, in recent years new development has concentrated north-west of the city center with the International Convention Center and the Symphony Hall located more than half a mile away. The intensity of use of New Street station has increased for two reasons: (1) as a result of the strategic location of Birmingham at the crossing point of intercity services across England, to the northeast, northwest, the southwest, and the south; and (2) usage has increased since the 1970s through the development of suburban services, notably the cross-city line between Lichfield and Redditch, currently being electrified. (See Figure 1.)

Thus, the 12 platform station has become congested with consequent effects upon delays and reliability. Moreover, whilst the station is well located relative to the city center, it is poorly served by road, being accessible from only one direction along Smallbrook Ringway. There are frequent long queues on this approach— queues largely of taxis, for even short term parking is limited. The development of Birmingham International Station, nine miles to the east, close to the M42, and served by all trains to

Table 1

Department	ECML impact min	WCML impact min
Trains	6,400	9,360
Civils	1,600	28,340
Signals	1,340	6,400
Electrification	3,740	1,870
Operations	800	12,300
Stations	1,070	2,700
Other Businesses	1,870	5,080
External	3,210	4,000
Total	20,030	70,050
Trains %	32%	13.5%
Source: *Modern Railways*, Vol.50, March 1993.		

Figure 1

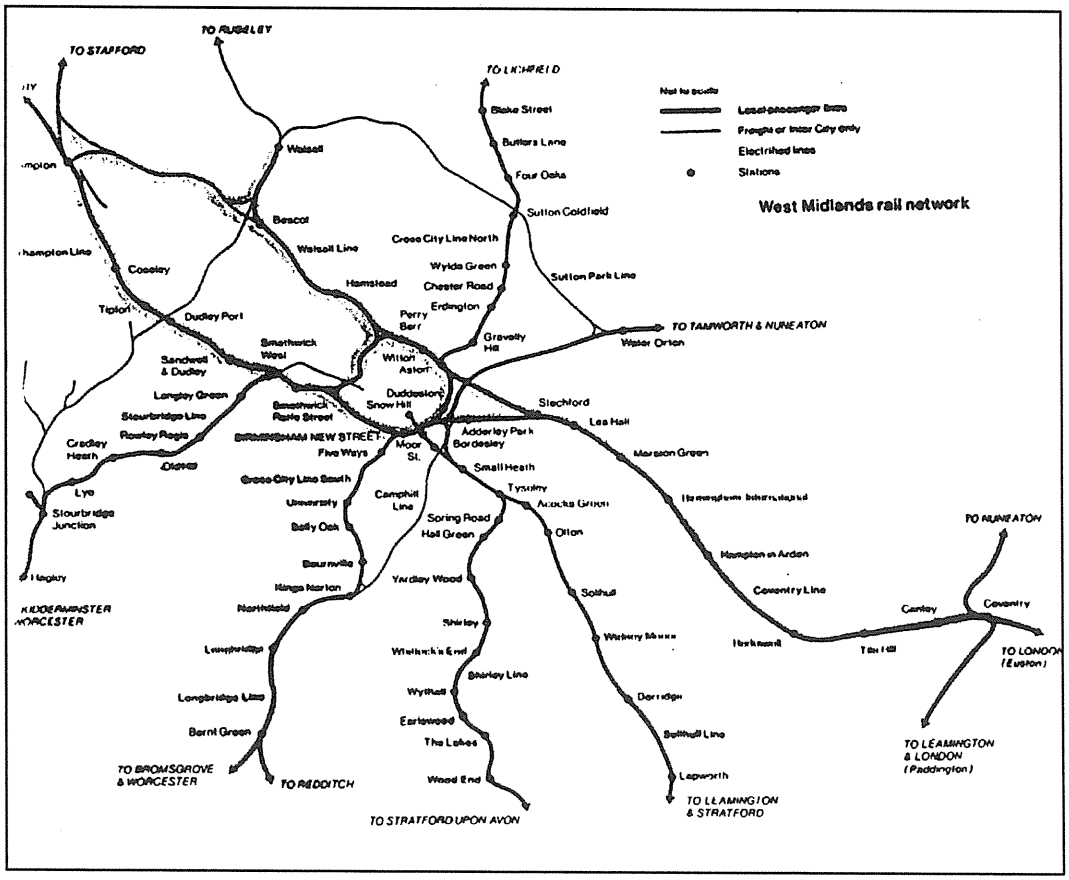
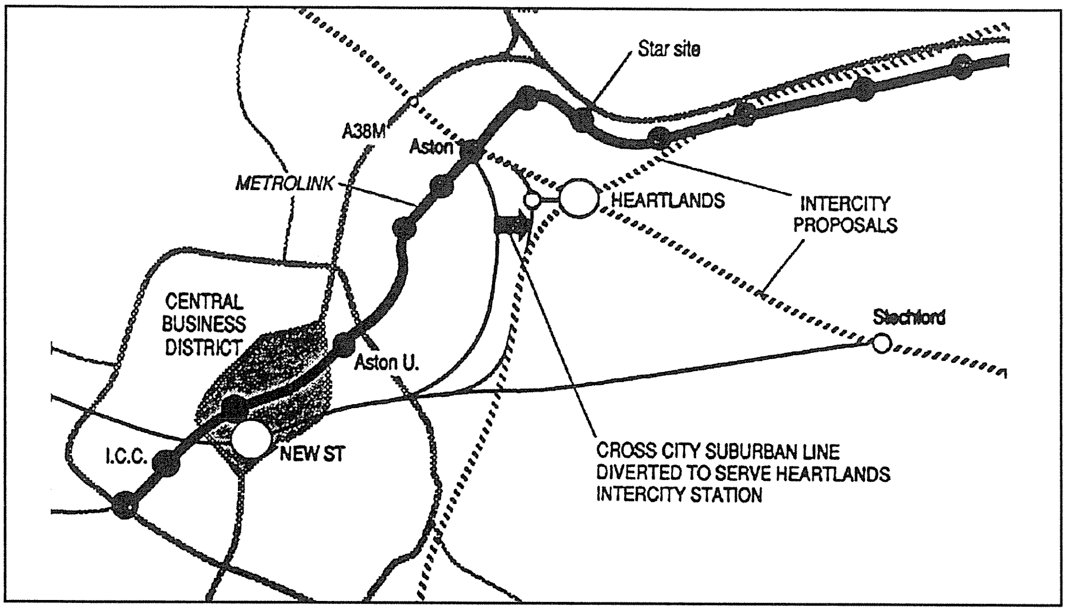


Figure 2



London provides some alternative for motorists, but mainly those destined for London and living on the eastern fringes of the conurbation.

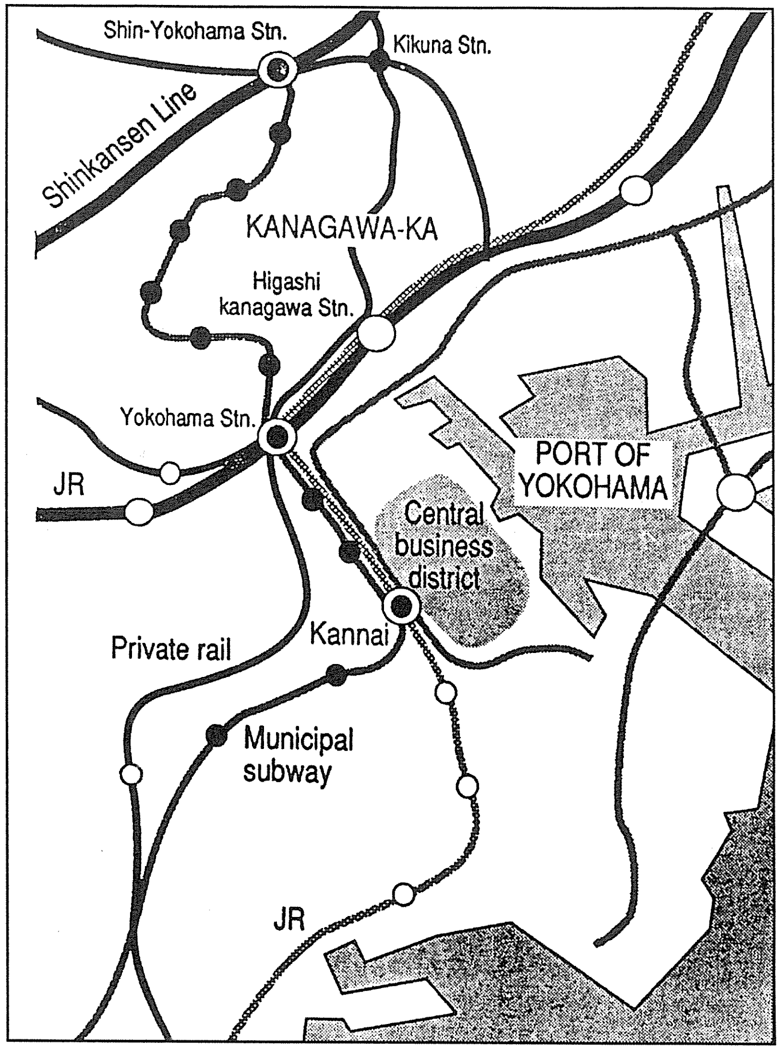
7. The Proposed Heartlands Inter-city Station

Thus, intercity has proposed a new station solely for intercity trains located where the northeast/southwest intercity route crosses an electrified line that diverges from the current Euston to New Street line at Stechford and rejoins it at Wolverhampton to the northwest of the proposed Heartlands station. This line serves Bescot yard and part of the Birmingham to Walsall suburban route, so the proposed route could not become the sole property of inter-city. Thus, the main inter-city transfers currently made at New Street could be conveniently made at the new station with much less shared use of track than is presently needed on the immediate approaches to New Street. Moreover, inter-city trains between the northeast and the southwest could make use of lightly used track, avoid New Street, and save 10 minutes. The location of the proposed new station, currently occupied by Henry Taroni's scrap yard, lies within the Birmingham Heartlands area, now the subject of a proposed Urban Development Authority. The advantages of this location are twofold. Firstly, land is available, and the proposal envisages parking for 4000 cars. Secondly, Urban Development Authorities have powers of compulsory purchase when necessary to facilitate redevelopment.

The proposed station lies about half a mile from the proposed route for Light Rapid Transit line 2, and about half a mile from a large proposed commercial development - the "Star site". (See Figure 2.) The possibility of modifying the LRT proposals to serve the proposed station is already being investigated. The station proposal includes a new connecting curve to be used by inter-city trains between southwest and northwest England. This curve would provide an alternative route for the cross-city line and provide a link between the proposed Heartlands station and New Street, which would remain the focal point for Passenger Transport Executive services and Regional Railways.

Thus, there are clear advantages from the proposal, and an obvious way to maintain some linkage with the existing inter-city station at New Street. However, it is worth considering the benefits of having multi-role stations located at the most important destination for local traffic. Without exception, the most important destination for local rail services in British provincial cities is the city center. Much effort has been devoted in recent years to the duplication of terminals that occurred in many English cities (as a result of the growth of railways under private ownership) and to the creation of a unified network of local services. The advantages of a multi-role station can most readily be seen by way of example. Suppose an inter-city saver ticket holder has been to London for the day and returns late in the evening. Late evening suburban rail services are unlikely to be justified solely by such passengers. However, if our inter-city ticket holder returns to a station that is also a city center, then there is a greater chance of a service to the home suburb on a train that also serves local travellers. If he or she returns to the Heartlands station, then he will not be inconvenienced if he happens to live on the one suburban route linking Heartlands and New Street. If he lives on any other route, he will have an additional change and an extended journey. There is a symbiosis between inter-city and local services sharing terminals. Plans for privatization could result in the loss of these benefits.

Figure 3

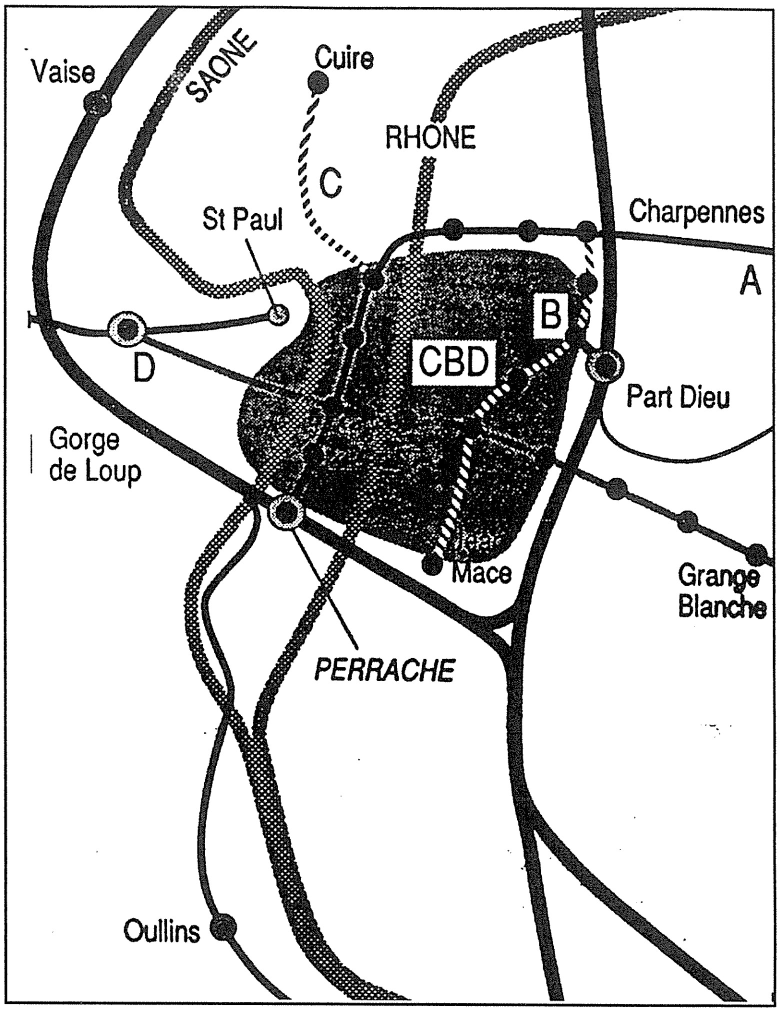


8. Purchase of Tickets for Inter-city Travel at Suburban Stations

Some 65 percent of intercity journeys from New Street are made by passengers who have used the road network (by car, taxi, or bus) to reach the station. This leaves a substantial proportion of travellers using the regional and suburban railways. Analysis of ticket sales at stations on suburban lines to New Street indicates that approximately 137,000 tickets are sold yearly to ten principal inter-city destinations with travel to London dominating for every route. Of the seven suburban lines serving New Street, three would serve the proposed Heartlands station, so passengers using these lines would suffer no loss. However, the 60,000 passengers on the other four routes would need to make an additional change.

It is noteworthy that in most situations where entirely new inter-city routes have been built, terminals are nevertheless shared. Thus, the Shinkansen stations in Japan are usually directly alongside existing stations serving local services. The problems described in this paper do not apply in Japan, for, despite the proximity of private and public rail lines, the actual track work is strictly separate. Where Shinkansen stations are not located adjacent to pre-existing terminals, as for example at Shin-Yokohama (Figure 3) a suburban service and a new subway provide very frequent linkages to the city center. Most TGV services use established multi-role stations. Lyon is an exception, where Lyon Perrache had capacity problems that could not readily be overcome and where the suburban rail was not well developed. Here, the new metro does provide a good connection. Furthermore, when the new TGV station was opened at Part Dieu, trains continued to serve the traditional terminal (Figure 4), so continuity was maintained.

Figure 4



Thus, in Birmingham's case, there would be some loss of network benefits with a removal of inter-city services from New Street. So is it possible to solve the twin problems of rail congestion at New Street and road congestion on its approaches in some other way?

Prior to the Heartlands station proposal, plans were made — work has started — for greater use of the old Great Western route to central Birmingham and Snowhill station by diverting trains from the Stourbridge line at Smethwick and using Snow Hill rather than New Street as the city center station. The problem, again, is the loss of network benefits: Snow Hill and New Street are a half mile apart. The key to the solution of this problem lies at Moor Street on the Great Western line but much closer to New Street. This station is about 300m from New Street, but the distance can only be traversed by a competent navigator versed in the intricacies of Birmingham's subways. However, there are proposals for the redevelopment of Birmingham's Bull Ring center, an ageing pioneer of the anonymous shopping paradises that disfigure our towns and cities. These proposals incorporate an elevated moving pavement link between Moor Street and New Street stations. Thus, the diversion of some suburban services from New Street could be accomplished under existing proposals with only a limited loss of network benefits.

Currently, there are four tracks on the eastern approach to New Street, and track layouts dictate that paths of inter-city and local trains must cross at grade. However, the modification of track at the flyover Proof House junction could permit the station approach to be operated largely on a two track inter-city and two track suburban basis.

The aim of the Urban Development Corporation is to facilitate and encourage renewal, and the success of a new station is closely linked to success in fostering renewal. Provision of good frequency local rail services (needed to feed the inter-city service) will depend upon large numbers of local trips attracted to the station. Unfortunately, the most advanced, large scale proposal for commercial development in the Heartlands area is at the Star site. It was chosen as being adjacent to and highly visible from the M6 and situated half a mile from the Heartlands station, i.e., too far for local services to the proposed intercity station to greatly benefit. It is proposed that the Star site should be served by LRT line 2. This route is planned to extend from Broad Street (serving the International Convention Center) by way of New street and the Heartlands area, thence eastwards through suburban Birmingham parallel to the Nuneaton railway line, and then the lightly used Castle Bromwich Distributor Road, eventually reaching - after 32 stops - the National Exhibition Center.

The announcement of the Heartlands station proposal was followed by a decision to review the LRT proposals. The independent and separate evolution of the Heartlands renewal plan, the LRT proposals, and BR inter-city proposals means that there is a need for great care in the planning and detailed alignment of public transport between the existing and proposed inter-city stations. A service of four cross-city line trains per hour and six LRT trains per hour could be inferior to a service of 10 trains per hour over the same tracks (British Rail suburban or Passenger Transport Authority Light Rapid Transit), particularly if the boarding points for the alternative routes were at all separate. Indeed, there would only be a case for having two competing modes if separate intermediate major traffic generators were served. West of the city center, the International Convention Center together with the indoor arena and the Symphony Hall constitute major unserved traffic generators. However, eastwards from the city center, only Aston University constitutes a major traffic generator. From there to Aston station, little of the land adjacent to proposed LRT stops has great traffic potential at present. This could alter if the Urban Development Corporation is able to steer proposals towards public transport stations — a form of collaboration conspicuously absent hitherto, exemplified by the half mile separation of the Star site from the Heartlands station proposal. The diversion of inter-city services will cause a sharp increase in the number of trains through Aston Station. Congestion here may preclude any greater intensity of services on the Cross-city line.

A link by BR lines between Heartlands station and New Street, of course, would be less costly than a new LRT route that is currently planned to run underground across the city center. This would leave Aston University and the International Convention Center poorly served. Indeed, it is these fringe of center locations that illustrate the worst gaps in the provision of public transport in Birmingham. The distances from New Street exceed convenient walking distance but are no more than a mile. Perhaps it is more important to attempt to remedy these problems than to plan lengthy LRT lines extending into suburbia to distances better served by suburban rail. Good access between New Street station and the International Convention Center would do more to promote the local economy than would potential accessibility improvements resulting from LRT proposals.

9. Conclusions

The way the railway network has evolved in the West Midlands means that there is no easy way in which operations could be re-arranged to suit a management system for the railways composed of separate operators. The provision of a new separate terminal would ease problems of conflict at one location but create problems of conflicting paths at others. Moreover, the creation of separate terminals for inter-city passengers and local passengers could create significant user dis-benefits. If by track re-arrangements on the approaches to the existing terminal, conflicting train manoeuvres could be eliminated, then operating conditions and, particularly, reliability could be improved. However, separation on the immediate station approaches would not eliminate the basic problems of private operators using a track system that must handle inter-city, regional, and local services.

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