



Exam

**Public Management
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Read the following newspaper article

(Source: NZZ, 13 April 2020)

Corona, of All Things, Gets the Ailing British Railway System Back on Track

In the UK, the railways are run by dozens of private operators – and are also a case for restructuring. Because of Corona, London had to turn the operating model upside down. Ironically, this is an important step towards reform.

London Waterloo is not really a place of rest and contemplation. Britain's largest railway station is usually a beehive, with 95 million passengers a year rushing around. But in the Corona crisis, very little is normal. At certain times of the day, you can hear a pin drop, and the blue dials of the illuminated ceiling clock - blue in solidarity with the National Health Service (NHS) - are reflected on the shiny surface of the ground, undisturbed by footsteps.

Emergency intervention for eternity?

Most trains are also deserted. In mid-March, in the fight against the spread of the new coronavirus, the British Government called on citizens to travel only when absolutely necessary. This decision soon turned the entire railway system on its head: Because passenger numbers dropped, London was forced to interfere forcefully with the business model of the railway operators in order to save them from collapse. However, this emergency intervention is likely to be only a first step on a journey towards reaping the benefits from the competition among the private rail operators as well as from having a state-owned railway system similar to the one in continental Europe.

The organizational structure of the British railways is unique: Until the 1990s, they were entirely in the hands of the state. Then it was broken up and completely privatized. Under Prime Minister John Major, the rail network was sold, and the operation of the train service was put out to tender, divided by section. Today, the railways and their maintenance are back in public hands because privatization did not work and led to underinvestment. But the trains are run by more than two dozen private companies nationwide – often subsidiaries of foreign companies, such as Deutsche Bahn or Italy's Trenitalia.

Smarter than nationalization

These private rail operators have currently little to laugh about. Passenger numbers have fallen by more than 90% since mid-March, according to government figures. Private companies are at risk of default, but they must maintain a basic service to provide the national supply. For this reason, London has pulled the emergency brake and has radically rebuilt the system in a single stroke. Some critics see it practically as nationalization, but it is more differentiated than that.

Until now, the railway companies paid the state a fee allowing them to operate on their routes. In this so-called franchise system, they retained the revenue from their ticket sales and, ideally, made a profit. But now the British state has taken on the entrepreneurial risk with revenues going to the state, which, because it is now also paying for the operation of the business, also bears any losses. In return, the railway companies receive a profit lump sum of up to 2% of the cost base from the government. This is significantly less than the gains that were previously possible.

If a railway operator does not agree to adopt the Corona model, it is in extreme danger of being properly nationalized. This would not be the first time: because of deplorable conditions for passengers or financial problems for operators, the government has been forced to intervene frequently in normal times. This year, the state took over the operation of the Northern franchise in the north of England. Last summer, it did the same with the East Coast franchise for the London-Edinburgh connection. East Coast moved into state hands for the third time in 12 years, with billionaire Richard Branson's Virgin Group among others forced to cede control.

Privatization - a crumbling success

Nevertheless, the privatization of rail operations cannot be regarded as a complete failure: Passenger numbers have more than doubled since the mid-1990s, and the quality of travel and service is significantly better than in times where there was a state monopoly. But ticket prices are high by European standards (also because they have to make a greater contribution to cost recovery). Lately, punctuality has suffered, with the number of passengers becoming more dissatisfied and rail operations becoming less reliable, according to surveys, while the operational situation of rail operators is often in dire straits. As early as 2017, a parliamentary inquiry revealed that franchising did not bring all the benefits hoped for.

In fact, detailed recommendations for reform should have been made long ago. In the fall of 2018, the government appointed a commission chaired by Keith Williams, the former head of British Airways, to prepare it. The reason was a corked timetable change in the spring, which caused almost half of all trains in England to be delayed or canceled and caused chaos on the Platforms for days. But since fall 2019, the government has been delaying the publication of the Williams report, first because of the Brexit turmoil, then because of the general election in December.

Revolution not evolution

However, it is known in which direction the recommendations will go. Williams has promised "revolution not evolution" and had publicly spoken out against the franchise model and in favor of a system that provides operators with long-term incentives to optimize customer satisfaction. This suggests a concession model: The state will assume the operational risk and will pocket ticket sales – just as provided for in the Corona rescue measures introduced overnight. Furthermore, in a concession model, railway operators will be paid only according to performance criteria such as punctuality, cleanliness, and the quality of the rolling stock. The state will also draw up the timetable and set ticket prices.

These elements were easier to introduce in the UK after the basic model had already been changed due to the corona pandemic. The crisis intervention thus pre-energized the reform that Williams will recommend to the government – but which in normal times seemed so radical that it probably would not have been implemented quickly. The Corona model is initially valid for six months but can be extended. Once a new "normal service" has been developed, it will likely be based on the system introduced during the crisis. The industry association Rail Delivery Group has explicitly welcomed the government's assumption of operational risk, although this severely limits its profit opportunities.

Incorrectly distributed competition

There are hardly any possibilities for reform in the existing franchise system: There is too much competition in some areas and too little in others, according to widespread criticism. The government imposes very strict operational requirements on the operators, which even includes the cleaning of the trains, and makes them bid for contracts for individual sections. This makes the awarding process very competitive but may also favor excessive bids in cases where the costs may not be recoverable in such a tight regulatory framework. Besides, operators are generally given a monopoly on their route, which reduces incentives for high performance. Operationally, there is, therefore, hardly any competition. Many passengers are forced to travel a certain route, even if trains are late and overcrowded.

Indeed, two franchisees can also compete on the same route. This type of game is called "open access". In practice, however, it is rare because it works best on long-distance connections, and these are not the main problem. More nerve-racking for many Britons is the poor performance of short-distance and commuter trains, which are timed so closely together that two timetables of rival operators in the same area could hardly be coordinated. Sharing a route also reduces economies of scale.

Another factor in favor of the change from franchises to concessions is the fact that there are successful examples, even though they are few and far between. The most famous is the London Overground in the British capital. On

behalf of Transport for London (TfL), the Overground is operated by Arriva, a subsidiary of Deutsche Bahn. TfL carries 90% of the operational risk, Arriva 10%. The trains are on time, the passengers satisfied. Originally, the model was chosen because the London network is undergoing considerable construction work. The associated operational problems can incur costs that threaten normal franchisees.

The state needs an authority to pull the strings

However, infrastructure problems exist nationwide. Signal disruptions, for example, are the main cause of delays. This is another reason why London Overground is seen as an example of how the British railways could be reformed. However, the concession model can only work in the capital because TfL has a higher-level, state authority. There is no comparable authority anywhere in the country that monitors the patchwork of providers and coordinates it with the state-owned rail network operator. Everything is still up to the Ministry of Transport. For this reason, the Williams review will probably also propose a new, independent supervisory authority. In other words, the governmental footprint of the British railways is likely to grow in order to get the most out of the model of private operators – and all because of the coronavirus.

Assignment

Write an essay on the following topic:

Public Service Delivery – In Search of Excellence from a Public Management Perspective

Your essay must include thoughts on the following subjects (you are allowed to leave out one subject):

- Changes in public service delivery since the 1970s
- The role of output, outcome, impact, effectiveness, and efficiency
- Quality and performance measurement
- Organizational forms of public service delivery/horizontal subsidiarity
- Public corporate governance
- The interaction between citizens, politicians, and public administration

Non-attending students must also include one of the following topics in their essay:

- Austerity and its impact on public services
- Western Europe and Central Asia (China, South Korea, and Hong Kong) – Are they the same?

Refer to the newspaper article in your essay.

Rules (as communicated)

- The exam takes place on 22 April 2020, from 09.00 to 12.00, for attending students and from 09.00 to 13.00 for non-attending students.
- At the start of the exam, sit in front of your computer with Zoom switched on. Enter the following room: <https://zoom.us/my/aulagg2economics>. Once you have entered, you need to rename yourself using the following format: surname_first name_student enrollment number (e.g., Miller_John_1237654).
- Be ready to show your picture ID (personal or university-issued) to authenticate yourself through the ID you communicated when registering.
- The use of earphones, in-ear headphones, or similar devices is forbidden, and their use will lead to your exam being declared invalid.
- The webcam and the microphone must remain ON until the end of the exam. This will allow the examiner to monitor the behavior and the environment around you. The exam environment must be kept completely quiet.
- After the authentication of all students, the exam will be sent to you through the chat function of Zoom. Please download the PDF file.
- It is an open book exam. You can use the Internet, books, and all course material.
- You will receive one assignment and will have to write an essay about this topic. You will have to apply the theories discussed in the course.
- If you use direct quotations, add a footnote with the reference.
- The exam lasts for three hours (180 minutes). After that period, you will have to submit the essay by email to reto.steiner@zhaw.ch as a WORD file or PDF. Use your full name as a file name. You will immediately receive an email confirmation. Please wait in front of your computer until you receive this confirmation.
- Non-attending students (less than 80% presence in the virtual classroom) must answer one additional question in their essay. They have one additional hour (60 minutes) for this task.
- Students experiencing severe technical problems will be able to redo the exam in another session.
- Bathroom visits during the exam are not permitted.
- Once you have finished the exam, you must not leave the classroom, switch off the video, mute the microphone, or get up until the exam time is over. (The end of the exam will be announced by the examiner.)
- During the exam, problems related to the exam or other requests must be reported to the examiner using the chat function (send a PERSONAL message to Prof. Reto Steiner), by email to reto.steiner@zhaw.ch, or by phone to +41 79 690 16 71.
- All essays will be checked using antiplagiarism software.