

Franchising

ATOC's view

- ATOC's document Franchise Reform- a better railway for passengers and taxpayers - fully describes ATOC's position on and proposals for the future of franchising.
- The franchising process puts passengers first. It creates a strong incentive for train operating companies to attract additional passengers to maximise revenue. Train operators have delivered 22% more services and attracted over 60%¹ more passengers since privatisation.
- A nationalised industry would have been hard-pressed to move as fast as the TOCs to expand services once demand began rising from the mid-1990s.
- Following the award of the South Central franchise we have a two-year opportunity to develop new ideas for improving the franchising process in order to stimulate innovation and investment before the next round of awards which will include Intercity East Coast, West Coast and c2c.
- A key issue is that Government over-prescribes in franchise specifications- from the detail of train timetables to the hours of opening of ticket offices. We need to develop franchises that are more focused on what passengers want rather than what Whitehall thinks they want.
- The Franchise Reform document makes six points:
 - train companies should be allowed the flexibility to give passengers what they want,
 - franchises should be longer in order to allow managerial focus and facilitate investment,
 - there should be a focus on quality, not just price, when awarding franchises,
 - franchises should be better designed to ensure financial stability,
 - train companies should have the option to take on greater responsibility for stations, depots & rolling stock, and
 - there should be a mix of franchise sizes.

Background and key issues

- The franchise regime was established by the Railways Act 1993 to ensure value for money for the taxpayer through a competitive process and provide assurance for the Government that the franchises are delivering efficiently.
- Franchised train operators have delivered many benefits for passengers, including commissioning over 5,000 new coaches, introducing new ticketing and information systems, including internet and telephone enquiries' services and improved punctuality.
- Franchised train operators provide the vast majority of services on the passenger railway in Britain, the remainder being provided by open access operators. There

¹ DfT, Transport Statistics Great Britain, 2009

is no ideal size to a franchise – large single franchises such as in Scotland and Wales are equally appropriate as small self-contained franchises.

- For the Government, franchising offers a means of managing the financial risks of providing train services rather than running them directly itself.
- The following table shows the estimated level of subsidy/premia that franchisees have bid to the DfT for the period 2009-14, by business group. It is based on bids made up to Summer 2008 and ATOC estimates of possible support requirements after planned franchise end dates. The numbers have been adjusted to allow for the new access charges payable by TOCs in CP4. The table shows a significant anticipated increase in premia from TOCs, from £154m to £1442m.
- The total premium from all TOCs shown in the table is higher than previously published figures by the Department and others. This is because in CP4 a much larger proportion of government funding is being paid directly to Network Rail than in CP3; this results in lower Access Charges paid to NR by TOC, and an equal reduction in subsidy payments from Government to TOCS.

2006/07 Prices £m		IC	LSE	Regional	Total
2009/10					
Subsidy				£537	537
Premium		-£451	-£470		-921
PTE Payments				£230	230
Total		-£451	-£470	£767	-£154
2013/14					
Subsidy				£624	624
Premium		-£1,181	-£1,115		-2296
PTE Payments				£230	230
Total		-£1,181	-£1,115	£854	-£1,442

Source, DfT and ATOC.

- Along with the Department for Transport TOCs work successfully with a range of devolved franchisors - Transport Scotland, Transport for London, the Welsh Assembly Government and Merseyrail Passenger Transport Executive – and Passenger Transport Executives who no longer have a contractual role but do have a strong influence over rail services in their regions. The devolved authorities have a range of different approaches – in most cases they prescribe more detail in the operation of rail services than DfT.
- Franchising is now used by a number of European countries including Sweden, Holland, Denmark and Germany. It is encouraging innovative ways of delivering service and drawing interest from bidders from across Europe and beyond.

- A recent National Audit Office report¹ found that “the approach adopted by the Department for Transport in letting rail franchises has resulted in better value for money for the taxpayer on the eight franchises let since the Department took over from the SRA (Strategic Rail Authority). The Department has been able to gain a commitment to some improvements in quality, reliability, accessibility, security and capacity at the same time as negotiating a sharp fall in subsidy”.

Relevant ATOC activity

- ATOC takes a proactive role in the Route Utilisation Strategy (RUS) process during which passenger demand is evaluated and future forecasting is examined in order to make recommendations on future train service options.
- ATOC’s expertise in proactive, evidence-based and business-led lobbying and Consultation gives the industry a powerful voice in the franchising process.

Key documents/links

- Franchise Reform- a better railway for passengers and taxpayers
http://www.atoc.org/general/FutureFranchisesReport_S8.pdf
- ¹ Letting Rail Franchises 2005-2007, National Audit Office October 2008
http://www.nao.org.uk/publications/nao_reports/07-08/07081047.pdf

Kai Hills
kai.hills@atoc.org
April 2010