

Transport Times comment piece – franchise reform

As the government tackles the deficit and almost every part of the public finances comes under the microscope, the challenge facing the country is how to do more with less. The railways are no exception.

We are seeing record levels of customer satisfaction and punctuality, yet there is a live debate about the high cost of the railways to the taxpayer. This autumn, the McNulty Review on industry value for money will feed into tough government decisions in the Comprehensive Spending Review.

Equally, we have a great opportunity to strengthen the foundations for continued success in the railways. Change is needed to enhance more responsiveness to rail users; greater contestability and commercial discipline throughout the industry supply chain (including Network Rail); and rail's attraction to private investors.

A new approach to franchising passenger services, alongside wider industry reforms, is key to delivering this change. The review of franchising announced by Theresa Villiers was the right option to take: we need now to move towards agreeing how best to implement reform.

Adopting more output-based franchises is important. By inviting bids to deliver not just a core timetable but also train capacity, passenger satisfaction and service quality, the successful bidder still ends up, as today, committing to run a comprehensive level of services at acceptable taxpayer cost.

But at the same time, this approach also allows flexibility in delivering services in response to changing circumstances and removes current DfT micro-management of franchises – leading to faster introduction of improvements, better timetables and lower cost.

This approach needs to be backed by a more sophisticated DfT policy on procurement. Getting a good *price* for the taxpayer when awarding a franchise, through the level of premium/subsidy payments, is clearly important, but securing the best *deal* also means giving greater weight than before to proposals in bids geared towards improving service quality. This will help stimulate innovation among operators and so increase the positive contribution which the private sector currently brings to the railways.

We also need to see the use of longer franchises of 15 years, and possibly more in some cases. They may not be right in all circumstances, but they can help attract private finance into rail by improving the prospect of funders seeing a return on their investment. They also allow the operator to focus more on improvements which strengthen customer loyalty and win new passengers, rather than being diverted by the prospect of a new competition for their franchise.

Giving train operators a bigger role in delivering improvements is also part of our vision for franchise reform alongside other industry reforms. There are three big areas of opportunity.

First, transfer more responsibility for stations and depots from Network Rail to operators who, with lower overheads and simpler management processes can often do things quicker and cheaper. Second, restore TOCs' leading role in procuring trains, which they exercised successfully in the past, instead of DfT, whose approach in recent years has added delay, complexity and cost to this area.

Third, longer franchises should encourage operators to play a bigger role in improving delivery of other, Network Rail-led, schemes – either by challenging project scopes (as a long term player with greater interest in the success of schemes) or more radically by taking a lead role in driving network improvements. We believe the sorts of options above together could generate indicative savings of £350-600m per annum by 2014.

It is also important to get the balance of risk and reward right. Operators should remain on-risk for all reasonable measures in their control to deliver their commitments. Failure to deliver should continue to be addressed by the normal review process in existing contracts, including the possibility of breach and termination – longer, output-based franchises do not change that fundamental point.

But we also need to look at better ways of dealing with risks outside operators' control, such as unanticipated changes in the economy. The existing revenue support/share mechanism needs improving, including an option to link franchise payments more closely to GDP and employment levels – as well as options for Government to share in the upside of an unexpectedly strong economy.

Ultimately, reform is a package which can be tailored to the needs of individual franchises, for example, depending on whether they are fundamentally commercial in nature or subsidy dependent. That package is itself more than a series of technical changes: it is an agenda which redefines the roles of TOCs, Network Rail and Government to create a better partnership of the public and private sectors.

It is an agenda which we think works better for taxpayers and passengers – and one whose time has come.

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