Purpose of report:

To inform the Regional Transport Forum of:

- the DfT's consultation on “Reforming Rail Franchising” and provide a response to the issues raised.
- Network Rail’s East Coast Main Line 2016 Capacity Review, published as a draft for consultation on 31st August.

Recommendations:

1. To note the report and endorse the response to the DfT consultation on Reforming Rail Franchising; and
2. To note that a brief verbal report will be provided on the East Coast Capacity Review.

1 Background

1.1 The Government’s Coalition Agreement published in May 2010 set out proposals for granting longer rail franchises, which they believe will release significant private investment in the railways, resulting in benefits to both passengers and taxpayers. In accordance with the pledge set out in that agreement, in July 2010 the DfT published a draft consultation document about “reforming rail franchising”.

1.2 Many of the proposals set out in the document are aimed particularly at the rail industry. However the Strategic Transport sub group believes that local authorities also have an important role to play, given that the Councils are one of the key partners of the commercial rail industry in terms of advising potential bidders on the views of the community about the rail offer as part of the franchise renewal process. This applies in particular to station improvements and improving mode shift at rail stations.

1.3 The remainder of this report sets out the questions to which the DfT is seeking a response as part of this consultation, and commentary (in italics) on some of those issues.

1.4 In addition Network Rail published the East Coast Main Line 2016 Capacity Review as a draft for consultation on 31st August 2010. It outlines options to achieve additional capacity on the route beyond 2014. It also includes an economic analysis
of any service alterations that may be required to provide this capacity and the potential different ways it could be used. The deadline for receiving consultation responses is 1st November 2010. The Regional Transport Forum may also wish to respond to this separate consultation.

2 Proposed response on Reforming Rail Franchising

Franchise Specification

2.1 Is the suggested model of specification practical and would it deliver good outcomes for passengers and taxpayers? What are the key unresolved issues? Are there alternative models that work better and what are these?

It is important that the new franchises provide the levels of service that meet passengers’ needs. To guarantee this, it is likely that the franchise specification would have to be more detailed than is perhaps being suggested by government, and would need to include for example frequency, evening and Sunday services, first and last trains, catering standards, etc…

What factors should be considered in determining franchise length?

In responding to some of the recent RUS consultations in the Eastern Region, the RTF has welcomed the principle of longer franchise periods, and continues to do so. Experience of shorter franchise periods is that when it gets close to end of the franchise period, the operator is less inclined to invest. However, whatever the franchise length, there are bound to be circumstances where this would still occur.

To overcome these problems it would be helpful if the franchise process included some form of incentive for continued investment.

Would the proposal to supply an initial affordability figure for premium or subsidy help bidders submit realistic proposals?

No comment

Franchise procurement

2.2 What are the benefits and downsides to the procurement process outlined in the document?

All of the various individual approaches set out in Chapter 4 (paragraphs 4.14-4.21) seem reasonable. However, operating some of these in combination (e.g. A and B) as suggested in paragraph 4.13 as would too risky.

How can we reduce the complexity of bidding, while still protecting taxpayers and passengers (especially given a greater focus on quality)?

In relation to the issue raised at the end of Para 4.7 about long franchises leading to big profits for operators, one way round this would be to have some form of sliding scale of pain/gain mechanism linked to increases in revenue.

Contract design and management

2.3 What services, outcomes, and commitments should be contracted? What is the best way to structure outcome measures based around passenger satisfaction levels? What sanctions should be used to ensure operators deliver their commitments including outcome measures? What level of performance bond and or parental guarantees are appropriate?

We have no comments about the contractual details, other than we feel the levels of service need to be guaranteed through contract in the franchises (see answer to 1st question). The contract should also include the investment commitments that the operator promises, e.g. station upgrades. However, we feel it important that the
franchise process should recognise and take account of the key outcomes of recent satisfaction surveys.

Revenue Risk
2.4 Should the risk inherent in forecasting revenue over a longer period be shared between operators and government, and if so, how? What are the merits and drawbacks of review points? What are the merits or drawbacks of economic indexation compared to the existing revenue support/share or leaving revenue risk entirely with the operator?
We have no comments about the details of revenue support arrangements. However we feel it important that the franchise process could possibly incorporate some form of sliding scale of pain/gain mechanism linked to increases in revenue.

Franchise Investment
2.5 How can we add to incentive from longer franchises to remove the barriers to private sector investment? How can we encourage investments with long payback periods throughout the franchise term and not just the start?
See response 2.1 above

Cost Control and efficiency
2.6 How can the government incentivise operators to control cost increases over the life of the franchise, and to improve cost efficiency?
We have no comments to make about how operators could improve cost efficiency. However we note that, whilst concentrating primarily on the proposals for the revised franchise process, the consultation document does comment in places on the ways of reducing long term cost of the rail industry (including a review of industry structures/incentives). This could also be of benefit to Operators. In our experience the Network Rail indirect management costs for rail projects (particularly applies to Station improvements where Councils mainly get involved) do seem excessive. We await results of that study with interest.

2.7 Finally we feel that something should be included to incentivise Train Operating Companies to get engage more proactively with Local Authorities in the Station Travel Plan process.

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