

## **Enterprise and Business Committee inquiry**

### ***The Future of the Wales and Borders Rail Franchise***

#### **Submission from the Association of Train Operating Companies (ATOC)**

##### **Introduction**

1. ATOC's mission is to work for passenger rail operators in serving customers and supporting a prosperous railway. Set up after privatisation in 1993, we bring together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network. We also run joint industry services, including National Rail Enquiries, the Rail Settlement Plan and the discount Railcard schemes.
2. We welcome the chance to submit evidence to the Committee's inquiry. As the existing franchisee and potential future franchisees are our members, our response concentrates on the benefits to passengers and taxpayers of the railway franchising model and discusses how this model can be used to achieve additional benefits in the future for Wales.

##### **Benefits of franchising model**

3. ATOC published a report in July, based on new analysis of rail data by KPMG, which provides powerful evidence that the introduction of competition between train operators to win franchises to run passenger services has been crucial to the success of the railway over the last 20 years.<sup>1</sup>

##### **Passenger benefits**

4. Train operators have increased passenger satisfaction as measured by Passenger Focus' National Passenger Survey, with overall satisfaction levels in Great Britain rising from 76% in 1999 to 82% in spring 2013. Higher passenger satisfaction levels likely result from a range of improvements.
  - **Improved punctuality** – despite a big drop in performance after the Hatfield accident in 2000, performance has steadily improved and has now overtaken 1997-98 levels. 90.9% of short and long-distance services arrived respectively within five or ten minutes of their scheduled arrival time in 2012-13.<sup>2</sup>

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<sup>1</sup> ATOC, *Growth and prosperity – how franchising helped transform the railway into a British success story*, July 2013

<sup>2</sup> <http://dataportal.orr.gov.uk/displayreport/report/html/03b66842-b072-4f4a-910e-fc29ae02dd71>

- **More services** – there are now 4,000 more services a day than in the mid-1990s – a 20% increase. The number of intercity trains operating between Cardiff and London each day has increased by 41% - from 22 in 1994 to 31 in 2013.
  - **Better trains** – train companies, working with leasing companies, have underwritten almost £5 billion of investment in new trains, replacing about half of the inherited fleet and refurbishing almost all of the remaining fleet.
  - **Improved safety** – fatalities and injuries have declined to levels that make Britain’s railway the safest major European network.
5. At the same time, the overall average price paid per passenger mile has increased in real terms by just 0.8p - from 19.6p in 1997-98 to 20.4p in 2011-12. Passengers are accessing a wide choice of attractive deals including off-peak airline-style pricing and generous discounts for specific groups through offers and Railcards. More than one million journeys are now made each week using cheaper Advance fares, four times more than in 2005-06.

#### Passenger growth

6. There has been an unprecedented increase in passenger usage. Passenger journeys rose by 73% between 1997-98 and 2011-12, from 845 million to 1,460 million, significantly outperforming the London Underground and state-owned railways in France, Germany and the Netherlands. Annual passenger growth was 1.73% in the 15 years before 1997-98. This growth has more than doubled to 3.98% a year since 1997-98. *Growth and Prosperity* examines traditional explanations for this growth, including GDP growth, population growth and motoring costs, and concludes that none can fully explain the journey growth experienced since 1997/98.<sup>3</sup>

#### Reducing subsidy and sustaining investment

7. Train companies have generated a £3.2 billion increase in annual passenger revenue between 1997-98 and 2011-12, of which 96% has come from journey growth and just 4% from fare changes. As operating costs have been contained and productivity has improved, the annual surplus generated by train companies has increased by £1.4 billion over the same period. An additional £1.3 billion now goes back to Government and the net direct Government subsidy to train companies through franchise agreements has fallen in real terms from £1.4 billion in 2001-02 to just £81 million in 2011-12. Train company profits have remained modest. Operating margins were on average 3.1% of turnover in 2010-11, 15% lower than in 1997-98.<sup>4</sup>

### **How to maximise the benefits of franchising for Wales**

#### Current franchise

8. The Wales and Borders franchise was let in 2003 for 15 years to a specification set by the former Strategic Rail Authority. The franchise has delivered significant improvements for passengers, including the introduction of a Wales-wide standard pattern timetable and additional capacity. These achievements have been set out in Arriva Trains Wales’s submission to the Committee.

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<sup>3</sup> ATOC, *Growth and prosperity – how franchising helped transform the railway into a British success story*, July 2013, p.17-20

<sup>4</sup> *Ibid*, p.10-15

9. The train operator has worked closely with the Welsh Government, local authorities, community rail partnerships and passengers to identify opportunities to improve services and integrate with other operators on the network. Any franchise needs to be flexible to meet changing travel patterns and stakeholder requirements.

#### Involving passengers, communities and local government / Regional Transport Consortia

10. We consider the design of the consultation process leading up to franchise award to be critical. A wide consultation process that includes passengers, local communities, businesses, local government and other interested parties assists in identifying current and future priorities which can determine what outcomes are required from a franchise.
11. The railway benefits from simple, clear interfaces with government. While we support local engagement and dialogue, there are funding implications and strategic issues that are best addressed at a national level.
12. Bidders should be encouraged to propose how their community and stakeholder engagement will be managed during the life of the franchise – recognising that there is both good business sense in engagement and the opportunity to innovate. Ultimately Government holds the contractual responsibility on behalf of taxpayers and passengers.

#### Management model

13. Government should set out what it wants the railway to deliver for Wales. The achievements and benefits of the franchising model have delivered affordable and efficient outcomes for passengers and taxpayers in Wales. Given this success, we consider that future procurement of services should recognise this, and secure the best value through a competitive process. This should identify areas of difference such as risk management, financial standing and confidence in deliverability, and allow for a robust and thorough assessment of the options open to government.
14. Provided that the assessment criteria are transparent and available to potential bidders before any competition commences, there is no reason why alternative organisational models could not compete against more conventional franchise bids. Alternative models should demonstrate equally compelling evidence in their ability to drive value for money for the tax payer, deliver high quality sustainable services and outcomes when compared to existing, successful models. Rival bids can be compared to see which provides the maximum value for passengers and taxpayers during the franchise term.

#### Improving the passenger experience

15. The specification should focus on outcomes for passengers. It must reflect passengers' priorities in terms of service quality, information provision and performance – and should contain appropriate targets that measure delivery. These should be simple, clear and easy to measure, as well as adaptable to changing ways of meeting the requirements through new technology. We strongly support a clear articulation of service provision, expressed in such a way that it is clear to bidders and to government what is required and framed in such a way that the Wales and Borders franchise can deliver its commitments as well as interact with other operators of passenger and freight services on the network.
16. Franchise duration is a matter for government to determine. It should provide sufficient opportunities for the franchisee to invest and to partner with government and stakeholders – as well as stability for staff and passengers, but there is no such thing as a standard industry optimal length as each franchise is different. Any franchise should be designed to encourage innovation and provide all concerned with a stake in delivering the results required,

## Routes

17. There are many factors to consider when determining any changes to routes in a franchise, including the provision of drivers, guards and rolling stock, location of depots and maintenance requirements. Cross-border services to England are operated by three train companies and the South Wales and North Wales main lines are integrated into much larger networks. Any changes should be designed to improve the overall efficiency and accountability of the railway.

## Rolling stock

18. Passenger growth and electrification, as well as the normal process of fleet refurbishment and renewal, means it is likely that more trains will be needed in Wales over the life of the new franchise. The best approach is to ensure that rolling stock policy is flexible, managed by the franchisee, and takes into account the best value for the operator and taxpayer. ATOC has worked with the rolling stock companies and Network Rail to develop a long-term rolling stock strategy that takes into account likely needs across the network, including Wales. This is regularly updated.

## Infrastructure

19. The whole industry developed its Strategic Business Plan for 2014-2019 (published in January 2013), which identifies the immediate and medium-term priorities for the country. It is now developing a long-term planning process to look at requirements to 2043, working with stakeholders including the Welsh Government. New services have been successful across Wales and Great Britain, and it is likely that increasing demand for travel will result in the need for additional capacity on existing routes. The industry works closely with government to develop proposals that meet strategic needs and support wider objectives.

## Working with Network Rail

20. There are many opportunities for partnership working between train operators and Network Rail, and our members are working to develop them. These can range from the Deep Alliance model, currently used by NR and South West Trains, through to specific partnerships. We believe that one of the key ways of securing the best from the next franchise is to allow bidders to work with Network Rail to propose options for enhanced relationships, which will both allow distinctive bids and ensure that industry objectives and incentives are aligned.