

STAYING POWER

Ever since the start of rail privatisation there's been a continued debate about how long franchises should be. Now an influential group of MPs have waded in with their thoughts, as Peter Plisner finds out

The current system of rail franchising is a 'muddle'. Not the words of an opposition party transport spokesperson or tabloid newspaper, but the stinging criticism of a parliamentary select committee whose members have looked at the state of rail franchising on two separate occasions and both times come to virtually the same conclusion.

Ironically, both hearings, the first in 2006 and then another this year, were followed closely by seismic events for rail franchising. On each occasion we have witnessed the failure of the East Coast Main Line franchise after operators defaulted on a costly string of commitments. GNER was the first. It was awarded a seven-year franchise and in return agreed to pay the government £1.3bn in premium payments. But when it collapsed, ministers quickly agreed to re-let the franchise to National Express for an even higher premium payment of £1.4bn.

Less than two years into its seven and a half year franchise, it too handed back the keys, claiming the financial strain brought about by the recession had left it with no other option. Because both companies had short franchises, they were left with little room for manoeuvre when things went wrong. With a longer franchise, management, the theory goes, would have been safe in the knowledge that they had a long-term business plan that could, and probably would, have been successful. Indeed, having heard evidence around the time of both East Coast collapses in its latest

report, the Transport Select Committee suggests that 'the government should be willing to attempt different forms of franchising'.

But according to one senior rail figure, any revisions of the franchising system should also bring forward contracts that are far less prescriptive. Adrian Shooter, chairman of Chiltern Railways, one of only a handful of companies to win a longer franchise, maintains that there's more to it than just an extended contract. He says: 'Politicians tend to be rather short-termist, reacting very quickly to issues that come up. This gives them a tendency to make sure that there are very tight and very specific controls, which then removes the freedom and incentives for a private sector company to innovate and to provide the very best quality service. So it's a yes to longer-term franchises, providing it is linked with a more hands-off involvement of politicians.'

Interestingly Chiltern was to have been the first of several longer franchises let by the now defunct Strategic Rail Authority. The late Sir Alistair Morton had been persuaded, primarily by Shooter, that it was the right thing to do around the time when the first set of privatised rail contracts came up for renewal. An SRA press release from 1999 said: 'The aim is to secure long-term franchises that provide high levels of performance for passengers. We want to see proposals that will provide additional capacity coming on-stream as early as possible. In exchange for this, we are prepared to consider franchise terms that would last between 10 and 20 years.' However, the collapse of Railtrack and the arrival of Richard Bowker appear to have led to a further change in policy and in the end only Chiltern succeeded in winning an extended term.

The Transport Select Committee proposed the idea again in 2006, recommending that the government move towards medium-length franchises of up to 15 years, which it said should have 'one or two in-built break-points where contracts may be terminated if performance is unacceptable'. Since then, many have subsequently argued that current franchises are too short. One of the big problems, according to seasoned



GNER had to walk away from its franchise; its successor has met the same fate.

rail industry observers, is that short franchises fail to encourage long-term planning by train operating companies. It's a theory that's backed by the Liberal Democrat party, which has suggested that there is little incentive for operators to invest in long-term infrastructure that will almost certainly be handed over to someone else before it has started to return revenue.

The Lib Dems have proposed major reforms of the current short rail franchise system to grant 30-year contracts with five year service 'quality checks'. In return, train companies would be required to deliver major improvements to their network including re-opening railway lines closed during the Beeching era. According to the select committee, short franchises contributes to operators taking short-term cost-cutting measures, such as reducing catering costs, to increase revenue, because operators are less concerned about the long-term impact of such measures.

And they aren't the only ones. Even the Competition Commission has backed the idea. Its recent report into rolling stock leasing concluded that competition was restricted by a range of factors including the shortness of franchises. It suggested franchises in the region of 12 to 15 years or longer, which 'would allow train operating companies to realise the benefits and recover the costs of switching to alternative new or used rolling stock over a longer period'.

Government ministers find it hard to ignore the advice of official bodies like select committees and its own commissions. They must at least respond to recommendations made by them. Three years ago, when the last transport committee report came out, ministers argued that difficulties predicting revenue over 15 or 20 years tended to 'militate' against longer franchises.

However, giving evidence to MPs for the latest report, secretary of state Lord Adonis indicated that a review of the length of franchises was underway and he hinted that there could be scope for a revision of government policy in this area. News of a review and the transport committee's latest report must be music to the ears of major rail players like Virgin Trains, which even before the publication of the report had embarked on a lobbying exercise designed to encourage ministers to think seriously about giving it a new franchise of between 20 and 30 years.

In exchange Virgin's chairman, Richard Branson, outlined a series of difficult-to-ignore incentives, including further cuts in journey times between London and major cities along the West Coast route. He also mooted the idea of building an underground route from Birmingham International station to the West Coast Main Line at Lichfield. A package of improvements, worth more than a billion pounds, also included commitments to strip down and modernise crumbling stations and replace them with fit-for-purpose buildings that, in the words of the Virgin boss would 'work efficiently for rail passengers and can be a source of pride to the local community'.

According to Virgin, longer franchises should be linked to past performance and future investments, and would help to engage and encourage private sector investment. They would also help to bridge the gap between franchise length and asset life to reflect whole life benefits of investments, a key point for others, who have been calling for longer franchises. Speaking at the launch of the campaign, Branson said: 'With a £1bn investment we could, within three to five years, see our trains running at 140mph with reductions in journey times between London and all West Coast destinations. What we are asking is that the government


re-thinks the franchise situation to give train operators the opportunity to invest, grow the rail business and lessen the burden on taxpayers.'

Virgin maintains that longer rail franchises are not simply a rail issue, but are a key factor in expanding regional and national economies. With pressure of public finances, the company argues that there needs to be a visionary approach where franchises are designed to stimulate improved passenger service by investing heavily in stations and trains, something that hasn't been seen recently with shorter franchise awards.

Virgin's communications director, Arthur Leathey says: 'We have a choice of ticking along with short franchises or really driving further change with longer contracts. Why don't we have the four trains per hour between London and Birmingham that were originally promised? It's certainly manageable with more investment. Some stations are a disgrace, but are not a priority at present.'

The debate on longer franchises looks set to continue, but news that the government may be considering the idea again shows that under Lord Adonis officials at the Department for Transport are listening.

Adrian Shooter says: 'There will be different ways of doing it if you just lighten up on how tightly the thing is specified.'

Virgin's Arthur Leathey has this message for ministers. 'Be bold and look at a new franchise system that will deliver lasting benefits that the current system will not achieve. The government now has a unique opportunity to plan long-term and work out how franchising will fit with visionary plans for high-speed rail and electrification.' 

*Peter Plisner is the BBC's Midlands transport correspondent:
peter.plisner@railpro.co.uk*

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