

20 February 2012

Rail 2014  
Transport Scotland  
58 Port Dundas House  
GLASGOW  
G4 0HF

Dear Sir or Madam

## **Rail 2014 – Public Consultation**

### **Introduction**

Thank you for the opportunity to comment upon options for specifying and funding passenger train services in Scotland from 2014 onwards. This letter sets out the high level views of FirstGroup, particularly informed by our experience as the operator of the current ScotRail franchise.

Overall, we believe that it is for Scottish Ministers, as the funder, to determine the outputs they want from Scotland's railways, after full consideration of social, economic and environmental issues and responding to the views of the public and stakeholders.

The operator's role is to deliver those outputs efficiently and innovatively through applying our wider rail and private sector expertise.

In general terms, FirstGroup believes that passenger rail franchises with greater flexibility and more closely aligned incentives between Network Rail and a private sector Train Operating Company (TOC) would deliver a more efficient and responsive railway that meets the needs of passengers, continues to grow the market, and supports sustainable economic growth.

### **Current franchise framework**

Whilst it is appropriate to consider a range of options for the next franchise, it is also worth recognising that the current franchise framework has proved successful in delivering improved outputs for both passengers and funders. Through the specification and operation of the franchise, Transport Scotland and First Scotrail together have:

- improved operational performance, with PPM increasing from 84% to 89%;
- achieved its best ever NPS customer satisfaction rating of 90% overall satisfaction;
- driven a 25% increase in passenger journeys from 62 million to over 78 million; and
- delivered new rolling stock and enhanced train services, building on the significant investment in new infrastructure.

We would recommend that the specification of the next franchise should build upon the success of the current arrangements, whilst seeking further improvements in passenger outputs and efficiency. In particular, the recent decentralisation within Network Rail, with significant decision making powers devolved to a separate Scotland Route, offer the opportunity for working together in a more integrated way.

### **Value for Money**

We support the ambition to have a railway that offers value for money, for both passengers and taxpayers. This is not just about cost efficiency but also on focussing upon make rail an attractive option for passengers to improve the utilisation of the existing network and trains. We would suggest that the new franchise specification continues to incentivise the operator to grow the rail market and deliver improved passenger outcomes.

The way in which the franchise is specified will influence the level of value for money delivered. We would advocate that the specification should set out clearly the outputs and outcomes Scottish Ministers want delivered and allow bidders some flexibility in designing their franchise proposals on how best to deliver the required outputs cost effectively. Such an approach, rather than focussing on specifying detailed input requirements, allows bidders to use their expertise and innovation to develop competitive proposals.

However, whilst we recommend some flexibility at the specification stage, we recognise the size and importance of the Scotrail franchise contract to the Scottish Government and so would expect to contract to deliver the outputs set out in the franchise bid, without increased flexibility during the operating phase. The franchise subsidy represents a significant investment and so we recognise the need to ensure the taxpayer is in control of how that investment is best deployed.

### **Alignment with Network Rail**

We agree that Network Rail decentralisation and the creation of a Scotland Route creates a great opportunity for closer alignment between train operator and the manager of Scotland's rail infrastructure.

Scotrail has engaged with the Scotland Route since it was formed in May 2011 to explore opportunities for collaborative working, which resulted in an Alliance agreement being signed between the two parties last December. This Alliance has created a framework within which to take forward initiatives to both:

- deliver better outcomes for rail in Scotland; and
- improve value for money through a more aligned way of working.

We believe the alliance will streamline decision making and deliver a more passenger focussed railway at lower cost.

The decision to adopt a framework approach in the alliance reflected the relatively short time before the end of the current franchise, which led to an approach which focussed on early delivery of joint initiatives rather than a more complex and time consuming negotiation of a deeper integration between the parties. It also allows us to demonstrate the benefits of closer working between TOC and Network Rail Route whilst Scottish Ministers develop their thinking on how best to design the framework for a more integrated railway for Scotland going forward.

We see the current framework alliance as just a stage in the development of the new industry structure and FirstGroup would intend to seek closer integration between operator and infrastructure manager in any new franchise.

### **Franchise Length and Scope**

Whilst the design of the scope and period of the next franchise is a matter for Scottish Ministers, we believe that retaining a single franchise operator for services entirely within Scotland offers the best value for money. It delivers economies of scale, a unity of purpose focussed on delivering Government objectives and matches up well with the Network Rail Scotland Route for taking forward closer integration.

We do not see a need for separate organisations to focus on either commercial or social rail services, as the different requirements of these markets can equally be addressed by setting clear outcomes for one franchise to deliver. Indeed we do not see how these different “markets” could be separated out cost effectively.

On franchise length FirstGroup does support longer franchise periods, of ten years or more, which gives better planning certainty for delivering private investment and implementing longer term changes. We understand that the new franchise will need to manage significant infrastructure and train service changes during the first few years of the next franchise as part of EGIP. However, we do not think that this necessitates a shorter “project management” style franchise. Rather we see benefits in the operator delivering these changes taking a longer term view, knowing that their long term success is based on optimising the successful implementation of these changes.

### **Summary**

In conclusion, we fully support the ambition set out in the consultation for a railway that offers value for money, that acts in a coordinated and integrated way and that has passenger interests at its heart. The issues we raise above are all relevant to ensuring that the future franchise helps deliver these three overarching objectives.

The Rail 2014 public consultation raises important issues for rail passenger services and the funding arrangements for Network Rail in Scotland. As the current operator of the ScotRail franchise, FirstGroup awaits the outcome of the consultation and the development of your franchising strategy with interest.

Operating the ScotRail franchise is very important to FirstGroup and we fully intend to bid for the next franchise to continue to deliver an improving rail service for Scotland.

Please do not hesitate to contact me if you would wish to discuss any of the points raised in this response in more detail.

Yours sincerely

Hugh Clancy  
Commercial Director, Rail