

Stagecoach Group

Stagecoach Group
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We refer to your consultation document request dated 3 August 210 and the questions posed within it.

1. Stagecoach is pleased to respond to Transport Scotland's proposed franchising policy statement about how they propose to select the franchisee to operate the ScotRail passenger services.
2. Stagecoach Group has extensive operations in the UK, United States and Canada, employing around 27,000 people to operate bus, coach, rail and tram services. In the UK, our fleet of around 7,000 buses connects communities in more than 100 towns and cities across the country. We were independently judged Bus Operator of the Year at 2005, 2006, 2009 and 2010 Bus Awards.
3. We are also a major rail operator, running almost a quarter of the UK passenger rail network. In addition, Stagecoach Group has a 49% shareholding in Virgin Rail Group, which operates the West Country inter-city rail franchise. The Group operates the East Midlands and South Western rail franchises, the latter incorporating the South West Trains and Island Line networks, the latter being the only vertically integrated operation in UK.
4. We also operate Supertram, the light rail network in the city of Sheffield, and have a 10-year contract to operate and maintain the Manchester Metrolink tram network. Both of these combine passenger operations and infrastructure maintenance and renewal responsibilities.
5. We are pleased to see that Scottish Ministers propose to use competitive processes whenever possible to award franchises. We believe such processes area

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good way to help in purchasing of best value services. It is critical in this process that Ministers set out clearly the objectives that they are seeking to achieve and how bids will be evaluated. We believe that best value would be achieved by Ministers specifying the outputs they wish to see in terms of output measures such as service levels, passenger satisfaction and punctuality. Specifying outputs in this way then allows the private sector to apply innovative solutions in a cost-effective way. We also believe that, whilst affordability and value for money are key criteria, Ministers should also seek to award franchises on the basis of quality.

6. We note that Ministers will keep an open mind on the contract model to be used but will seek a form of contract that will best encourage and support sustainable economic growth. We contend that the diverse and vertically separated nature of the rail industry, as applied elsewhere in the UK, is not applicable in Scotland, with its discrete geography and the homogeneous nature of services. We therefore believe that a vertically integrated concession model should be applied rather than the franchise model used in the rest of the UK. This will have benefits for Scotland in terms of reduced costs and improved performance.

7. We have reviewed the finances of the passenger rail industry in Scotland, a business with a turnover of some £1bn. In undertaking this research, we are not convinced that the allocation of central Network Rail costs has been undertaken on a consistent and accurate basis. This allocation seems to have been undertaken on a variety of different bases resulting in allocation percentages of central costs ranging from 9.5% to over 15% of the total, depending on the cost category. Such central costs would be removed in a vertically integrated model, allowing a local Scottish company to make decisions about standards, obviously in accordance with EU Directives on rail infrastructure.

8. In addition to a reduction of central costs, Stagecoach believes that the overall cost of an integrated railway would be much reduced. In 2005, the OECD 1 stated, in context of Europe, that "the appropriate role of the vertical separation in the overall reform of the rail industry is not yet clear". Furthermore, based on a review of North America experiences, it concluded that "production costs could be as much as 20-40

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per cent higher as a result of total vertical separation". In becoming more joined up, we believe that Scotland can move towards infrastructure costs of those in countries such as Finland and Sweden, countries with not dissimilar operating constraints to this in Scotland. Research by the EU Task Force on Rail Infrastructure Charging² has shown that the difference between British and Finnish track renewals costs is some 35% whereas the difference between track maintenance costs is 830%. Overall, the combined maintenance and renewals costs difference is some 133% between Britain and Finland. The British estimate of variability of track maintenance costs is higher than the Swedish (at an average of 30% rather than a range of 12-28%)

9. Bringing together train and infrastructure operations will also bring further improvements in service delivery to passengers, particularly in the area of punctuality which, according to Passenger Focus³, is one of the key issues for customers. Stagecoach has demonstrated the benefits of close and integrated working between train and infrastructure operators on its South West Trains franchise. This has seen punctuality levels above 95% on an operation consisting of some 1770 trains per weekday, brought about in part by the implementation of an integrated train control. We believe benefits to be gained from integrating rapid response, planned maintenance and renewal activities and possession organisation within one company.

10. We trust that our views are of interest to Transport Scotland and would be pleased to meet to provide further details of how our ideas could be implemented.

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1. OECD Policy Round Tables "Structural Reform in the Rail Industry", 2005
 2. EU Task Force on Rail Infrastructure Charging. Summary Findings on Best Practice in Marginal Cost Pricing, 2002
 3. Passengers' priorities for improvements in rail service, 2010