UK Policy

The fraught **future** of **franchising**

Months of disruption to passenger services in southeast England have again shone a spotlight on the franchising system. The government is trying to increase local participation in franchise specification, and insisting on deeper co-operation with Network Rail. Yet grave concerns remain about the attractiveness of the market and winners' premium payment obligations. **Nick Kingsley** assesses the state of play.

The rebuilding of London Bridge station has necessitated the diversion of trains on the Thameslink corridor along already congested suburban lines in south London. On March 25 a Class 700 EMU passes Gipsy Hill with a Bedford – Brighton train.

If this is what success looks like, who needs failure? Misconception and equivocation have enveloped Britain's passenger railway over the past 12 months, and the future of the industry has returned to the forefront of public debate in a fashion arguably not seen since the safety crises of the early 2000s.

From the perspective of the industry and government, the franchised railway is largely a success, with ridership still growing, albeit no longer exponentially. Infrastructure investment is broadly continuing to deliver much-needed increases in network capacity, but not without difficulty (RG 2.16 p34). Problems of reliability and poor passenger satisfaction are, in this world view, a symptom of growth.

Needless to say, this does not accord with the mantra of left-leaning opposition parties and trade unions, and especially not with a virulently hostile mainstream media which has neither the patience nor the resources to understand a complex sector. Here, the siren call of 'renationalisation' is heard loud and often, along with lurid claims about 'profiteering' private operators. In 2016-17, much heat but very little light has been shed on the future of the railway, leaving many passengers and some policymakers frustrated and bewildered in the middle.

A poisoned chalice

At the eye of the storm is Govia Thameslink Railway. GTR operates a sprawling London commuter business set up by the Department for Transport in September 2014 (RG 7.14 p12), which brought together the former Southern, First Capital Connect and Gatwick Express operations into a single entity. Although routinely described as a 'franchise', GTR is run under a management contract where DfT takes the revenue and pays a management fee to the Govia joint venture of the Go-Ahead Group and Keolis.

When press and passenger groups were invited to the Shard skyscraper which looms over London Bridge station in September 2014 to mark the launch of GTR, there can have been few attendees under any illusion of an easy ride in the years ahead. DfT had opted to award a management contract for one of Europe's busiest commuter networks largely because it was concerned about the impact of disruption caused by the Thameslink Programme infrastructure works, and in particular the rebuilding of London Bridge. This necessitated the diversion of the cross-city Brighton – Bedford trains via other suburban lines in south London where capacity was already limited (RG 12.11 p50).

For the duration of the rebuild, expected to conclude in December 2018, fewer platforms have been available at London Bridge, compounding the capacity crunch and removing any minimal headroom GTR may have had to manage disruption, especially at peak times. Despite the best laid plans, performance nosedived, and timetables were repeatedly revised to manage overcrowding amid reports of irate passengers surging through the gatelines in an effort to board rush-hour trains.

Ordinarily, this would have been enough for any operator to battle against. But the London Bridge constraints proved just the start of a performance spiral that has led to a series of operational and industrial relations crises over the past 2½ years. A difficult amalgamation of the predecessor franchises initially left GTR facing an acute driver shortage, but this has been dwarfed by a protracted and ongoing dispute with trade unions over the future role of traincrew, centred on whether a fully-skilled guard is necessary to open and close doors and manage train dispatch (RG 8.16 p3).

While far from unprecedented in a European context, the resulting wave of strikes brought an already struggling commuter network to a halt on several occasions. GTR's inner-suburban trains have been driver-only since reforms in British Rail days, but the outer-suburban trains to the south coast still had guards, and those longer-distance commuters paying the most for their season tickets were disproportionately affected.

Unsurprisingly, the situation rapidly became toxic, and the reputation of the wider passenger railway has taken a battering. Initially, furious passengers tended to vent their anger at GTR's owner Govia, as well as at trade union representatives perceived as being intransigent over a relatively specific issue of door control. As the months of disruption wore on however, the role of DfT in specifying GTR's remit has come into greater focus.

On February 1, a passenger lobby group based in Brighton known as The Association of British Commuters

GOVERNANCE

MPs demand major change

The House of Commons' Transport Committee's report on franchising, published on February 5, is highly critical of the evolution of the contracting model and its current state. Its final recommendation calls for 'an independent and publicly available review of DfT's franchising functions'.

In addition to reviewing the department's capabilities and capacity, this review should include consultation on the possible transfer of DfT's monitoring and enforcement functions to the economic regulator, the Office of Rail & Road. It should also outline the department's strategic direction for franchising, including the way it wishes to 'structure and plan for future franchises, and how it plans to manage the issue of open access'.

The introduction to the report notes that while franchising has facilitated passenger growth and service improvements, it has not yielded all the competitive benefits initially envisaged by the government of the early 1990s. 'Many metrics of performance are plateauing and the passenger is not receiving value for money', says the committee.

There is also concern over the lack of 'robust' competition between bidders during procurement. The need for direct awards and the recent fall in market interest demonstrates that genuine competition has been restricted to a limited number of franchises, according to the committee.

Against its core policy objective of promoting competition, the potential benefits from the original franchise model are no longer being maximised. Despite the risks of fragmentation, open access operation could provide opportunities for new entrants to the market to promote greater competition on long-distance routes, the report argues.

However, any expansion of open access 'should occur in a measured way', so that long-term operational risks are understood. A condition for any increase in open access is urgent reform to equalise the current track access charging regime which creates an uneven playing field between open-access and franchised operators.

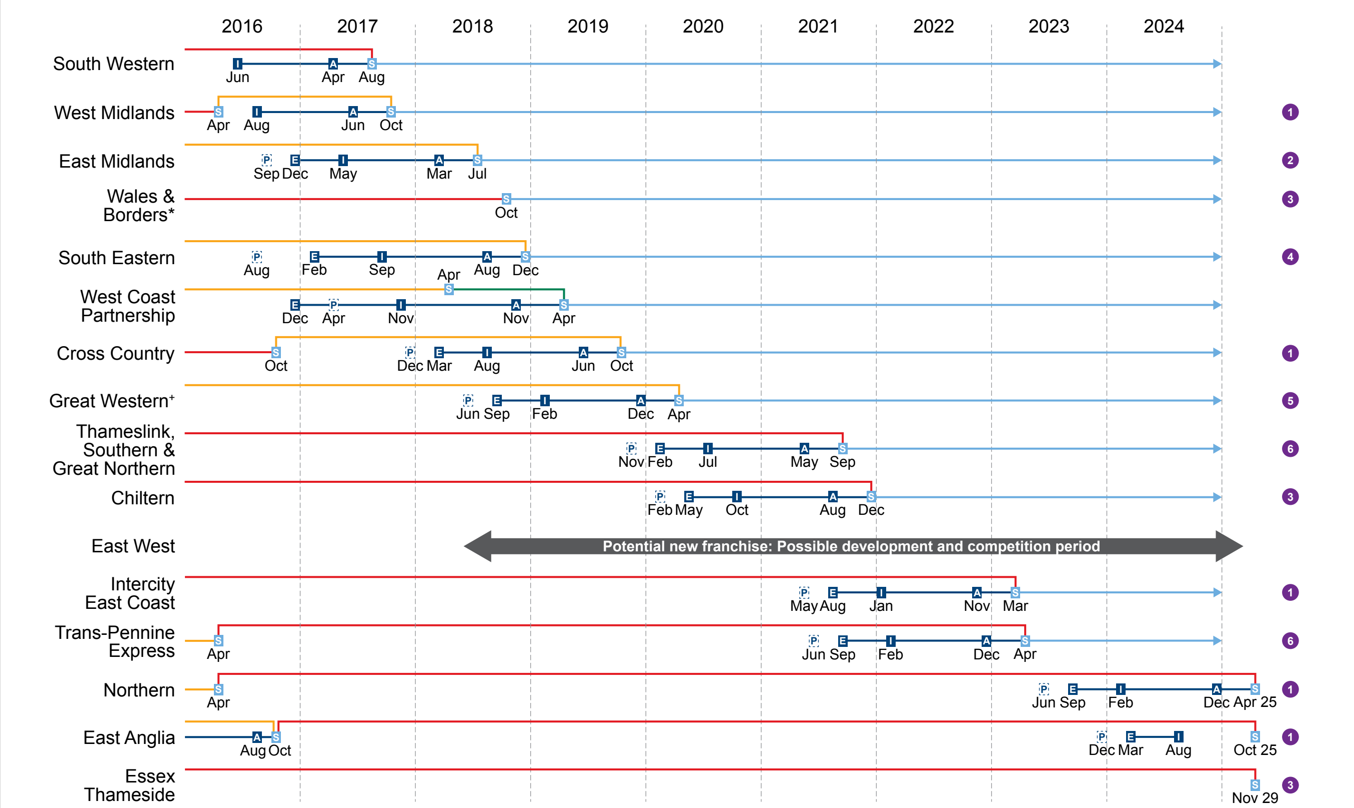
Consultation has already begun on the committee's recommendation that DfT and ORR work together on a comprehensive set of reforms of track access charges. The introduction of a Public Service Obligation levy on open-access operators could be used to offset the impact on government funds of more on-rail competition, and the government has already launched a consultation to examine this issue (RG 4.17 p9).

Transfer of financial risk to the private sector was another central premise of franchising, but the MPs say 'it is clear that there has been a relatively low level of financial risk from operating a passenger franchise'. Maintaining and enhancing infrastructure has always generated the most risk and this is still the case. However, such wider, risk-related 'whole-industry' issues were outside the scope of the franchising inquiry.

On franchising in general, the committee argues that the current structure limits the ability of private operators to improve efficiency and deliver benefits for passengers. Current franchises are considered too large to provide a clear market focus for the operator. At the same time, the 'relatively short' franchise terms reduce the incentive for operators to both invest and drive down costs.

While acknowledging that franchises have different characteristics, the committee sees merit in procuring longer and smaller franchises. Although immediate widespread reform 'is neither practical nor feasible', the MPs recommend that where a franchise is due to expire, DfT should routinely review the franchise contracts it lets so that they present less risk to the taxpayer, are not unnecessarily complex, and are focused on the market they serve.

On relationships between Network Rail and TOCs, inadequate co-ordination has resulted in higher fares and continued network underperformance, says the report. The misalignment between NR's five-year regulatory control periods and the franchise replacement schedules is highlighted as a 'fundamental flaw' of the current system which undermines further alignment between NR and TOCs. This too, will be the subject of a rail governance and finance inquiry expected to start later this year. ■



* The UK Government has agreed in principle to transfer franchising powers to the Welsh Government who are leading and undertaking the procurement of the next Wales & Borders franchise.
+ The Department is exploring a range of delivery options for the Great Western Franchise with the aim of closer integration of track and train. The Department will continue to consider options for the GW Franchise in 2017.

1 Additional one to 13 reporting periods at SoS discretion
2 Extension of five reporting periods to Jul 18 assumed. A further one to eight additional reporting periods available at SoS discretion
3 Additional one to seven reporting periods at SoS discretion
4 Extension of six reporting periods to Dec 18 assumed. A further one additional reporting period is available at SoS discretion
5 Extension of 13 reporting periods to Apr 20 assumed
6 Additional one to 26 reporting periods at SoS discretion

P PQQ Passport Application Date (deadline for non-passport holders)
E Issue of Franchise EOI
I ITT (Invitation to Tender) issued to shortlisted bidders
A Contract Award

S End of current Franchise Agreement. Start of new Franchise Agreement
— Current Franchise
— Direct Award – contract signed
— Service Continuation Contract
— New Franchise
— Key Deliverable process link

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announced that it had formally applied for a judicial review of how DfT has handled its management contract with GTR. This was followed five days later by a report from the parliamentary Commons Transport Committee, which analysed DfT's involvement in the GTR crisis and linked it to a more detailed investigation of the passenger franchising model. The MPs' conclusions were stark (p29).

On the ropes again

Regular readers will be aware that concern about the franchising system has been raised before, and comparatively recently. In RG 11.12 p29 we outlined the collapse of the competition for the Inter-City West Coast franchise. FirstGroup was initially selected as preferred bidder until a successful challenge to DfT's methodology was mounted by Virgin Rail Group. Since then, VRG has continued to run ICWC under a series of direct award agreements. In the aftermath, a report issued to government by former Eurostar Chairman Richard Brown argued that franchising was not 'fundamentally flawed' (RG 2.13 p27), insisting there was 'no credible case' for major structural reform.

Four years on, and the contrast with the Commons Transport Committee's findings is evident. So what has changed? One important difference between the ICWC debacle of 2012 and the GTR crisis of 2016-17 is that the latter has seen trains cease running, while the ICWC problems never threatened to spill over onto the operational railway. The same could hardly be said of GTR, where the multifaceted problems have played out in the most public fashion, cranking up the heat on Transport Secretary Chris Grayling in particular.

One of the principal challenges facing franchised operators is managing the disruption of NR's upgrading work. Great Western Railway has had to come to terms with partial deferral of Great Western Main Line electrification.

While the calls for 'renationalisation' of the passenger network have arguably been as predictable as they are simplistic, the politics of franchising seems certain to change in the wake of the GTR crisis. One immediately apparent shift has been a rapid cooling on the government's part to consider the devolution of any further responsibility for inner-London suburban services to Transport for London.

This had seemed a plausible way forward given that Grayling's predecessor Patrick McLoughlin and former Mayor of London Boris Johnson had launched a consultation exploring the idea in January 2016 (RG 2.16 p11). But in December, Grayling was embarrassed when a London newspaper published a letter that he had written in 2011 in his capacity as MP for Epsom. In it he had stated that he opposed further devolution as he wished to keep suburban services 'out of the clutches' of a London mayor from the opposition Labour party, such as current incumbent Sadiq Khan.

Devolution elsewhere

Despite the controversy in London, it is clear that devolution of franchise management from DfT to various sub-national bodies remains on the agenda, and is one of the trends driving the rail market away from a 'one size fits all' model. Defending his decision in parliament not to pursue talks on transferring more London routes to TfL control, Grayling argued that he wished to avoid 'a very substantial top-down reorganisation'.

The next South Eastern franchise, which begins in December 2018, had been regarded as the first where TfL could have taken over the inner-suburban operations and integrated them under its London Overground brand. Instead, Grayling told parliament on January 12 that while TfL would have input into the next franchise, 'the approach we have chosen is the same one that we have taken for [the] Northern [franchise] and in the Midlands, which

STRUCTURE

State-backed operators erode the private sector's share

Of Britain's 17 franchised passenger rail operations (Table I), at the end of March seven were wholly run by private companies (Caledonian Sleeper, East Midlands, East Coast, Great Western, South Western, TransPennine and West Coast). Another three (GTR, South Eastern, London Midland), all currently operated under direct awards, were run by private businesses as joint ventures or partnerships with subsidiaries of state-owned railways from other countries. The other seven (Chiltern, Cross Country, Essex Thameside, Greater Anglia, Northern, ScotRail, Wales & Borders) were wholly run by the UK subsidiaries of state-owned national railways from three countries (Germany, Italy, Netherlands).

The position will change in August when South Western is taken over by a joint venture of FirstGroup and Hong Kong's MTR Corp, with further changes in prospect after that as the West Midlands and Wales & Borders franchises are re-let in October 2017 and October 2018 respectively.

Of the concessioned operations, Merseyrail Electrics is run by Serco and Abellio as a 50:50 joint venture and London Overground is in the hands of Arriva, part of Deutsche Bahn. TfL Rail, as precursor to Crossrail (p42), is being run by MTR under contract to Transport for London, and from May 2018 will take over the Heathrow Connect services currently operated by Heathrow Express and GWR.[1]

Open access operator Hull Trains is owned by FirstGroup, while Grand Central is part of Arriva. Heathrow Express is owned by Heathrow Airport Holdings Ltd. If Eurostar is included, state-owned non-British railways are involved in 12 of the 24 main line rail businesses.

Concerns over the cost, complexity and commitment faced by franchise bidders led the DfT to introduce a 'Pre-Qualification Questionnaire Passport', and 11 companies were granted this facility in December last year: Abellio Transport Group, Arriva UK Trains, First Rail Holdings, Go-Ahead Holdings, Govia, Keolis (UK), MTR Corp (UK), National Express Trains, Stagecoach Group, Trenitalia and Virgin Holdings. The PQQP enables companies to express interest in a bid without the need to submit basic corporate information. Also granted PQQPs are JR East and Mitsui and the Metroline subsidiary of Singapore transport group ComfortDelGro. ■

Waterloo sunset. Stagecoach has operated the network radiating from London Waterloo since 1997 but the next South Western franchise will be held by FirstGroup and MTR Corp (p7).

1. Heathrow Express is a subsidiary of Heathrow Airport Holdings Ltd. HAL is owned by FGP Topco Ltd, a consortium owned and led by Ferrovial SA (25%), Qatar Investment Authority (20%), Caisse de dépôt et placement du Québec (12.62%), GIC (11.20%), Alinda Capital Partners of the United States (11.18%), China Investment Corporation (10%) and Universities Superannuation Scheme (USS) (10%).

Table I. UK main line passenger rail operators in 2017

Franchise	Operating brand(s)	Ownership	Franchise dates	Direct award dates
Caledonian Sleeper[1]	Caledonian Sleeper	Serco Caledonian Sleepers	Apr 2015 - Apr 2030	n/a
Chiltern	Chiltern Railways	Arriva UK Trains (DB)	Mar 2002 - Dec 2021	n/a
Cross Country	CrossCountry	Arriva UK Trains (DB)	Nov 2007 - Oct 2016	Oct 2016 - Oct 2019
East Anglia	Greater Anglia	Abellio (NS) + Mitsui	Oct 2016 - Oct 2025	n/a
InterCity East Coast	Virgin Trains East Coast	Inter City Railways (Virgin Holdings 10% + Stagecoach 90%)	Mar 2015 - Mar 2023	n/a
East Midlands	East Midlands Trains	Stagecoach Group	Nov 2007 - Oct 2015	Oct 2015 - Jul 2018
Essex Thameside	c2c	NXET Trains (National Express) to Feb 2017, then Trenitalia (FS Group)	Sep 2014 - Nov 2029	n/a
Great Western	Great Western Railway	FirstGroup	Apr 2006 - Oct 2013	Oct 2013 - Sep 2015; Sep 2015 - Mar 2019
Northern	Northern	Arriva UK Trains (DB)	Apr 2016 - Mar 2025	n/a
South Eastern	Southeastern	London & South Eastern Railway: Govia: Keolis (SNCF) 35% + Go-Ahead Group 65%	Apr 2006 - Oct 2014	Oct 2014-Jun 2018
South Western	South West Trains	Stagecoach Group First MTR South Western Trains: FirstGroup 70% + MTR Corp 30%	Feb 2007 - Aug 2017 Aug 2017 - Aug 2024	n/a
Thameslink, Southern & Great Northern	Thameslink, Great Northern, Southern, Gatwick Express	Govia Thameslink Railway: Govia: Keolis (SNCF) 35% + Go-Ahead Group 65%	Sep 2014 - Sep 2021	
TransPennine Express	TransPennine Express	FirstGroup	Apr 2016 - Mar 2023	n/a
Wales & Borders[2]	Arriva Trains Wales	Arriva UK Trains (DB)	Dec 2003 - Oct 2018	n/a
InterCity West Coast	Virgin Trains	West Coast Trains Ltd: Virgin Holdings 51% + Stagecoach 49%	Mar 1997 - Dec 2012	Dec 2012 - Nov 2014; Nov 2014 - Mar 2018[3]
West Midlands[4]	London Midland	Govia: Keolis (SNCF) 35%+Go-Ahead Group 65%	Nov 2007 - Apr 2016	Apr 2016 - Oct 2017
ScotRail[1]	ScotRail	Abellio (NS)	Apr 2015 - Apr 2025	n/a
Concessionaires				
Merseyrail[5]	Merseyrail Electrics (2002)	Serco 50% + Abellio (NS) 50%	Jul 2003 - Jul 2028	n/a
London Overground[5]	London Overground	Arriva Rail London (DB)	Nov 2016 - Apr 2024	n/a
Crossrail[6]	TfL Rail / Elizabeth Line	MTR Crossrail (MTR Corp)	May 2015 - May 2023	n/a
Open access operators				
Grand Central – owned by Arriva (DB)				
Heathrow Express – owned by Heathrow Airport Holdings Ltd				
Hull Trains – owned by FirstGroup				
Other				
Eurostar	Eurostar	SNCF (55%) with Belgian national operator SNCB (5%) and Caisse de Depot et Placement du Quebec and Hermes Infrastructure (together 40%)		

1. Franchise awarded by Transport Scotland
2. Shortlisted for award from Oct 2018: Abellio Rail Cymru; Arriva Rail Wales/Rheilffyrdd Arriva Cymru Ltd; KeolisAmey; MTR Corp (Cymru) Ltd
3. Further extension to 2019 being negotiated pending West Coast Partnership award
4. Shortlisted for award from Oct 2017: LWMR, formed of Govia: Keolis (SNCF) 35%+Go-Ahead Group 65%; WMTL, formed of Abellio (NS) with JR East and Mitsui
5. Concession agreement with Merseytravel
6. Concession agreement with Transport for London

Source: House of Commons Briefing Paper SN01343 and other documents

is to create a partnership to develop a franchise that will work for all passengers to deliver the capacity that we need.'

It is outside London where greater local involvement is likely to be most keenly noticed. While transport in Scotland has long been governed by the administration in Edinburgh, the Welsh Assembly Government in Cardiff has ambitions to reach equivalent control over railways in the principality. To that end, on October 13 last year WAG issued a shortlist of four bidders for the contract to be the 'Operator & Development Partner' holding the next Wales & Borders franchise (RG 11.16 p25).

Bids from Abellio, incumbent Arriva, a Keolis/Amey joint venture and MTR Corp will be assessed under a very different procurement process to that used on the existing franchise. This had been awarded by the short-lived Strategic Rail Authority in 2003, with limited scope to handle ridership growth.

The Welsh Government sees the new franchise as a 'once in a generation' opportunity to build an integrated transport system, with the contract to be awarded through a negotiated procedure and less tightly specified than a DfT deal. The contract is to run for 15 years from late 2018, but the ODP may have a longer-term role in infrastructure development, supporting WAG's ambitions to develop a South Wales Metro incorporating the existing Valley Lines DMU network.

WAG has established Transport for Wales as an in-house management agency, announcing on March 20 that this would be headquartered in Pontypridd, 19 km northwest of Cardiff. WAG has hopes that in the longer term, TfW could be established as a statutory body, further fostering independence of passenger rail provision from DfT.

Transport Secretary Chris Grayling wants to see greater integration between infrastructure and operations.
A Virgin Pendolino passes NR's Rail Operating Centre at Rugby which will eventually control much of the West Coast Main Line.

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As in London though, challenges remain around governance of passenger services crossing into other jurisdictions. This is a particular issue on routes serving mid- and north Wales, where the passenger flows tend to orientate east-west towards Birmingham, Liverpool and Manchester rather than south to Cardiff.

We reported in RG 2.16 p30 that the Trans-Pennine Express and Northern franchises are now being 'co-managed' from Leeds by DfT and the Rail North consortium of local authorities. Here, devolution is set to reach a further milestone by the end of this year when Transport for the North is enshrined as a statutory sub-regional transport authority, the first of its kind outside London.

The West Midlands region centred on Birmingham hopes to follow suit, and its Combined Authority is a co-specifier of the next West Midlands franchise. Two shortlisted consortia for this contract were announced last August: these are Govia, which has operated the current franchise since 2007 under the London Midland brand, and Abellio, which is working with East Japan Railway and Mitsui & Co as minority partners. As the WM franchise extends south along the West Coast Main Line to include commuter trains to and from London Euston, a bespoke West Midlands Rail business unit is to be established to provide a dedicated offering in the WMCA area. In a further indication of its intent, WMCA announced on March 22 that it would take operation of the Midland Metro light rail network in-house from October 2018, when the contract currently held by National Express Group expires.

The TransPennine Express and Northern franchises are being co-managed by DfT and the devolved Rail North organisation from a base in Leeds.

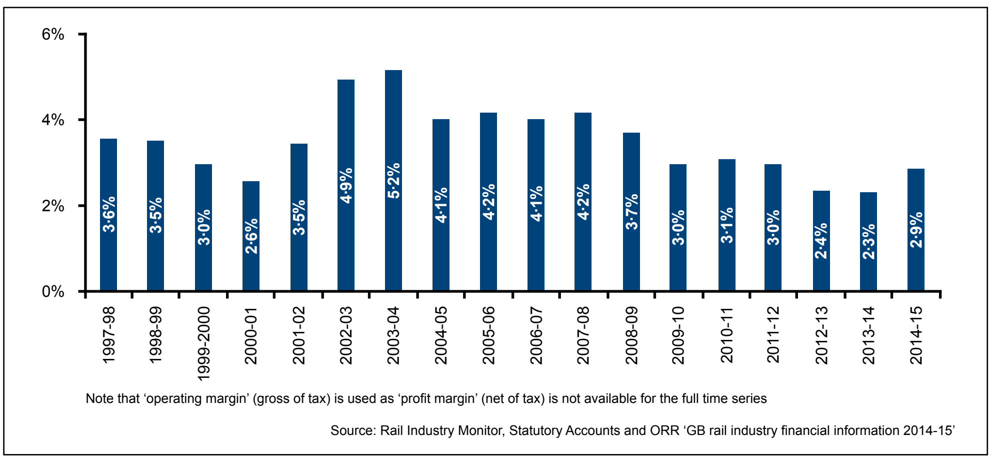
Still attractive?

Once a multiple franchise holder, National Express has now disposed of its last main line operation in the UK, having sold c2c to Trenitalia in mid-February. Reporting the company's annual results shortly afterwards, Chief Executive Dean Finch outlined what he perceived as the diminishing attraction of UK operating contracts, and said the company would instead be focusing on Germany and other liberalised markets (RG 4.17 p23).

Predictably, the entry of Italy's FS Group into the UK market prompted a backlash from those who seek to portray franchising as a lucrative vehicle for international state-backed operators to prop up their domestic businesses. One trade union ran a television advertising campaign portraying gleeful Europeans thanking British rail passengers for supposedly subsidising fares in their home markets.

In reality, far from witnessing self-congratulation, concerns have been raised in both the Netherlands and Germany about the rapid international expansion of their national operators through subsidiaries including Arriva and Abellio. Nor can accusations of profiteering easily be justified: according to the Rail Delivery Group, operating margins among franchised TOCs have declined from 3·6% in 1997-98 to 2·9% in 2014-15 (Fig 1). In this context, it is arguably easier to understand how a tightly regulated market with relatively low margins could be more attractive to state-owned organisations seeking long-term, stable returns (Table I).

Fig 1. The profitability of franchised operators remains the subject of considerable public debate, but margins have generally hovered around the 3% mark for the past five years.



Meanwhile, the cost and competitive intensity of the bidding process remains in the spotlight, as the Commons Transport Committee report confirms. Awarded to a consortium of First Group and MTR on March 27 (p7), the South Western franchise — centred on London Waterloo, the UK's busiest station — had attracted only two bidders, of which one was incumbent Stagecoach. The East Midlands competition has seen three bidders prequalify, also including incumbent Stagecoach.

A significant bellwether of the health of the market is likely to come from the West Coast Partnership competition. A complex franchise that will cover the Inter-City West Coast operation that was the source of the 2012 difficulties and the launch of high speed services on the first section of HS2, WCP was the subject of an industry day organised by DfT on January 27. No fewer than 100 organisations attended, including potential suppliers and funding bodies. Among potential operators, 14 companies were present, of which only Eurostar and Spain's Renfe do not hold a DfT Pre-Qualification Passport for franchise bidding (p30).

Investment boom

Whatever the structural concerns about franchising, recent awards have been characterised by substantial commitments to investment, especially in rolling stock. Driven overwhelmingly

Coats of many colours. With the exception of Arriva CrossCountry, the remaining operators of the IC125 diesel trainset gathered in Bristol last summer to mark 40 years since the introduction of the design on inter-city services between London and the west of England and south Wales.

by the broadly ongoing growth in ridership, these commitments often cover not just new vehicles to expand the overall fleet, but also wholesale replacement of relatively new trains.

Abellio's East Anglia franchise perhaps best exemplifies the new-found largesse. Investment worth £1·4bn covers replacement of the entire Anglia fleet, including the Class 379 Electrostar EMUs delivered as recently as 2011. Between January 2019 and September 2020, Abellio is due to take delivery of 1 043 new vehicles. Bombardier is supplying 665 Aventra EMU cars for commuter services under a £900m order, while Stadler marked its entry into the UK main line market for the first time with an order for 20 inter-city electric and 38 regional electro-diesel Flirt trainsets totalling 383 cars.

Similarly ambitious plans have been outlined by FirstGroup/MTR for South Western, although no details of suppliers had been released at the time of writing. Nevertheless, the new operator intends to acquire 750 suburban EMU cars formed into 90 trainsets by December 2020. Overall, the franchise envisages £1·2bn of investment, of which £80m is coming directly from the operator.

The flipside of the coin remains the substantial premium profiles that continue to be a feature of franchise agreements. The South Western franchise requires payments over the core period from August 2017 to August 2024 of £2·6bn at 2017-18 prices. In East Anglia, Abellio's daunting challenge is to hand DfT £3·7bn over the nine years from October 2016.

Spiralling premium obligations were cited by National Express as a central factor in its decision to relinquish c2c to Trenitalia, perhaps influenced by its decision to hand back the Inter-City East Coast franchise in 2009 when its revenues fell short of the rate required (RG 12.09 p21). Since then, DfT has sought to introduce mechanisms to insulate operators to an extent, especially from exogenous factors such as GDP trends or central London employment. Yet as the country prepares for the reality of 'Brexit', such mechanisms may yet come under closer scrutiny.

Elephant in the room

Yet most fundamental to both the day to day experience of passengers and the ability of operators to meet their subsidy/premium obligations is the performance of Network Rail. As NR Chief Executive Mark Carne makes clear on p35, the infrastructure manager is also going through a potentially significant devolution process, with much more responsibility being transferred to the Route level.

At the same time, Grayling has made clear his desire to see track and train brought closer together (RG 1.10 p10). Upcoming franchise agreements will from the outset 'bake in' a deep alliance with NR, marking a more formal attempt at co-operation following the three-year trial between NR and South West Trains (RG 7.15 p7). This model is already used in Scotland, and integrated management teams will be expected to run the East Midlands and South Eastern franchises when these are let next year.

While Grayling suggests that there remains little appetite for pan-industry structural reform, there is nevertheless some evidence that attitudes to franchising are changing. In particular, policymakers and owning groups alike are increasingly willing to recognise that the market conditions needed to support high-intensity commuter and suburban networks are substantially different from those relating to the inter-city market.

The UK's Competition & Markets Authority has lent impetus to those calling for change by suggesting that more competition be introduced to the inter-city market (RG 4.16 p26). Initially, this could mean changes to the open access model that could see a levy on operators introduced to fund infrastructure enhancements. In the longer term, CMA says it would be worth considering replacing franchises with multiple licensed operators who would bid for bundles of train paths. This approach has the backing of some owning groups too; Virgin and Stagecoach argued in October 2015 that inter-city franchising be scrapped in favour of the path auction approach.

Yet, as with devolution in the London suburbs and the regions, any such reform would need to be foreshadowed by DfT agreeing to looser, less centralised control of the industry. Nor is it clear how more liberalisation of passenger services would easily sit with Grayling's ambition to bring tracks and trains closer together. But one thing is clear: after 20 years of evolution, franchising is approaching another turning point. ■