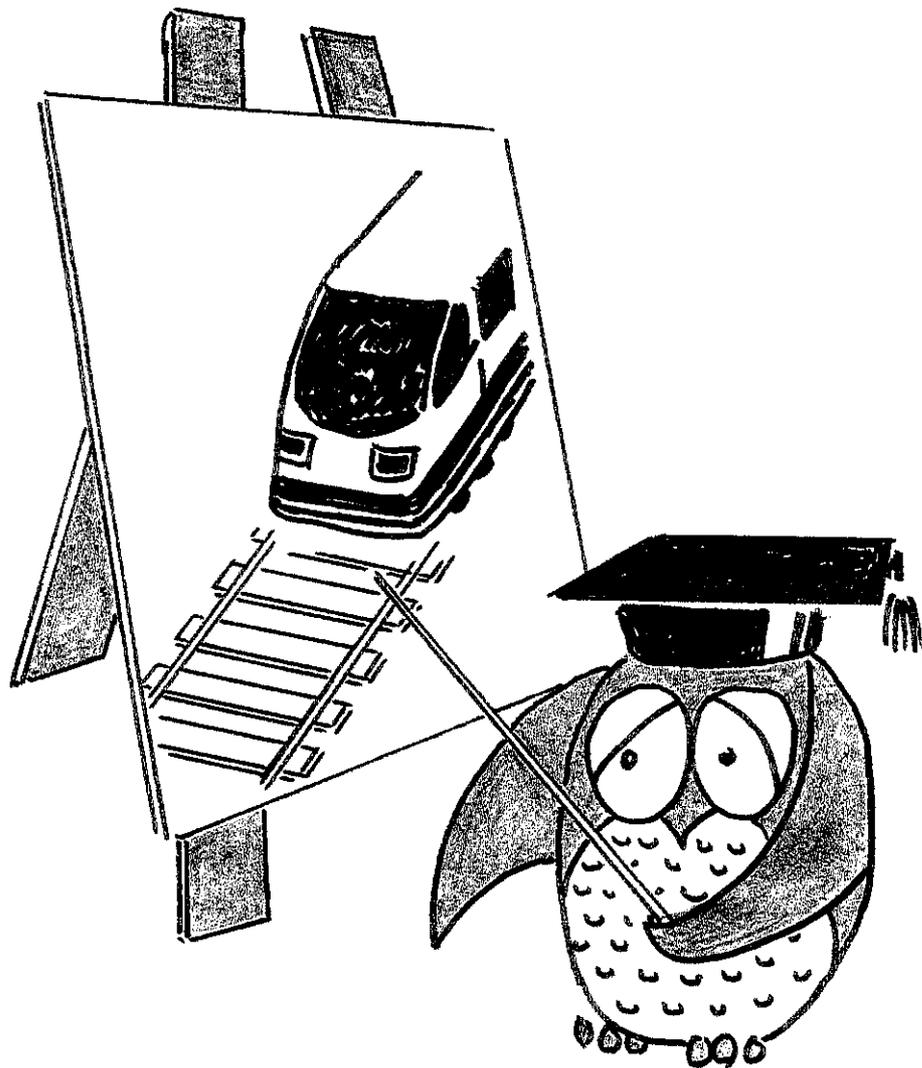


Public Procurement...



... the lessons of Rail Privatisation

Public Procurement – the lessons of Rail Privatisation

A PAPER FROM BARONESS GREENGROSS'S TRANSPORT FORUM – January 2010

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Foreword

I have convened this Forum in response to the wide public interest in the way services, which in the past were provided publicly, are increasingly being sourced from the private sector. Railway privatisation has been a prime example and we think it is important that the lessons from that experience are taken forward as a contribution to the wider debate about the future of procurement and as a blueprint for action at a national or local level.

The Forum is part of a series of initiatives, driven by issues like demographic, technological and economic change, looking at aspects of life in the future. We are concerned with how the public service ethos of both publicly and privately run organisations and agencies will adapt to the new realities they will face as public expectations change.

In sectors like transport, health care and education the extent of state control is being rolled back from what was largely a state funded, commissioned and provided set of services to a complex mixed economy of public, private, and third sector funding and provision. How will this transformation in responsibility and risk be managed and how will the public interest be protected?

Are there any general principles to be derived from the experience of sectors, such as the railways which could be applied to the outsourcing of user-facing functions in other areas of public provision? The key lesson here is to exercise a level of control or ownership consistent with the assured delivery of the required outcomes. The public sector's role should be to set policy and finance and specify what is required, and then to assure provision in the most cost effective way. It is essential to establish a clear categorisation of those outcomes that government wishes to secure and to conduct a robust and comprehensive analysis of the intervention options. This analysis should be based on sound economic, financial and commercial principles. If political or ideological goals are involved, they should be made explicit and overlaid after completion of the analysis.

Rather than being simply put down to experience, we need to determine how these valuable lessons are going to be put to good use in other sectors, such as healthcare and education, so that the hard work and learning from these past examples of 'privatisation' are incorporated in the methodologies of public procurement going forward.



Baroness Sally Greengross

Thank you

I would like to express my sincere thanks to members of the Forum who, despite enormous demands on their time, nonetheless found time to produce this paper. I am indeed lucky to have been able to draw on such a breadth and depth of experience. I must also thank John Cartledge for the invaluable work he did on the research and writing of all the background and historical material. I also want to thank the ILC-UK for sponsoring the publication of the report, which will be valuable in pursuing the organisation's objectives in the future.

Sally Greengross

Executive Summary

Whichever political party is in power, it seems unlikely that the volume of outsourcing of public services will diminish. This paper attempts to identify lessons that have been learnt from the privatisation of the railways, which might have wider relevance for the procurement of public services in general.

British Rail was the last of the major state owned industries to be sold off in the privatisation wave of the 1980s and 90s - and probably the most bitterly contested. There are a number of possible reasons for this. Amongst these are the facts that railways engender strong feelings amongst their users and attract a high level of political engagement. Many of their services are also inherently un-commercial and require considerable subsidy, their full cost being unrecoverable from fares set at reasonable levels.

The franchise model adopted divided the passenger network into 25 operating units (plus Heathrow Express and Eurostar, which were excluded from the process and retained 'grandfather rights' to operate under contracts previously negotiated with the government), each subject to an agreement containing a detailed specification of train and station services required. In an attempt to distance the process from direct political control it was all placed in the hands of a Franchising Director operating – nominally at least – at arm's length from government. This role was later transferred to the Strategic Rail Authority, which, like the Franchising Director, was short lived, and has now passed directly to the Department for Transport.

The government's reasons for privatisation were set out in a White Paper. Some reasons were no more than ideological declarations of faith. Others were more explicit; 'more concern for customers needs', 'ending a monopoly', 'management freedom', 'clear and enforceable management standards', 'motivation' and 'efficiency'.

Two omissions are noteworthy. No predictions were made about either future demand for the rail services or the future level of public subsidy that might be required, although it was clearly the government's hope that the latter would eventually cease.

This paper looks at how far these aspirations have been delivered in practice. It is impossible to say whether or not, if British Rail had remained in being, the subsequent experience of the industry (and its users) would have been greatly different.

Passenger usage of the railways has since grown by some 40% but, until recently, the growth in the economy and disposable incomes are likely to have played at least as large a part as any management changes.

Because open access (unfranchised) operators have been able to enter the market only on a handful of niche routes, competition between train companies today occurs largely between rival bidders when franchises come

up for renewal. But the use of the term ‘monopoly’ in the White Paper was arguably misleading, since there are virtually no rail journeys for which users do not have the choice of another mode of transport. The one route on which direct competition was specifically provided for at the time the initial franchises were let – between London Victoria and Gatwick Airport – saw competition ended in 2008 when the Gatwick Express service was incorporated into the Southern franchise.

Hoped for ‘management freedom’ might be said to be less today than pre privatisation, since the industry is now subject to a greater degree of formal external regulation and explicit political specification of its objectives.

‘Clear and enforceable quality standards’ are demonstrably an advance on what existed in the era of British Rail – but can be argued to be an inevitable constraint on the greater management freedom demanded.

With regard to efficiency, there is no single measure that allows change over time to be tracked on an industry-wide basis, and more limited comparisons are often debatable.

If a reduction in the need for public subsidy was an unstated aim of privatisation, this has not been realised in practice. In 1992, about 57% of passenger railways’ costs were covered by fare revenue. In 2008 this had fallen to 54%

Although no major party is currently seeking to renationalise the railways or to end the system of time-limited franchises, the way in which railways are run continues to be a matter of fierce controversy. A recent report on franchising by the House of Commons Transport Committee was damning. The government, in turn, offered a robust riposte, but the jury of public opinion seems likely to remain out for some while.

Amongst the most difficult technical issues are those of risk apportionment (between the government and the companies, as proxies for taxpayers and farepayers) and of optimal franchise length.

In the view of one commentator with unrivalled experience from the public side of franchise letting, *‘it is important for procurement and contract management to be recognised as a core public sector activity and to be organised and resourced appropriately. Processes and policies aimed at guaranteeing exemplary propriety should be established in the context of the need to exploit effective approaches’*.

Although there have been numerous benefits from the privatisation of railways, the model itself has been flawed in several ways. There are, however, general principles to be derived from the railways’ experience that could also be applied more widely to public procurement of services for which the state has elected to assume responsibility because the market alone cannot provide them satisfactorily, or at all.

Scoping the Contract

Contracts must be open and honest, but they must also be realistic.

In any public procurement exercise the reasons and objectives for the process need to be clearly and explicitly laid out.

It is essential that there is honesty with the public and within government itself about those aims and the costs of realising them. Government must first work out and be quite clear about what it is trying to achieve and then state this explicitly. Once established, the government should publish those requirements. In setting objectives it might be helpful if government was able not merely to determine that railways are socially valuable, but also to have an idea of *what parts* are valuable.

In doing all of this, the government has to be honest as to how far ahead it can specify what it wants. Beyond that point it is courting disaster for governments to lock themselves into detailed contractual obligations.

Negotiating the Contract

It is essential that there is a realistic and workable alternative fall back method of operation in place before negotiations are begun.

If the whole basis of rail franchising (or other public procurement) is to secure the benefits of competition it is worth making the obvious point that there must also be competition in the bidding process.

Early in the bidding process there might be merit in drafting some sort of summary contract, a memorandum of understanding, when the preferred bidders are established and before a situation is reached where it might be judged too costly to withdraw.

It would also help determine more effective contracting if government could work to a longer strategic time cycle. Any railway could be designed to minimise long-term costs but that would mean a degree of thinking ahead and financial commitment that has not hitherto characterised government operation, not just in transport but across the public sector.

Transparency

Greater transparency is fundamental. Once a contract is let there is an overwhelming case for as much detail as possible to be revealed.

In the same way, past performance should, and does, inform government choice. It should be seen to do so and reasons for the final choice of provider should be clearly stated at the time of the contract itself.

Risk Allocation

The government needs to be absolutely clear as to what risks it wants to allocate to the operator, why and how. Risk that arises from subsequent changes in public policy should not be underwritten by an operator. Since those changes are made by government, it is right that it bears the cost. Any contract should reflect this.

There might be some merit in taking away the risk for operators of changes in the economic climate (the recent recession), in GDP or in employment patterns. The best way of achieving such protection might be to link the contract to changes in the GDP and in London employment or some similar index.

The people who take the risk should be those best able to manage that risk.

A better basis for profit sharing might be to claw back 80% at the trigger point for (say) the first 10% of the profit above the Bid Line, falling to (say) 60% for excess from 13% -15%, 50% from (say) 15% -20% and 40% thereafter.

A similar mechanism for Revenue Support could reduce the amount, but on a time rather than a value basis. Thus after various periods of time Revenue Support starts to drop as a percentage of the loss giving a very real incentive for the Operator to start to put things right.

Gross and Net Cost Contracts

It may be that the apportionment of risk proves to be a real obstacle to the letting of contracts on a basis that is acceptable to both sides. Gross cost contracts should be explored as an alternative, although net cost contracts can also be considered in appropriate cases.

Gross cost contracts are not untried nor untested. The Docklands Light Railway franchise has always been operated in this way, as have London bus contracts and the London Overground concession. Moreover, around half of the original franchises for rail privatisation went into 'management contracts' which are in effect gross cost contracts.

Length of Contract

There seems to be no real evidence that merely having a longer term contract has resulted in significantly greater investment. The argument that major investments are unattractive in a short term contract, because of the difficulty of getting one's investment back, has always been addressed through the 'designated franchise asset' provisions. This principle can be extended to cover any scheme that is desirable to the government and which can only recoup its costs over a long term.

It would seem that five years or so would be a reasonable initial period for both sides. There is, however, some understandable misgiving about the difficulty of long term planning based on such a comparatively short period and, in particular, about the very considerable costs that are now involved in the franchising

process. We believe it would be better to have an initial five year contract that is automatically extended, five years at a time, perhaps up to a total of 15 years, if - and only if - 'all the right boxes can be ticked' at the end of each period. The original contract must clearly state what these boxes are and what constitutes a 'tick'. It should also state clearly such those things that might, or would, need to be renegotiated for succeeding terms. This would give both parties the opportunity to address both changed financial circumstances and changed political imperatives.

Contract Enforcement

Any contract should incorporate an adequately sized bond to be forfeited if the contractor or franchisee walks away from the contract. Future bonds should not only be of proper size to serve their purpose, but should also be accompanied by pre-defined penalties to be levied for non delivery at the end of, and possibly even during, the contract period. It is also important to ensure that where franchisees are wholly owned subsidiaries, the parent company should guarantee such bonds and undertakings and not be able to isolate itself from such risks.

By the same token, if a franchisee is, for any reason, debarred from other future franchises, such a ban should extend to the parent company as well.

A 'Total' Approach

The role of Rolling Stock Leasing Companies (ROSCOs) is fundamental in rail franchises and needs to be carefully examined. Clearly some such mechanism is necessary where the life of assets is vastly greater than the period of a franchise. There may be a case for re-organising ROSCOs and establishing a regulator to ensure that there is genuine competition.

An Independent Supervisory Board

We believe that there could be merit in establishing a 'supervisory board' within the structure for rail privatisation. The role of such a board is to represent each side to the other, attempt to broker a deal and act as referee. It clearly is not to make government policy. Such a body could have members drawn from Network Rail, the Association of Train Operating Companies (ATOC), etc. We also believe strongly that there should be passenger representation – maybe through Passenger Focus.

Independent Audit

Whatever mechanism is used for procurement, contract management and related activity, it is absolutely essential that it be subject to independent and credible audit to avoid, amongst other things, the possibility of inappropriate political influence.

Public Procurement – the lessons of Rail Privatisation

Introduction

Whichever parties may be in office, either nationally or locally, it appears unlikely that in the foreseeable future the volume and range of public services whose provision is now outsourced – either to private companies or to the not-for-profit “third sector” – will diminish. This paper is intended as a first step towards a critical and broadening review of the process by which such services are procured, of the essentials that underpin that process, and of how they might be improved, clarified and codified.

It takes the experience of the national rail network as its starting point. Though the ownership of the railways was surrendered by the state in the 1990s, the industry remains heavily dependent on public funding, and most of the key decisions about the passenger services it offers are still taken by the government, primarily through a system of franchising. Rather than being a political or philosophical review – of which there are many – the purpose of the paper is to explore whether there are lessons to be learned from the railways’ experience which may have wider relevance to the procurers and suppliers of other public services.

The Path to Privatisation

For nearly half a century, from 1948, main line rail services (both for passengers and freight) were provided by an integrated state monopoly. British Rail owned and managed its infrastructure, and built and operated the trains which ran on it. Day-to-day commercial and operational decisions were taken by the railways’ managers, but their strategic and financial goals were set for them by the government of the day. The industry’s budgets were rarely guaranteed for more than a year ahead, and were always vulnerable to short-term political pressures. And although the inter-city passenger network and the freight sector were expected to cover their costs, the “social railway” (i.e. local passenger services, both for urban commuters and in the countryside) was heavily dependent on public funds. Demand for most services was static at best, and generally believed to be in long-term secular decline. Many marginal routes were abandoned following the Beeching report in the 1960s, and twenty years later the Serpell report revealed - although its recommendations were never implemented - that similar attitudes still prevailed in some government circles.

British Rail was the last of the major state-owned industries to be restructured and sold off in the wave of privatisations which took place in the 1980s and 90s. It was probably the most bitterly-contested of these changes at the time, and has remained controversial ever since. There are a number of possible reasons for this. One is that unlike (say) oil extraction or shipbuilding, the passenger railways’ product is supplied direct to individual consumers. Another is that unlike (say) domestic energy supplies, different consumers’ experiences of the quality and quantity of the industry’s output can be highly

variable, and are therefore likely to engender strong feelings. A third reason is that there continues to be a very high level of direct political engagement in the industry's affairs. This is because - while passenger railways deliver valuable external benefits (i.e. those accruing to the whole community rather than their users alone) such as their contribution to social inclusion, environmental protection and economic development - many of their services are inherently uncommercial. This means that the economics of their production are such that they cannot cover their full costs from fares except by raising these to a level which would drive many of their users away to other modes of travel, thus reducing their revenue as well as the external benefits they bring. So they cannot be left to the market to provide, and there is a continuing need for high levels of subsidy.

Critics claimed that the private sector's fundamental need for profitability would put the future of much of the rail system at risk. This concern was recognised and addressed in the then-unique model of privatisation applied to the industry (though this has since been replicated in some other countries). Its various component parts were reconstituted as separate legal entities (the infrastructure owner/operator, infrastructure maintainers, passenger train owners, passenger train and station operators, freight owner/operators, etc), bound to each other by a complex web of contractual obligations. All of these eventually passed into private hands, although the subsequent collapse of the infrastructure owner/operator (Railtrack) led to its replacement by a company without shares (Network Rail) which has some of the characteristics of a trust.

The Franchising Model

But the provision of passenger services was not left entirely to the market. Instead, the network was divided into 25 time-limited franchises, for which would-be operators were invited to bid. Each franchise agreement contained a detailed specification of the minimum train and station services required, as well as a range of industry-wide obligations relating to (e.g.) ticketing, information and consumer protection, and some performance-related incentives. Initially, all of the revenue risk was carried by the franchise holder, but because the bids received revealed that the would-be operators did not expect to be able (at least at first) to cover the full costs of staffing, track access, train leasing, etc, from the farebox, most of the agreements provided for a continuing element of public subsidy. In order to distance this process from direct political control, it was placed in the hands of a Franchising Director, who nominally operated at arm's length from the government - though in accordance with detailed guidance and financial controls. (The Franchising Director's role was later transferred to a Strategic Rail Authority, but this body proved short-lived, and this function has now passed directly to the Department for Transport.)

More recently, when franchises have been re-let, some changes have been introduced to the franchising model. For example, whereas Railtrack was originally required to recover the whole of its costs from the train operators using its infrastructure, much of Network Rail's income is received in the form of direct grants from the government. This has had the effect of holding down

track access charges, so that some franchisees are able to cover their direct costs from fares and make a notional profit. Instead of receiving subsidy, they now pay premia to the DfT (which help to offset the overall cost of the railways to the taxpayer). And whereas originally the train companies bore the entire revenue risk, this is now limited by “cap and collar” arrangements under which both shortfalls and surpluses beyond predetermined limits are shared between the operator and the state.

The Objectives of Privatisation

The (then) government’s reasons for proposing the privatisation of the industry were set out in its 1992 white paper entitled *New Opportunities for the Railways*^[1]. Some of these were little more than ideological declarations of faith, such as “the harnessing of the management skills, flair and entrepreneurial spirit of the private sector to provide better services for the public.” And “The industry is more insulated from the demands of the market than its private sector airline, coach and road haulage competitors. It therefore has fewer incentives to improve its performance and less freedom to respond to what the customer wants. Radical changes are needed.” But the white paper also offered a more explicit list of the expected “benefits of private sector involvement and liberalisation”, which may repay a more detailed assessment in the light of subsequent experience. Improved services for passengers and freight customers would, it asserted, come from:

- (a) *“More concern for the customers’ needs.” Management and employees in the private sector have greater incentives to provide the services which the consumer wants. The profitability of their company - and at the end of the day their jobs - depend on providing a service which attracts custom. Nationalised industries do not face such acute pressures.*
- (b) *“Competition and ending the monopoly.” New operators will be allowed to provide services, giving customers a choice and stimulating improved services and value. Already a number of companies have indicated an interest in introducing new freight or passenger services.*
- (c) *“Management freedom.” Railway management should be free to get on with its main task of running services to the satisfaction of passengers and customers. The government’s proposals will provide for greater participation by the private sector in railway operation, with less scope and justification for government involvement in managerial issues.*
- (d) *“Clear and enforceable quality standards.” The Franchising Authority will specify and monitor the level of services which passenger operators will be required to meet. For the first time standards such as punctuality, reliability and overcrowding will be written into contracts. A franchisee failing to perform to the required standards will be in breach of contract and subject to penalties including, in extremis, the loss of the franchise.*

(e) *“Motivation.” Franchising passenger services to reflect regional or local identities will help to boost the pride that all employees take in providing a high quality service to the traveling public.*

(f) *“Efficiency.” Smaller operating companies will bring more localized management closer to the public and greater opportunities to cut out waste and otherwise reduce costs, without sacrificing quality.*

Two omissions from this list are noteworthy. No predictions were made in the white paper about either the future level of demand for rail services, or the future level of public subsidy which the industry would require. If it was the government’s hope that the former would rise and the latter would diminish, it did not feel sufficiently confident about these outcomes to forecast them overtly. The overarching presumption appears to have been that over time the network would develop into an entirely open access system, comprising only those services that were commercially justified. Those that were not would eventually cease to exist.

The Experience of Privatisation

How far have these outcomes been delivered in practice? Most of them are broad generalities, which do not lend themselves to empirical assessment, and it would be incautious to assume any automatic connection between particular actions and outcomes. In the absence of a continuing public sector operator to provide a control experiment, it is impossible to say with certainty whether or not, if British Rail had remained in being, the subsequent experience of the industry (and its users) would have been greatly different. Certainly, the renaissance which large parts of the railways have enjoyed in the past decade was not foreseen - and it is not a phenomenon unique to Great Britain, having been matched by (for example) the Irish rail system which remains in the hands of a vertically-integrated state corporation. Nevertheless, some subjective judgements are possible.

(a) *“More concern for the customers’ needs.” Usage of the passenger railway has grown by 40%, and now equals the volume achieved at the highest point in the industry’s previous history (at a time when mass car ownership and civil aviation were still in their infancy). But until very recently, the economy was expanding and real incomes growing – exogenous trends which are likely to have played at least as large a part in the rail industry’s fortunes as any internal changes in its managerial goals. Service frequencies have been maintained and, on most routes where capacity permits, have risen – sometimes sharply. There has been heavy investment in new rolling stock (though whether all of this offers greater comfort, as distinct from capacity, is debatable), in ticketing and information systems, and on some routes in track and signalling. Improvements to stations have mainly been cosmetic. User satisfaction with key elements of the service, as tracked by the National Passenger Survey, is continuing to rise. Some new lines or stations have been opened, and there have been no significant closures. Rail freight has shown modest growth in certain markets.*

(b) “Competition and ending the monopoly”. After an initial phase of consolidation, some on-rail competition has emerged in the freight sector. A recent Competition Commission review has confirmed the competitiveness of the train leasing market, though critics maintain that in the short and medium terms it is an oligopoly. And there is also global competition in the rolling stock supply industry. But as far as the passenger railway is concerned, “moderation of competition” was imposed at an early stage in order to make the franchises more attractive to potential bidders. So open-access (i.e. unfranchised) operators have only been permitted to enter the market on a handful of niche routes where their services are largely complementary to, rather than competing directly with, the incumbent franchisees. They enjoy a measure of indirect subsidy arising from the fact that they are only required to pay the marginal cost of their track use.

Competition occurs principally off-rail between the rival bidders for franchises when these come up for renewal. The franchise map has been redrawn, to produce a smaller number of (consequently larger) operators, and although there have been several bidders for each franchise offered, virtually all of them are now in the hands of a small number of multi-modal transport conglomerates. Most franchises are regional monopolies, and even on those routes on which a choice of operator exists, the rules relating to interavailable tickets and to revenue apportionment mean that real competition for passengers is limited. Even on the one route where direct competition in terms of both timetable and fares was provided for at the time of initial privatization – between London Victoria and Gatwick Airport – an integrated service within a single franchise was established in 2008.

But the use of the term “monopoly” in the white paper was, arguably, misleading. There are very few rail journeys that cannot be made by another form of public transport (albeit not necessarily at comparable convenience or cost), and none that cannot be made by private transport. And some competing modes have shown dramatic growth in the intervening period, notably with the emergence of low-cost air carriers.

(c) “Management freedom.” British Rail formally operated at arm’s length from government. It was set some loosely stated high-level business goals, and its budget was subject to annual negotiation with the Treasury - which gravely inhibited its ability to commit itself to large-scale projects requiring continuity of investment funding. Certain specific decisions, such as line or station closures, were subject to ministerial consent. And the members of its Board were government appointees. But at the tactical level, it technically enjoyed a measure of managerial autonomy, to the extent that its finances allowed. By contrast, the industry is now subject to a greater degree of formal external regulation and explicit political control of its objectives. The government’s “high level output statement” and “statement of funds available” set the outputs and funding levels to which Network Rail is required to work, subject to the detailed oversight of the Office of Rail Regulation (which also administers an enhanced system of safety regulation). All train operators are subject to a licensing regime which is increasingly governed by decisions taken at the European Union level. And the franchise agreements with

passenger operators administered by the Department for Transport contain highly prescriptive obligations relating to service patterns and frequencies, fares, tickets, information systems, retailing, policing, and some aspects of station facilities. In its recent proposals for *Franchise Reform*^[2], ATOC (which speaks for the train companies) has predictably asserted that “Too many franchises are over-regulated and micro-managed by the DfT” and that “the innovation, flair and commercial acumen of private sector operators are being hampered by unnecessary red tape”, though no concrete examples of this are offered. Less is said about the level of public subsidy that its members continue to enjoy, or the advantages to them of committed long-term Treasury guarantees.

(d) “Clear and enforceable quality standards.” In this respect, the franchising regime is demonstrably an advance on that of British Rail – but, ironically, this can be argued to be an inevitable constraint on the extension of management freedom sought in the preceding objective. In its closing years, BR was required to publish a passenger’s charter, which offered very minimal compensation rights to passengers in the event of service failures. All franchisees are required to produce charters which offer terms at least as favourable as those of BR, and which are in most cases superior to them. But they are also set standards for punctuality, reliability and capacity. Failure to meet these can result in financial penalties and, in extremis, loss of the contract. Although BR commissioned user satisfaction surveys for internal use, post-privatisation the National Passenger Survey first sponsored by the SRA and now administered by Passenger Focus has served to focus the spotlight of media and public attention much more clearly on the success or failure of the industry in meeting its users’ expectations in relation to a wide cross-section of both train and station service attributes.

(e) “Motivation.” In arguing for the retention of a number of smaller franchises, ATOC asserts that “arguably they are easier ... to build an esprit de corps among the staff”, but this is a psychological condition incapable of precise assessment. Many would argue that this claim represents the triumph of hope over experience. Few of the original franchises remain in either their original ownership or boundaries, and some parts of the network have already experienced three changes of ownership, so any corporate loyalty they may have engendered is likely to have been short-lived. If measured simply by the frequency and duration of disputes, industrial relations could be said to have improved, but this may simply be a reflection of the generally improving economic condition of the industry and the ability of the unions to ensure that their members have received a due share of its increasing revenues. Train companies have not always found it expedient to challenge employment practices inherited from the past, even when (as with reliance on voluntary overtime working) these can put their ability to deliver their contractual obligations at risk. Surveys of staff attitudes to BR suggested that there was a much higher level of loyalty to the railways as an industry than to particular management or ownership structures, and it would not be surprising if the same were found to be true today.

(f) “Efficiency.” There is no single measure of efficiency which allows change over time to be tracked on an industry-wide basis. Data for passenger- and freight tonne-kilometres carried are available, but these take no account of other elements of output such as timeliness or comfort. And for purposes of normalisation, a variety of divisors could be used – e.g. staff hours, or total production costs – but accurate and comprehensive statistics for these are hard to find. Staffing data are affected by the level of outsourcing to sub-contractors whose activities are not necessarily confined to the railways. For example, telephone enquiries which would once have been answered by a BR employee in Britain are now likely to be answered by a call centre contractor’s employee in India. Production costs are complicated by the volume of internal transfer payments between different industry parties (two thirds of a train company’s costs may arise from track access and train leasing charges), and by the accounting treatment of long-term investment. As a very broad generalisation, since passenger journeys have increased at about twice the rate of train kilometres, and there has been very limited growth in the number of stations, it is likely that passenger kilometres per staff hour have improved. But this is largely the result of increased demand, rather than supply-side economies (though some of these will have been achieved, e.g. from resignalling schemes and from the replacement of crew-operated by DOO trains). On the other hand, an international benchmarking exercise conducted by ORR as part of the process of setting Network Rail’s outputs and charges for the period 2009-14 concluded that it was 35% less efficient in its operations, maintenance and renewals than comparable rail systems for equivalent units of output.

If a reduction in the scale of the industry’s reliance on public funding was an unstated aim of the privatisation process, its authors’ hopes have not been realised. In 1992, about 57% of the passenger railways’ costs were met by fares revenue. In 2008, this proportion had fallen to 54%. The 2007 white paper *Delivering a sustainable railway*^[3] set out a medium term aim of bringing down the railways’ call on public funds “closer to the historic level” and projected that fares should cover 68% of the passenger railways’ costs by 2013/14 (though this target was set before the onset of the current economic recession, which has reduced the rate of growth in fares income).

The Experience of Franchising

Although no major party is currently seeking either to restore the industry in general to public ownership or to end the system of franchising in one guise or another, the manner in which this system is operated continues to be the subject of fierce controversy. The relevant arguments have been rehearsed at length in two recent reports by the House of Commons Transport Committee^{[4][5]} and the government’s responses to these^{[6][7]}, in which the dimensions of the gulf between the critics and the supporters of franchising are laid bare.

The committee's damning verdict was that:

We agree wholeheartedly with the general objectives of improving passenger services and maximising the value for money achieved from government subsidies. But we do not believe that the current system of passenger rail franchising can achieve those aims in the long term.

Our inquiry exposed fundamental tensions at the very heart of the government's model. The government has embraced the notion that private enterprise is best at delivering high-quality, innovative services such as the passenger railways, and yet it does not trust companies to deliver these services without highly detailed and specific contractual requirements which reduce the scope for innovation. It supports competition, and yet appears to see open access operators as a threat to stability. It wants risk to be transferred from the public to the private sector, and yet risk cannot be transferred in anything other than name because, as everyone knows, no Government could afford to let the railways go bust. The government hails the growth in passenger patronage, and yet it does not provide the long-term strategy and investment to increase capacity on the network. It wants coordination and yet continues to operate a system of fragmentation. Finally, the Government wants the private sector to invest, take risks and innovate, and yet it prioritises price above all of these. There is scant evidence that the current model balances and optimises the benefits from conflicting priorities. It looks more like a muddle that provides little more than a complex, costly and mediocre means of maintaining the status quo.

To which the government offered a robust riposte:

The franchising process is designed to harness private sector commercial judgment and innovation to reduce the net cost and increase the value for money achieved from the government's overall support for passenger rail services.

The government is quite clear on the high level objectives it seeks to achieve through its franchise specification process:

- *to set out the level of train service provision required (through a review of historic provision and forecast future demand) where market forces otherwise would not supply;*
- *to protect passengers from monopolistic actions in specific markets (for example, through the regulation of certain commuter fares);*
- *to ensure that the benefits of a national rail network for Great Britain are protected;*
- *to provide the 'level playing field', the prerequisite for a competition to award franchises successfully within the terms of procurement legislation and general best practice;*
- *to allow the specification to be varied over time to reflect changing market needs through innovation and commercial judgment.*

The franchise regime has helped us secure record passenger levels, strong revenue growth, lower fare increases than under British Rail, massive investment in new trains, an increase in reliability and customer satisfaction, and a reduction in passenger complaints.

The jury seems likely to remain out for some time to come.

Who Bears the Risks?

In its evidence to the Transport Committee, the Railway Forum advanced a number of attributes of good franchising practice. Several of these were not rail-specific, and would be equally applicable to any procurement exercise. For example, franchises should, it suggested

- *be awarded according to a clear and realistic set of criteria as part of an open competition;*
- *be simple to both manage and monitor*
- *contain appropriate incentives for improvement and clear, consistent penalties for underperformance.*

But others were rooted in the particular characteristics of the franchising model that has been used in the railways, e.g.:

- *be flexible enough to allow operators the scope to introduce new techniques and grow the business according to demand*
- *be well structured with a clear indication of the likely balance of risks between the government and the private sector; in particular the government should take the public policy risk (e.g. planning, legislative risk) and leave operators with a range of commercial risks they are best placed to manage.*

What could be argued to be missing from this list is any recognition of the strategic role of the railways in the national economy, and the duty of the government to use its powers to identify and safeguard this. It cannot be assumed that this is merely the sum of the separate profit-maximising decisions of individual train companies

The issue of risk transfer is, as the committee noted, at the heart of the debate about the success of the rail franchising system. Some risks are necessarily borne by any contractor – notably those arising from cost and performance. But unlike most services procured by the state, rail franchises operate on a net-cost basis. This means that they function in a quasi-commercial world, in which a large part of their income is derived from charges paid directly by their users. Their financial viability is governed not only by their ability to control their costs (which, in the case of track access and train leasing charges, and to some extent staffing numbers, they have little or no scope to vary) but also by their ability to grow their revenue. In theory, this should incentivise them to use their commercial acumen to expand the market for their services. But since the volume and pattern of train service is largely predetermined by the terms of the franchise (and by the capacity of the infrastructure on which they

run), the main tool available to them for this purpose is pricing. And over this too, because of the system of fares regulation, they have only partial control.

To date, most rail franchises have survived to the end of their contractual terms, because they have benefited from growing demand in a period of general economic buoyancy. But several franchisees have found themselves unable to meet their commitments, and have been obliged either to renegotiate or to surrender their contracts (or have had them terminated prematurely). In this situation, the government has been obliged to step in and rescue the position, because of the political imperative of ensuring continuity of operation. In some cases, where the franchisee was regarded as the largely blameless victim of external events, it has kept the incumbent operator in place pro tem on a “management contract.” In others, it has negotiated the transfer of the franchise to another holder, or it has temporarily taken responsibility back to itself pending re-letting.

There is, however, another model available – and one which probably has closer parallels among other public services. This is the gross-cost franchise. It was pioneered by Transport for London on its bus network, and has since spread to most local authority contracted bus routes elsewhere, as well as the Docklands Light Railway and Tramlink). It has recently made its appearance on the main line network, in the guise of London Overground, which is sponsored by TfL rather than DfT. All revenue is collected (and fares set) by the contracting authority, which pays an agreed fee to the operating company for the delivery of a set volume of train and station services to a specified standard. Ownership (or leasing) of the rolling stock rests with the authority, and the existence and role of the franchisee (usually referred to as the concessionaire) is largely invisible to the travelling public. The authority tends to play a much more active part in specifying the outputs required and promoting the service.

In this model, the principal risk borne by the operator is one of cost control rather than income generation. Its advocates would claim that it reduces franchise costs, because bidders are not required to factor in premia to cover risks they cannot control, and that it ensures that the objectives of the franchising authority and the franchisee are aligned. Its critics would argue that it stifles opportunities and incentives for the private sector to deploy entrepreneurial initiative (though it is possible for the terms of the contract to include incentives for the operator to grow patronage). Neutral observers might take the view that the contractual model is ultimately of less relevance to the outcomes achieved than the level of resources deployed, both for day-to-day operations and for longer-term investment – or, to put it simply, a cash-strapped operator is soon revealed as such, irrespective of its contractual powers and duties. Whatever the case, it does have the merit of allowing the franchising authority to pursue a long-term strategic vision without being hampered by the shorter commercial horizons characteristic of operators driven by revenue-maximising goals.

Longer or Shorter?

The optimal length of franchises is also an open question. The first tranche of franchises let by the Franchising Director were mostly for terms of about seven years, though four (c2c, Gatwick Express, Virgin Cross Country and Virgin West Coast) were for 15 years, primarily to allow their holders to commission and introduce new train fleets. His successor, the SRA, declared a policy of moving towards longer franchise terms to incentivise TOCs to invest in infrastructure improvements as well as rolling stock. But only two (Arriva Trains Wales for 15 years and Chiltern for 20) were let on this basis, and the policy had already been jettisoned before the Authority was abolished and responsibility for franchising was transferred to the DfT in 2006. Franchises (re) let since then have been for terms of between eight and ten years. Exceptionally, the Merseyrail franchise, which is let by Merseytravel (the Merseyside PTE), is for 25 years.

In its recent proposals for *Franchise Reform* ^[2], ATOC has advocated that 15 years should in future be the normal period of a franchise's duration. The benefits of longer franchises would, it argues, include:

- providing greater stability and thus more TOC managerial focus on improving services for passengers, encouraging staff development and building stakeholder relationships, rather than looking ahead to the next franchise bid,
- facilitating increased private sector investment, particularly in stations, retail facilities and rolling stock, and encouraging such investment to take place throughout the franchise rather than only at the beginning, and
- “supporting TOCs’ development as equal partners alongside Network rail with a real stake in planning and developing long-term network development”.

It acknowledges that the question of how to ensure that a franchisee continues to deliver over a longer term is important, and suggests that this might be done by incorporating into the franchise design such features as

- sanctions to deal with poor delivery against clearly defined targets (presumably implying that the current performance regimes are not wholly adequate to this task),
- a mid-term review, to allow assessment of both performance and the “wider environment in which the franchise is being operated”, leading to automatic continuation if key outputs have been achieved, and
- “measures which enable better sharing of risk between the operator and government.”

Similar arguments were advanced by the Transport Committee, which also drew attention to the costs (both to TOCs and DfT) of the bidding process. It

acknowledged, however, evidence to the effect that TOCs themselves typically do not own the physical assets they use, and that it is still possible for holders of short-term franchises to commission longer-term investments if these can be financed by leasing or underwritten by government guarantees. Provision for this is made by the “designated franchise asset” clauses in franchise agreements.

The government’s reply accepts that “long-term contracts provide stronger incentives for train operators to identify and invest in projects that generate passenger revenue” and that “at their best, a long-term operator is able to develop a strong relationship with passengers and plan effectively for the future.” On the other hand, relatively frequent competitions can offer significant benefits for passengers and taxpayers. “Where expectations or demands have changed, competitions offer an opportunity for the public sector to specify and fund new services, for instance more capacity. Competitions require private sector bidders to examine the business and propose good ideas, innovations and investments under competitive pressure. Shorter franchises are also likely to be more robust, as they do not require bidders to take a very long view of future revenues.” It argues that long-term planning and investment require operators to be confident that they will retain the franchise to full term. “Discussions with operators indicate that break points (unless they are very weak) introduce shorter planning horizons, in the same way as shorter franchises.”

The PPP contracts for the renewal of London Underground’s physical assets may offer some insight into this debate. They were let for 30 years, because of the scale of the works required and their necessarily protracted nature, but provision was made for the outputs required and the cost of procuring them to be reviewed at seven and a half year intervals. Two of the three contracts (those with Metronet) were terminated before the first review point was reached, because of the company’s poor cost control and its inability to deliver improvements on time. The third (with Tube Lines) continues, but as London Underground and the contractor have not been able to reach agreement on the price and output specification for the second phase, the matter has been referred to the independent arbiter appointed specifically to act in such an eventuality.

Lessons to be Learned

Are there any general principles to be derived from the railways’ experience which could be applied to the outsourcing of user-facing functions in other areas of public provision (where the state has elected to assume responsibility because the market cannot provide the services in question satisfactorily or at all)?

In the view of one commentator with unrivalled experience of franchise letting (from the public side) in both the bus and rail industries ^[8]:

It is important for procurement and contract management to be recognised as a core public sector activity and to be organised and resourced appropriately.

Processes and policies aimed at guaranteeing exemplary propriety should be established, in the context of the need to exploit effective commercial approaches.

A naive and simplistic reliance on the market to provide often arises from either ideology or a failure to understand thoroughly how markets will react to a given set of circumstances. An example of this was the decision to change the London bus contracts to move the fares revenue risk from London Transport to the operators. The theory was that this would drive innovation and improve quality and customer service. The reality was that the operators focussed almost exclusively on maximising their revenue share at the expense of their competitors and, crucially, of the integrity and performance of the network. They acted consistently with the realities of the market and not the theory. There was also a notable move to market concentration, with dominance by a small number of large operators and a reduction in competition. This outcome was accurately predicted by the professionals. The policy was later reversed but insufficient action (intervention) has been applied to remedy the problems.

The key lesson here is to exercise a level of control or ownership consistent with the assured delivery of the required outcomes. The public sector's role should be to set policy and finance and specify what is required, and then to assure provision in the most cost effective way. It is essential to establish a clear categorisation of those outcomes government wishes to secure and to conduct a robust and comprehensive analysis of the intervention options. This analysis should be based on sound economic, financial and commercial principles. If political or ideological goals are involved, they should be made explicit and overlaid after completion of the analysis.

The most effective method of achieving value for money is to:

- define the requirement accurately and clearly*
- specify how delivery is to be measured and monitored*
- pay due regard to the capacity of the market to deliver what is required*
- assign risk appropriately to those best placed to manage it*
- seek genuinely competitive bids*
- evaluate these against the right criteria*
- award on the basis of best value*
- make explicit the expectation that all parties will honour all of their obligations*
- adopt a commercial (rather than legalistic and confrontational) approach to contract management, and*
- apply high quality scrutiny and audit arrangements to all procurement and related activity to avoid, in particular, the possibility of inappropriate political influence.*

The bidding process will define the "efficient" price and if it is unaffordable then the specification needs review. The resulting contract requires to be effectively managed to ensure full delivery.

Conclusions

Although there have been numerous benefits from the privatisation of railways, we believe that the franchising model has proved to be flawed in several ways. This may have lessons which can show us things for which we should strive and things to be avoided, not merely in rail privatisation, but in the whole field of public procurement.

Scoping the Contract

In any public procurement exercise the reasons and objectives for the process need to be clearly and explicitly laid out. Only in this way can the delivery be monitored, success or failure assessed, and alterations or amendments be attempted if changes are found necessary at any time.

Many failures can be attributed to a lack of clarity about what procurement was trying to achieve.

Objectives can be overt such as “to improve the quality of service”, “to increase choice, improve efficiency and value for money”, “to reduce the call on the taxpayer”, “to introduce the benefits of competition” and so on. In the past they have also sometimes been covert – “reduce the power of the public sector unions”, keep borrowing off the public balance sheet” etc. These objectives should then be delivered in the most cost efficient way. That is not, and should not be, the same as just cutting costs in general.

It is equally essential that there is honesty not merely with the public but within government itself about those aims and the costs of realising them. The government must first work out and be quite clear about what it is they are trying to achieve and then say it explicitly. For example, when the railways were first privatised the whole emphasis was on competition. This, however, changed quickly when the government saw where unfettered competition might lead.

Often objectives are actually in conflict with each other.

In setting objectives it might be helpful if Government was able not merely to determine that railways are socially valuable, but also to have an idea of *what parts* are valuable.

All too often the purpose of a contract itself is misunderstood. It is usually seen merely as some sort of ‘meeting of minds’ with regard to what should be delivered by either side. In reality a contract is the mechanism by which conflicts are resolved *when things go wrong*. A contractual arrangement to run railways, or indeed any other services, should not be employed unless you can specify exactly what you want. Once established, the government should then publish those requirements and criteria.

In doing so, the Government has to be honest as to how far ahead it can specify what it wants. Beyond that point it is courting disaster for governments to lock themselves into detailed contractual obligations.

Negotiating the Contract

It is essential that there is a realistic and workable alternative method of operation in place before negotiations are begun. A government without a credible fall-back situation is not in a strong position either with regard to the negotiating of the original contract or in its subsequent enforcement.

If the whole basis of rail franchising or public procurement is to engage the benefits of competition it is worth making the obvious point that there must also be competition in the bidding process. In the early days of London bus franchising positive steps were taken to keep certain operators in business so that there was clear and effective competitive bidding.

Mounting a franchise bid can be extremely costly (many millions of Pounds both for the bidder and for the government). There might be merit in drafting some sort of summary contract, a memorandum of understanding when the preferred bidders are established and before a situation is reached where it is judged too costly to withdraw.

Contracts must be open and honest, but they must also be realistic. There is some evidence that in the rail franchising process the Department establishes some sort of ball park figure for the value of the franchise. Interested operators then put in their best bids which, on evaluation, fall short of the original estimate. Much pressure is then exercised and strategies put forward to bring the bid up to that expected figure without proper regard as to whether it is properly achievable or realistic.

There is a need to be realistic not merely financially but in all other ways as well. Croydon Tramlink was originally let for 99 years. No-one with any idea at all of what was involved could have possibly thought that such a timescale was workable. Again, much play is made of the importance in public procurement of 'buying' innovative skills. It should be recognised that in the rail industry operators are locked into so much that freedom for innovative skills can be somewhat limited.

It would also help determine more effective contracting if government could work on a longer strategic time cycle. For example, a railway could be designed to minimise long term costs but that would mean a degree of thinking ahead that has not hitherto characterised government operation.

Transparency

Greater transparency is fundamental. Too much vital information by which the public can judge the value of public procurement is hidden behind the curtain of commercial confidentiality. Whilst this might be sustainable during the

negotiations themselves, once a contract is let there is an overwhelming case for as much detail as possible to be revealed.

In the same way, past performance should, and does, inform government choice. It should be seen to do so and reasons for the final choice of provider should be clearly stated at the time of the contract itself.

Risk Allocation

The government needs to be absolutely clear as to what risks it wants to allocate to the operator, why and how. Risk that arises from subsequent changes in public policy should not, for obvious reasons, be risks that are undertaken, or underwritten, by an operator. Since those changes are made by government it is right that it bears the cost. Any contract should reflect this.

There might be some merit in taking away the risk for operators of changes in the economic climate (the recent recession), in GDP or in employment patterns areas in which rail franchisees have recently been seen to be seeking government protection on the basis that they are risks that could not be foreseen. The best way of achieving such protection would be to link the contract to changes in the GDP and changes in London employment or some similar index. It might, however, profitably be borne in mind that such risks are continuously faced by companies both large and small that operate in the private sector. In between those risks that are clearly for government to accept and those that should fall to the operator there might be some that fall between the two. On balance it is probably better for the government to accept these as well and factor their cost into any contract, but any proposal to link the contract to changes in GDP would require some analysis to ensure it did not create perversities.

The people who take the risk should be those best able to manage that risk. The problem is that if a company cannot manage a risk it insures against it and the cost of this has to be added into the charge the operator makes. Because of this it is often more costly than the government taking the risk directly and pooling it.

Revenue support and profit sharing are triggered in a franchise contract when Revenue drops or rises around 4% from the Bid Line (i.e. the figure on which a contract bid is made). By the time that deviation reaches around 10%, as much as 80% of any loss is underwritten, and around 80% of any excess profit is clawed back, by the government. This cap and collar system, which was introduced relatively recently, only comes into operation two years after the contract is let, and some of the recently-let contracts have been caught out by this. We assume that it was designed on the basis of some analysis of the options and it would be interesting to know the arguments for rejecting the system proposed in this paper in favour of current practice.

Designed as a mechanism to help mitigate risk and avoid windfall profits, in reality it actually removes much of the incentive to put things right. An operator taking steps to build lost revenues will in turn lose an equivalent

amount of support thus earning only 20% of such revenue increase, and is not therefore much motivated to invest other than small sums of money or effort.

A better basis for profit sharing might be to claw back 80% at the trigger point for (say) the first 10% of the profit above the Bid Line, falling to (say) 60% for excess from 13% -15%, 50% from (say) 15% -20% and 40% thereafter. Departmental experience should be able to ensure that the original Bid Figure is appropriate and realistic and has not been 'rigged'.

A similar mechanism for revenue support could reduce the amount, but on a time rather than a value basis. Thus after various periods of time revenue support starts to drop as a percentage of the loss giving a very real incentive for the operator to start to put things right.

Gross Cost Contracts

Gross Cost Contracts are neither untried nor untested. Doclands Light Railway (DLR) franchise has always been operated in this way, as have London bus contracts and the London Overground concessions. Moreover, around half of the original franchises for rail privatisation went into 'management contracts' which are in effect Gross Cost contracts.

Care must be taken, however, with such contracts, to ensure that they sufficiently incentivise the maximisation of fare collection and minimise fraud. A bonus/penalty regime can be installed to overcome this. It may be that the apportionment of risk proves to be a real obstacle to the letting of contracts on a basis that is acceptable to both sides. Gross cost contracts should be explored as an alternative.

Length of Contract

There seems to be little evidence that merely having a longer term contract has resulted in significantly greater investment. The argument that major investments are unattractive in a short term contract, because of the difficulty of getting ones investment back, has always been addressed through the 'Designated Franchise Asset' provisions in franchise agreements. At the end of a franchise previously identified improvements are valued and the franchisee is paid accordingly. This principle can be extended to cover any scheme that is desirable to the government and which can only recoup its costs over a long term without the franchise itself having to be for that same long period.

Moreover, the rarely mentioned reality is that locking up large parts of the total public spending for long periods can be unattractive to governments which, as a result, are then faced with considerable spending constraints overall.

It would seem that five years or so would be a reasonable initial period for both sides. There is, however, some understandable misgiving within the operating community about the difficulty of long term planning based on such a comparatively short period and, in particular, about the very considerable

costs that are now involved in the franchise process. Because of this we believe it would be better to have an initial five year contract that is automatically extended, five years at a time, perhaps up to a total of 15 years, if - and only if - 'all the right boxes can be ticked' at the end of each period. The original contract must clearly state what these boxes are and what constitutes a 'tick'. It should also state clearly such things as might or would need to be renegotiated for succeeding terms. This would give both parties the opportunity to address both changed financial circumstances and changed political imperatives.

If agreement could not be reached, an open bidding process would then be put in place.

In some selected circumstances, there may be merit in having this same sort of strategy on the basis of explicit arrangements for an early determination in the event of underperformance.

Contract Enforcement

Any contract should incorporate an adequately sized bond to be forfeited if the contractor or franchisee walks away from the contract. Future bonds should not only be of proper size to serve their purpose, but should also be accompanied by pre defined penalties to be levied for non delivery at the end of, and possibly even during, the contract period. It is also important to ensure that where franchisees are wholly owned subsidiaries, the parent company should guarantee such bonds and undertakings and not be able to isolate itself from such risks.

By the same token, if a franchisee is, for any reason, debarred from other future franchises, such a ban should extend to the parent company as well.

A 'Total' Approach

Much criticism is levelled at government for its seeming inability to co-ordinate and collaborate across departments. There is also a need for co-ordination within any individual departmental activity. For example, the role of ROSCOs is fundamental in rail franchises and need to be carefully examined. Clearly some such mechanism is necessary where the life of assets is vastly greater than the period of a franchise. There may be a case for re-organising ROSCOs and establishing a regulator to ensure that there is genuine competition.

An Independent Supervisory Board

One of the strengths of the old BR system seems to have been the British Rail Board. This is in effect acted as a buffer between the day to day operations and the government imperatives – to the benefit of both. We believe that a similar mechanism might be of considerable attraction in a new structure for rail privatisation. Such a body could have members drawn from Network Rail, the Association of Train Operating Companies (ATOC), etc. We also believe

strongly that there should be passenger representation – e.g. through Passenger Focus. This has the further advantage that the government would not need to filter out vested interests which will be pleased when they speak to such people individually.

The role of such a body is to represent each side to the other, attempt to broker a deal and attempt to act as referee. It clearly is not to make government policy.

Independent Audit

Whatever mechanism is used for procurement, contract management and related activity it is absolutely essential that it be subject to independent and credible audit to avoid, amongst other things, the possibility of inappropriate political influence. An infrastructure currently exists through the National Audit Office and the Public Accounts Committee (PAC), but such arrangements have proved to be deficient. There is considerable scope for improvement in this field. For example, whilst the PAC's terms of reference are very sound it does not seem to be able (or maybe willing) to work to them.

In summary, while there have been numerous benefits from the privatisation of railways, we believe that the franchising model has proved to be flawed in several ways. The issue is just how, rather than being simply put down to experience, these valuable lessons are going to be put to good use in other sectors. It is important that the hard work and learning from this past and ongoing example of privatisation are incorporated into the methodologies of public procurement for other transport services, such as franchising motorways, or in other sectors such as contracts for providing health care, social care both at home and in residential settings, and other domains of public provision.

Glossary

ATOC	Association of Train Operating Companies
DfT	Department for Transport
DOO	Driver-only operation
GDP	Gross domestic product
ORR	Office of Rail Regulation
PAC	Public Accounts Committee
PTE	Passenger Transport Executive
SRA	Strategic Rail Authority
TfL	Transport for London
TOC	Train operating company
ROSCO	Rolling Stock Leasing Company

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