JAMES DARK

It's not perfect, but it is delivering

Rail franchising is under fire in the general election campaign, but its white-hot competitive environment is delivering real benefits

In recent months, rail franchising has come in for one of its regular bouts of scrutiny and criticism provoked by Labour's election pledge to renationalise the industry, a Commons transport committee inquiry and lobby group research. In the background, of course, there are the usual wild claims from vested interests that operators extract colossal profits for minimal risk and put financial gain over getting passengers home on time.

It adds up to a rather unfocused debate. What are the merits of privatisation over nationalisation? Wouldn't vertically integrated franchises be better? What about longer investment-led franchises? How about smaller franchises? Maybe operator/Network Rail alliances are the way forward? Release the industry from the tyranny of 20th century fares structures! More open access competition would do the trick, wouldn't it?

There may well be a better way of running the railway, but what is actually being discussed in these debates and reports, nominally headlined franchising, is more to do with industry structure and regulation. The benefits franchising can deliver are clearly affected by these issues. But its merits or otherwise - even what franchising actually is - are lost in the noise.

Some clarity is needed. It means divorcing franchising from the wider issues that affect it, looking solely at what the process itself has achieved, and how it can evolve to work better regardless of any structural and regulatory changes.

From this perspective, the conclusion could be that franchising has been influential but inconsistent in improving rail services, is becoming much more potent, and could be significantly more powerful.

So taking franchising in isolation, what are the strong points?

In every analysis of the rail industry, the factor that is consistently underrated, barely mentioned, is the quality of the bidding process. Walking into any bid room must feel like the railway equivalent of being picked to play for your country. There are renowned engineering and operations directors analysing the potential of every conceivable type of rolling stock to deliver more frequent, faster services. Modellers of fearsome intelligence scrutinise endlessly how to make the most efficient use of the fleet. The railway's foremost fares experts assess the impact of multiple pricing options on patronage and revenue. There are driven sustainability managers assessing the technology available to cut emissions. Exploring the limits of digital IT cuts across everything bid teams do. On top of all that, the involvement of foreign railways means global expertise feeds into the teams planning the future of the UK's train services.

NEG's rolling stock plans were among the reasons it retained c2c

Monopoly railways (be they nationalised or privatised) may well have similarly impressive people doing similar work on an ongoing, if less intense, basis. But what they do not have is up to four expert teams from different companies periodically analysing in huge detail how services should develop on each part of the network. In the words of one former transport group chief executive: "It's a febrile, white-hot atmosphere of competition, research and innovation." It really is.

So what has driven this extraordinary concentration of expertise and analysis? The answer is that UK franchises are the biggest public sector transport operating contracts anywhere. Transport groups will admit privately that it's their best chance to make a lot of money, even if it comes at a low margin. That's what attracts the investment in the quality of the bid teams.

The pro-renationalisation brigade claims bidding generates unnecessary costs - up to £10m per bid - which reduces funds for investment and ends up being paid for by lower premium payments to government. This is nonsense. The rise in bid costs in the past decade has coincided with a decline in operators' profit margins. It's pure private sector investment.

So how do you assess the difference that bid teams' expertise makes - what is franchising's impact? The answer will inevitably be speculative. However, a start could be to ask what solutions to improve service quality, revenue and operating costs have winning bidders seen that their rivals did not? Given the hot competition, it's probably fair to assume many of them are something special.

"It's a febrile, white-hot atmosphere of competition, research and innovation"

It's not easy to answer because it's not something bidders are keen to talk about. However, let's have a stab, looking at recent competitions. First a couple of big ticket items that make a real difference to costs.

On Essex Thameside, the Department for Transport rated the 'early years' train plan in National Express's winning bid as a significantly more cost effective way of increasing capacity than the ideas from competing bidders. On Northern, there have been credible suggestions from industry sources that the train plan in Arriva's winning bid required considerably fewer carriages than its rivals proposed. It would be surprising if the savings from these two examples do not run into tens of millions of pounds.

In terms of revenue, NEG's bid for Essex Thameside included ideas to increase commercial property income that losing bidders did not see, doubling it to around £8m per year in the first three years - and that's a relatively small example.

On East Coast, Stagecoach/Virgin's case for a £40m fleet refurbishment, completed just three years before most of the trains will be replaced, was based on the need to ensure marketing could capitalise on the Virgin brand image as soon as possible. As a brand-driven initiative, it seems probable that losing bidders did not offer it to the same extent or at all.

And these initiatives are just scratching the surface of how winning bids, from a relatively short period, distinguished themselves. It's how the franchising system itself is driving revenue, better standards of service and lower costs with solutions that may not otherwise have been apparent.

Secondly, DfT franchise specifications have broadened considerably over the last three years. Bidders are being told to think differently about every aspect of the railway, from the core timetable to customer experience and social issues that previously received little more than lip service.

To take one example, local authorities have long called for more integrated public transport. Operators nodded while thinking it's too difficult and not a priority anyway. Suddenly, almost out of the blue, the DfT told bidders for Northern and TransPennine that they needed to put forward proposals. The result is some impressive commitments to extensive multi-modal information at stations and on board, as well as new ticketing options. There are similar stories across all aspects of every franchise specification and the way bid teams respond to them.

Thirdly, the franchising system has developed to a point where every part of the railway will now be subject to similar levels of bid team scrutiny and DfT expectations of quality. It is impossible to win a regional railways contract with a no-growth bid, as was feasible under the erstwhile Strategic Rail Authority in the Bowker era. Or for secondary commuter routes (if any remained) to be left to decline, as LTS was under British Rail.

Of course, there's room for improvement though.

A 20-year plan

First and foremost, it is undoubtedly true that the system can create 'big bang' change in the early years of contracts followed by a period of relative stasis before the next bid, say a decade later.

What is missing is a long term 20-year plan for each franchise area. The benefits of this approach are startling in the only English railway business where the tendering authority has one - London Overground. Services and infrastructure have been enhanced flexibly in line with the mayor's view of how London will develop. Growth has been catered for and passengers are the second most satisfied on any south east railway.

In the DfT's franchising system no such plan has ever existed with one exception - Chiltern. It is the only south east operator where satisfaction exceeds London Overground. Before the railways were privatised, the company's managing director, Adrian Shooter, drew up a vision for the next 20 years, not quite for fun, but not far off. It included numerous options on how his railway could develop. That was in 1996. The initial term of his franchise included the first Evergreen infrastructure upgrade and building Warwick Parkway station. The second term included the extension to Aylesbury Vale Parkway, the Evergreen 2 and 3 upgrades, the extension to Oxford and progressive investment in rolling stock. Other options existed but were not selected as the most appropriate at the time investment was needed.

So my first reform to the franchising system would be a requirement for bidders to produce a 20-year plan, in consultation with local authorities, outlining rolling stock and medium-sized infrastructure schemes that could be required under different scenarios. The investment would be planned in bids, anticipated by the DfT and released, if required and affordable, at the time when it is needed. This does not mean a 20-year franchise with all the problems that entails needs to be let. It could be any length. When the franchise is rebid, the competing companies would review the plan and extend it.

Regular reviews

Secondly, a long term strategic plan could not fully anticipate technological innovation and changes in travel patterns. To ensure franchises keep up to date with customer expectations, there should be a franchise review, say every three to five years, to determine whether there is a case for funding additional small scale investments and service changes, and whether new cost savings are available. Recent direct awards have shown the short term benefits that could be achieved.

There are signs in recent franchise contracts that the DfT, or bidders, or both are starting to move in these directions with a couple of firsts. Abellio's winning bid for East Anglia includes a commitment to a 'mini bid' review after three years. The new TransPennine franchise includes a commitment to fund a series of route studies to establish future requirements.

Learn from the losers

Thirdly, the most frustrating thing about franchising is the brilliant ideas from losing bidders that never see the light of day. There are many. Some operators view competitive dialogue, being used by the Welsh government in the competition for the new Wales and Borders franchise, as a possible answer. In reality, it is unclear how far this could go. A more powerful way could be to give the DfT the option to purchase a specific initiative proposed by a losing bidder, if the company agrees, for a consultancy fee plus a share of the revenue or cost savings it generates.

At the moment there are aspects of the losing bids that are effectively industry leading analysis and solutions. They must be too valuable to gather dust. ■

THE UK'S TOP FRANCHISE BID TEAM: PAGES 24-25

UK's franchise bid dream team

The industry's leading customer experience, commercial, operations, fleet and technology strategists

In many respects, bid teams are the driving force behind the UK rail industry, rethinking the service operators provide. Numerous new approaches have been proposed since franchising restarted in 2013 with a greater focus on quality. They will become increasingly apparent as franchises let in recent years finish implementing their bid plans. After examining competitions for recent contracts, our view of the plans that stood out along with the managers who oversaw them are set out here. In tabloid terms, a dream bid team!

* Currently unattached

DIRECTOR: Richard Harrison

When Harrison took over as Arriva's managing director franchise bidding in 2014, the company was finalising bids for Crossrail, ScotRail and Caledonian Sleeper. It finished way off the pace in all three, but a rapid turnround was to follow. With Harrison at the helm, Arriva won its next two bids, capturing Northern from Abellio, and London Overground against competition from former partner MTR. Harrison's previous roles include finance director of Arriva's CrossCountry franchise and Mainland Europe business.

It's a tough call on Abellio's Mike Kean who won ScotRail on quality - National Express offered higher premium payments. He also developed strategy for Abellio's winning East Anglia bid, but Harrison's wider experience and revival of a slumbering giant edge it for us.

ROLLING STOCK REPLACEMENT: Bernie Rowell, Abellio

New trains featured heavily in all bids for the East Anglia franchise. However, only Abellio's team of engineers, led by Rowell, proposed the astonishing solution of complete fleet replacement. Operational benefits from dedicated new fleets for commuter, regional and long distance services, plus the selection of a new supplier, Stadler, and new financier, Rock Rail, must have helped make a value for money case no other bidder saw.

Before joining Abellio as the bid team's engineering lead, Rowell's career included senior roles at Angel Trains.

ROLLING STOCK/TIMETABLING EFFICIENCY: Richard Harper, Arriva

As service development director and then production director in Arriva's bid team, Harper led the rolling stock and timetabling teams that played an important role in winning the Northern and London Overground contracts. Industry sources have indicated that the bid for Northern included rolling stock/timetable plans which require significantly fewer trains than rival bidders considered necessary, reducing costs. The bid also made an efficient case to provide twice the number of new trains specified by the DfT.

Harper joined Arriva's bid team in 2013 after more than a decade at the company's Chiltern franchise where he was head of network development. Achievements included assisting in specifying the Evergreen III upgrade, then implementing the new fast timetable.

TIMETABLING/PUNCTUALITY/CAPACITY: Jon Hills, FirstGroup

In recent competitions, FirstGroup's operations team, led by Jon Hills have delivered touches of magic. At South Western, First and its partner, MTR, won on quality against a Stagecoach bid offering higher premium payments. Nearly half the quality points available were for rolling stock, timetabling and performance. It must be where First's bid stood out. Punctuality is forecast to rise from 87% to 93% by franchise end, large reductions in journey times are promised across the network, and the number of seats in the peaks will increase 30%. A strategy of creating a

homogenous commuter fleet with 750 new carriages was a key factor. It includes replacing Class 707s which will be less than three years old - that must have taken some nerve.

TICKETING AND REVENUE PROTECTION: Paul Johnston, Abellio

Johnston's revenue protection and ticketing plans continually receive the highest scores of any bidder. His ScotRail plan has seen the nation's entire railway infrastructure enabled for smartcards, with smart ticketing extended from season tickets to singles and returns, and a flexible season ticket. The East Anglia plan is equally ambitious, aiming for smart ticketing across the entire network by 2019.

Johnston has a similarly strong record as a revenue protection manager in the field. In 2012, he cut fare evasion at Greater Anglia from 9.4% to 5.7% in three months. He repeated the trick at Northern in 2014 with a new intelligence-led approach.

SUSTAINABILITY AND ENVIRONMENT: Karen Booth, Abellio

As head of sustainability at Northern from 2007-14, Booth's work was years ahead of its time in the rail industry. One of her first acts was to set up an environmental sustainability strategy which gave the company a structure to measure and manage emissions, and business cases to invest in environmental technology. It laid the foundations for her to push, with some successes, for Northern to consider sustainability in everything from train operation to community relations. Achievements included creating an industry-first whole life carbon footprint measure.

On leaving Northern, Booth set up as an independent consultant and led the sustainability plans for Abellio's Northern and West Midlands bids.

MARKETING AND BRANDING: James Vickers

Overseen by Stagecoach assistant bid director for business development, James Vickers, Virgin's marketeers were set loose on the companies' winning East Coast bid.

The result is a totally new approach with multi-million pound campaigns and blanket branding designed to create an emotional bond with the customer. Discount offers and journey speed are part of it. However, the brand's heart and soul is all about customers' trips, how they feel, pampering them, reassuring them. "Be bound for glory," we are told. "Have an awesome journey."

It's not to everyone's taste. But VTEC wants to lead the industry in harnessing digital technology, imitating Netflix in revolutionising customer convenience and choice. It cries out for a new, different brand image.

After the bid, Vickers joined Stagecoach's SWT franchise as commercial director until the end of 2016. His early career included spells at OPRAF and the Strategic Rail Authority letting and managing franchises.

CUSTOMER EXPERIENCE: James Smith, FirstGroup

First's customer experience plan reads like the best of the best. The must-have items are there - free Wi-Fi, onboard infotainment, automatic compensation for delays, enhanced train cleaning and staff training. But there's lots more that only some bids feature, and some aspects where First appears ahead of the game. We particularly like the extent of the integrated transport commitments, such as showing bus connections on onboard information screens and multi-modal m-ticketing. But what stands out most is the depth of thought Smith and his team gave to the entire door-to-door journey - things like showing alternative routes on information screens during disruption. There are great little details too, like a commitment to sell umbrellas and headphones at some stations. There's even a common sense revenue protection policy.

Before joining First as commercial and customer experience bid manager in 2011, Smith was a franchise negotiator and manager at the DfT and SRA.

FARES: Paul Cooper, Arriva

Some serious spadework is needed to make rail fares make sense. Arriva's proposals for the Northern franchise, led by bid commercial director Paul Cooper, stand out.

It's not for the faint hearted. Fares in the north are shambolic with prices varying widely between and within regions, but Cooper's team looks to have found a way forward. Arriva has committed to gradual change each year so that by 2025 tickets are priced on a consistent pence per mile basis.

Fares simplification plans also include early action to price all off-peak day return tickets at least 15% below the equivalent Anytime fare.

Prior to joining Arriva's bid team in 2013, Cooper led rail operations and planning at consultancy GHD. Achievements included delivery of zonal fares in London.

DIGITAL TECHNOLOGY: Chris Tibbetts, National Express

During NEG's Essex Thameside bid, Tibbetts's team designed a suite of IT innovations - notably automatic compensation for train delays. Losing bidders said it wouldn't work, and how wrong they were. It's now a core expectation in all franchise bids. There's more besides. c2c was the first operator to offer flexible season tickets on smartcards, and has used smart data to introduce the industry's first personalised performance reports for passengers. Fine examples of how competitive bidding drives change.

Previously head of IT for rail bids, Tibbetts is now NEG's head of digital solutions. He started in the rail industry at GNER where he took forward 5,000 ideas from staff as business improvement manager. Subsequently he worked for Stagecoach and FirstGroup.

Revenue: Chris Hardy, National Express

Revenue forecasts are the culmination of the bid. Armies of modelers assess the premium payments bid plans are worth. Then the team leaders and bid director apply real world nous to come up with an offer to DfT. The aim is to be highly competitive without undue risk - sane aggression. Few get it right consistently, but National Express looks closest in recent years. At Essex Thameside it offered premiums £300m ahead of the field, raising eyebrows. But c2c is meeting revenue targets and looks reasonably safe.

Since then bids have become ever more aggressive and with growth now slowing across much of the industry there is speculation that some companies are facing big losses. As leader of NEG's bid team, Hardy had a key role in pushing the Essex Thameside premiums and exercising caution as the heat rose in subsequent tenders.

Before joining NEG in 2013, he was associate director at KPMG. Following NEG's departure from UK rail, he is now managing director of its UK coach division. ■