Ur faidhle/Your ref: Rail 2014: Renewal of Scottish Passenger Rail Franchise

21 June 2012

Dear Maureen

Rail 2014: Renewal of Scottish Passenger Rail Franchise

Thank you for the report into the Committee’s inquiry into Rail 2014 and the keen interest that the Committee has shown on these important matters.

I share the Committee’s view that we need to ensure that Scotland’s railway delivers increased value for money. Our ambition is to build on the achievements of the last 5 years, so that Scotland’s railways are a source of pride, with an international reputation for efficiency and service, supporting sustainable economic growth to make Scotland a better place to live and a more competitive place to do business. Only by delivering increased value for money will this ambition be realised. I am pleased to have this opportunity to provide a response on behalf of the Scottish Government to the specific issues that your inquiry raised, and attach a document setting out each of your recommendations and our response. I hope that you find these responses helpful and that they are of assistance to the Committee.

I will be making a statement to the Parliament outlining our long term vision for rail and setting out how we intend to procure and fund rail services from 2014. The Committee has made a valuable contribution to our consideration into these issues.

Kind regards

KEITH BROWN
1. The high cost of Scotland’s railway was also reported to the Committee in the course of its scrutiny of the Scottish Government’s draft budget 2012-13. David Connolly, an expert witness from MVA Consultancy, told the Committee that in terms of the number of passenger kilometres, the system was “massively overfunded by the Scottish Government and taxpayers’ money. Similarly, Professor lain Docherty asked whether we are content to let the industry continue to be more or less 30 per cent inefficient over the lifetime of the budget”. The Committee concluded that whilst some progress had been made in managing rail industry costs, Transport Scotland should continue to seek efficiencies and savings during the next refranchising exercise. (Paragraph 13)

Response: The Scottish Government recognises that the cost of delivering our rail services is one area where efficiencies must be made. We are pleased that the Committee has recognised the progress that has been made and confirm that officials will continue to work with the industry to deliver further efficiencies.

2. The Committee acknowledges the concern that was raised in evidence that the GB railway industry receives a higher level of public investment and that the cost of travelling on the railway is higher than in other European countries. As the McNulty report suggests, savings need to be found in relation to the operation of Network Rail as well as the train operating companies and rolling stock companies. (Paragraph 16)

Response: The McNulty Rail Value for Money study presents compelling evidence that GB railways cost more than they should, and this applies as much in Scotland as anywhere else on the GB network. The Scottish Government consider that continued growth in passenger numbers, combined with a move to a more integrated railway to avoid duplication of activities, will put the railways on a more sustainable financial footing and better serve the interests of Scotland.

3. Whilst the overall cost of the railway in Scotland is a major issue and perhaps one that merits an in-depth analysis beyond the consideration of the rail franchise 2014, the Committee believes that the new franchise offers an important opportunity for Transport Scotland to ensure that some savings are made. If anything approaching the McNulty target of 30% efficiency savings is to be realised during the next franchise period it is essential that the new franchise is structured in a way that will deliver these. The Committee calls upon the Scottish Government to ensure that delivering efficiency savings is a key factor in determining the shape of the new franchise. (Paragraph 18)

Response: The Scottish Government accepts that driving down the costs of the railways whilst maintaining and improving services is one of the major challenges that we face at present. The Scottish rail network is a dependent on subsidy and ScotRail is a low revenue franchise. Funding for the rail programme from 2014 will be determined by the competitive process to award the franchise contract, and the final outputs and costs for Network Rail as determined by the Office of Rail Regulation. In making its determination it is vital that the ORR demonstrates its commitment to improving the value for money that the railway in Scotland provides to passengers.

4. As highlighted in its report on the Scottish Government draft budget 2012-13 the Committee considers it essential that the 2014 rail franchise agreement includes, at its heart, the requirement for the railway to offer value for money. To the Committee, this means making efficiency savings by stripping out the duplication of services and improving communication between the various rail industry interfaces wherever possible. To this end, the Committee has looked at possible alternatives for managing the franchise and invites Transport Scotland to fully consider the options. The
Committee believes that any change to the contract structure must not stifle the ability and interest of the franchisee to improve and innovate. (Paragraph 24)

Response: The Scottish Government would like to have been in a position to consider a wide range of options for contracting for rail passenger services from 2014. There have been calls from the public, trade unions and informed commentators for greater industry integration because it will improve efficiency. However, under prevailing UK legislation, we are limited to contracting for rail passenger services by means of a franchise which cannot be awarded to a UK public sector body. We will however be encouraging the next ScotRail franchise holder and Network Rail to work together to develop a deeper alliance arrangement as a step towards greater industry integration, providing a platform for better service provision for passengers and lower whole industry costs.

5. In addition, the Committee is supportive of the idea that third-party co-operatives could be involved in financing elements of the rail infrastructure in appropriate circumstances. However, the Committee would be wary of the added complications that such an arrangement could bring in terms of the overall management of the railway and in the accountability of the franchisee. The Committee encourages Transport Scotland to consider these various alternative models for the rail franchise in Scotland. (Paragraph 25)

Response: The Scottish Government can assure the Committee that a wide range of franchise models have been evaluated and the issues raised by the committee have featured in those assessments.

6. The Committee is not persuaded that Scotland’s railway would represent better value for money were the franchise to be split into multiple contracts or a dual-focus arrangement. The Committee is concerned that adopting such approaches would most likely add further duplication and complexity to the already congested management structure of the railway. (Paragraph 31)

Response: The Scottish Government is not pursuing the option of a dual focus arrangement.

7. Based on the evidence it received, the Committee considers that there is a strong case for having longer franchise periods rather than shorter ones. In the Committee’s view, longer franchise periods should allow stability and should also encourage the franchisee to undertake long-term planning for the management of the railway. For example, this would allow rolling stock quantity and specifications to be known in advance, enabling manufacturing companies to plan for the work and possibly leading to cost savings. (Paragraph 38)

Response: The Scottish Government notes the Committee’s preferred option for a longer franchise. We believe that the issue of franchise length has to be considered in the context of industry change and the required expansion and enhancement of the network. Accordingly, we have concluded that a franchise contract of 10 years for the internal ScotRail passenger services is appropriate. This will include a potential break point after 5 years both to encourage investment and ensure the franchisee focuses on improving performance, increasing passenger numbers and enhancing the overall rail experience for passengers.

8. The Committee notes that the current franchise agreement was extended for a further three years beyond the initial seven-year period. The Committee considers that this recent experience suggests that a seven-year franchise period may not be the most appropriate and that serious consideration should be given to using the opportunity presented by the franchise renewal process to set a longer franchise period. (Paragraph 39)
9. The Committee therefore suggests that a period of 10 years, with an option to extend the contract by a further three years could be an appropriate length for future passenger rail franchises in Scotland. However, the Committee feels strongly that any opportunity to extend a franchise contract would need to be based on the franchisee’s proven record and ability to perform above and beyond a required level of service delivery standards. Any decision to award a contract extension must be taken in good time before the end of the standard franchise period and underpinned by a full business case justifying any extension. (Paragraph 40)

Response: The Scottish Government agrees with the Committee’s recommendation that any extension option must be linked to a proven record of improvement. We are considering the proposal of including an option to extend the franchise if the franchisee has contributed to our overall ambitions such as, for example, increasing passenger numbers significantly on lightly used and off-peak services.

10. The Committee believes that in order for local requirements to be incorporated into the franchise, the contract must be sufficiently flexible and should therefore avoid prescribing services in too much detail. (Paragraph 44)

Response: The Scottish Government agrees that the new contract should be sufficiently flexible to allow local requirements to be incorporated. We will take this matter into consideration, ensuring that the flexibility does not compromise the minimum standards that the Committee identified in paragraph 45 of its report.

11. The Committee considers, however, that the contract agreement must include minimum standards for key service delivery, such as intercity services, both peak and off-peak services and weekend services. These minimum standards should apply to the whole of Scotland, although the franchise agreement could include additional specifications for different parts of the network, depending on the type of service required. The Committee considers that such safeguards could help to protect services in rural and other areas that are perhaps regarded as less-commercially viable. (Paragraph 45)

Response: The Scottish Government agrees with the Committee and will be looking at a specification level that details such minimum standards across the country.

12. The Committee suggests that Transport Scotland explore whether it is possible to remove the indemnity clause from future rail franchise contracts in Scotland, and to examine the potential consequences of doing so (Paragraph 49)

Response: The Committee can be assured that the Scottish Government has the matter under review and will inform the Committee once a determination has been reached.

13. Although the PPM regime judges trains to be running to time based on five and 10-minute thresholds, the Committee recognises that train operating companies already plan for right-time scheduling. However, as some witnesses suggested, the Committee considers that these thresholds do not adequately reflect the difficulties and inconvenience caused to passengers who are on trains that arrive late but still within the relevant threshold. The Committee, therefore, recommends that the PPM thresholds should be reduced, on a phased basis if necessary, so that a train will be considered on-time only if it arrives within a minute of its timetabled target. (Paragraph 61)
Response: The Scottish Government notes the Committee’s recommendation and is able to advise that we have included in our High Level Output Specification a more rigorous minimum level of performance for the period 2014 to 2019. In addition the industry will be required to develop a package of additional Key Performance Indicators, including “right time” indicators that will help to better inform the setting of future performance targets. The industry will also be expected to develop and publish more transparent right-time statistics presented in terms that passengers can better relate to. This will allow passengers and others to get a true sense of the performance of their own rail services.

14. The Committee recognises the improvements that have been made at several stations to upgrade the facilities and to improve access to rail services. However, the Committee considers that the franchise renewal process should be used to encourage further development of the rail service and to address particular problems, such as overcrowding. The Committee suggests that further trials and investigations into rolling stock reallocation and infrastructure improvements will be necessary in order to improve all aspects of the service. (Paragraph 71)

Response: The Scottish Government will require bidders for the next ScotRail Franchise to develop rail services to address particular problems, such as overcrowding, this could include rolling stock reallocation. We will be open to proposals for rolling-stock reallocation which best meets the needs of passengers. Infrastructure improvements are developed on an ongoing basis by Transport Scotland in partnership with the rail industry. The areas for investment and development during the next rail network investment control period, from 2014 to 2019, are detailed in the High Level Output Specification, which will be published after the Statement to the Scottish Parliament. We are establishing separate funding streams to provide for future growth. There will be a £30 million fund to support strategic freight enhancements, £60 million of investment to improve journey times and punctuality and £10 million to develop future projects, alongside the £30 million already announced for investment in new and improved stations. There will also be a £10 million fund to accelerate the closure of level crossings, making our railways even safer.

15. Evidence has suggested that the improvement of transport connectivity will be instrumental in upgrading the rail service. The Committee recommends that a more integrated approach to planning public transport is taken by all parties involved and that communication between these bodies is strengthened. (Paragraph 72)

Response: The Scottish Government agrees that transport connectivity and integration is of vital importance. Rail must form a key part of a fully integrated transport system. Rail is well placed to make a significant contribution towards achieving a safe, integrated, effective and efficient transport system and we will be following through on a range of measures to stimulate better transport integration with cyclists, bus users and ferry passengers. This will include, for example, promotion of rail/cycle integration especially the provision of facilities at stations and requiring franchise bidders to focus on community engagement and consultation with other transport operators.

16. The Committee welcomes the recent simplification of the fares structure, but agrees that there is further work to be done on this issue. This could be done by implementing a new ticketing process, such as the smart ticketing system, currently used in parts of Scotland and England. Fares could also be simplified through an integrated ticketing system, whereby one ticket could be bought for use across all methods of public transport, similar to the Oyster card used in London. (Paragraph 77)
Response: The Scottish Government will be seeking to regulate fares so as to protect commuters and those in rural areas for whom other public travel opportunities may be limited. We will be seeking to increase opportunities for travel by making greater use of available capacity on off-peak and lightly used services. We will also be driving an extension of smart ticketing, improved functionality of Ticket Vending Machines and a greater emphasis on integrated ticketing and we have committed to review fare anomalies in the interests of providing clarity and fairness to passengers.

17. The Committee would be interested to know whether Transport Scotland has engaged with the Department for Transport over its recent consultation on fares and ticketing. It recommends that options for simplifying the ticketing system and making fares structures more equitable under the next franchise should be given serious consideration by Transport Scotland. (Paragraph 78)

Response: As you would expect officials of the respective governments are in regular discussion particularly on matters which have cross-border implications, and fares are clearly a good example. The Scottish Government agrees with Committee’s recommendation regarding the need for fares to be more equitable and we are determined that fares in Scotland will be attractive and affordable. Accordingly, we have made a commitment that once wider rail industry efficiency savings are found and the improvement in the wider economic situation permits, we will seek to reduce the rate of regulated fares’ increases.

18. The Committee welcomes the Minister for Housing and Transport's confirmation that no stations in Glasgow are due to close and supports Transport Scotland’s continued investigation into opportunities to reopen or increase the number of stations, where appropriate. (Paragraph 91)

Response: As the Committee will be aware the Rail 2014 consultation did not advocate the closure of any Glasgow station. That position was re-affirmed publicly on 5 March 2012. The Scottish Government welcomes the Committee’s support of its proposals for station development across the network. Our commitment to expanding and improving stations is clearly shown by the creation of our £30 million Scottish Stations Investment Fund.

19. Responding to concerns over the accessibility of stations the Committee supports the continued upgrades to station infrastructure, facilities and amenities, for example in the building of new entrances, walkways, lifts and platforms, in order to make them fully accessible for all passengers. However, it considers that priority should be given to accelerating improvements in accessibility at those stations which have been identified as still being in need of development. (Paragraph 92)

Response: The Access for All programme has made a substantial difference to making more of our stations fully accessible to all passengers and we remain committed to meeting the needs of users of rail facilities. The current programme comes to an end in 2014 and we are in discussion with the UK Government about its future continuation. The Committee will be aware that accessibility issues remain a reserved matter.

20. The Committee supports the move to involve communities in the management of their local station, such as the ‘adopt a station’ approach, however emphasises that this is an incentive that must be properly funded and receive adequate support from the Scottish Government, the franchisee and the station managers, if it is to be successful. The Committee also notes that the success of community involvement projects may be largely dependent on a longer, more flexible franchise contract. (Paragraph 93)
Response: The Scottish Government recognise the success and benefits of the current "adopt a station" scheme and congratulate First ScotRail and all those communities and individuals involved who give of their time so freely. We wish to build on this success and intend to facilitate greater community engagement by supporting and encouraging the creation of Community Rail Partnerships.

21. The Committee notes Transport Scotland’s announcement of the Scottish Stations Investment Fund which could provide an opportunity for organisations, such as the COBRA petitioners, to apply and state their case for the reopening of stations. (Paragraph 94)

Response: It is important to note that one of the aims of the Scottish Stations Investment Fund is to lever in additional funding from other sources. The fund will include support for station improvements and the re-opening or building of new stations. Transport Scotland officials are currently working on a framework regarding the administration of the fund and all proposals for development via the fund will require to be subject to a full Scottish Transport Appraisal Guidance (STAG)-based appraisal.

22. However, the Committee notes that on March 2012, the Minister for Housing and Transport, confirmed that the proposal to remove direct cross-border trains services to the north of Scotland will not be taken forward (Paragraph 101)

Response: The option of removing direct cross-border services to the North of Scotland was one of a number of options - not proposals - contained in the Rail 2014 consultation. The consultation was supported by a number of stakeholder events across the country and the feedback from many such events and the formal consultation responses was that this option did not have wide-spread support, for a number of reasons. The Scottish Government listened to these views and in March 2012 advised that the option would not be pursued.

23. The Committee welcomes the Scottish Government’s commitment that the cross-border services to the north of Scotland will continue. The Committee considers that these intercity services are essential for the economic development of Scotland and the UK as a whole and must be maintained. The Committee hopes that these cross-border services can be further developed in the future to bring high-speed rail services to Scotland, which is an issue that the Committee will continue to pursue during the course of the parliamentary session. (Paragraph 102)

Response: The Scottish Government shares the Committee’s view that cross-border inter-city services are essential for economic development here in Scotland and the UK. The Scottish Ministers have secured a more active role in the development of the specification for the East Coast rail services and we will continue to discuss matters with the DfT to ensure that services to and from Scotland are maintained and, where possible, improved.

24. However, the Committee notes that responsibility for the procurement of rail services lies with Transport Scotland or the Department for Transport, and therefore such a strategy must come from them. (Paragraph 112)

Response: Procurement of the franchise for passenger rail services in Scotland and the Caledonian sleeper services rests with officials at Transport Scotland. Procurement of the other franchises for cross border services rests with the Department for Transport. Officials from Transport Scotland meet regularly with DfT officials to discuss the cross-border franchises.

25. The Committee is concerned about the issues raised in evidence that the rolling stock used on certain routes under the current franchise is not fit-for-purpose, lacks
flexibility of deployment and adaptability, and requires upgrading to meet accessibility and environmental requirements. (Paragraph 117)

Response: The ScotRail franchise has a more diverse range of routes than some other franchises catering for rural services, commuter routes and express routes. We have already invested considerably in new rolling stock and future requirements will be included within the specification for the 2014 franchise to address the specific needs of Scottish rail passengers.

The ROSCOs are undertaking a gradual upgrading of rolling stock to meet future accessibility and environmental requirements as part of their maintenance and renewal programmes. The franchise specification will include a requirement for rolling stock to be compliant with these requirements.

26. The Committee is also concerned about the apparent lack of long-term planning in the deployment of rolling stock. The Committee considers that a much more strategic view must be taken of rolling stock so that requirements can be planned well in advance, thereby bringing cost efficiencies and stability in the fleet over the long-term. The Committee considers that the franchisee must be required, as part of the contract agreement, to undertake this long-term planning in conjunction with Transport Scotland and the ROSCOs and that this process must begin urgently. (Paragraph 118)

Response: The Government disagrees with the Committee. The current franchisee maintains a rolling stock deployment plan which looks beyond the term of the current franchise. This informs a long term planning view for the future deployment of rolling stock for Scotland. Transport Scotland uses this plan in its discussions with the rail industry when looking to develop rail services in the longer term. This will be a requirement of the next franchisee.

27. In addition, Transport Scotland should undertake a longer term review of the rolling stock needs for Scotland to include the term of the next franchise and beyond, with a view to committing to regular upgrades and improvements of rolling stock to create greater stability in the market and promoting greater value for money from the public sector's investment. As part of this review, the Committee suggests that Transport Scotland should also identify scope for the standardisation of rolling stock whilst ensuring that it meets the specific needs of passengers travelling across Scotland's rail network. (Paragraph 119)

Response: Transport Scotland is undertaking a review of the rolling stock requirements, including the longer term needs for rail passengers in Scotland, for the next ScotRail franchise. We have concluded that the only viable option for the next franchise is to use the existing rolling stock leasing market but we will consider if and how best we can utilise alternative ownership models which might be better suited to Scotland's future railways. Under the current fiscal arrangements the Scottish Government's ability to fund alternative ownership models is limited.

28. The passenger experience is an important aspect of rail travel. The Committee understood that people are unlikely to travel by train if they consider it likely to be uncomfortable and/or unsafe. This issue is particularly pertinent given the need to encourage modal shift away from car travel as a contribution towards meeting greenhouse gas emissions reduction targets. (Paragraph 120)

Response: The Scottish Government is committed to building on the encouraging passenger satisfaction levels and to improving the overall passenger experience. The Committee is right to highlight the positive contribution that modal shift from car to rail makes to reducing carbon emissions. Our policies will be directed to improving the passenger experience so that we continue to derive the benefits of modal shift.
29. The Committee welcomes the improvements in passenger comfort and security, as well as the on-board Wi-Fi trial that should enhance passengers' travelling experience if rolled out to other services. The Committee is concerned, however, about the problems that persist in providing accurate and timely information to passengers. The Committee urges Transport Scotland to work to ensure that better systems are in place in order to ensure the flow of information between the franchisee, Network Rail and passengers. (Paragraph 129)

Response: The Scottish Government recognises that the provision of accurate and timely information (particularly during periods of disruption) is essential, and should be expected to be provided as a matter of course to rail passengers. Work is already underway to improve communication between the franchisee, Network Rail and passengers. Transport Scotland has set up the Scottish Rail Passenger Disruption Working Group which is now well established. This meets quarterly and includes representatives from Transport Scotland, ScotRail, Network Rail and Passenger Focus. The Office of Rail Regulation (ORR) has also put in place new licence conditions for the rail industry on the provision of passenger information. This is such an important issue that we will continue to look for opportunities to improve the flow of information.

30. The Committee welcomes the commitment for additional funding from the Scottish and UK governments to upgrade the sleeper service. It is in no doubt that the service, which is an important part of the cross-border infrastructure, should continue and remain as a part of the Scottish passenger rail franchise. The Committee awaits further information on the intended purpose for the additional funding and invites Transport Scotland to consider the suggestions that were provided in evidence to the Committee, such as enabling greater onward connectivity with the Eurostar. (Paragraph 136)

Response: It was clear from the Rail 2014 consultation that there is a continuing, and indeed growing, attraction for the Caledonian Sleeper services. However, it is acknowledged that improvements to the facilities are required. The Caledonian Sleeper Services are a niche market that would benefit from focussed marketing. Current rolling stock needs to be improved in terms of facilities and quality of the overall product and a renewal programme will be implemented. We will therefore be looking to let a separate franchise for the sleeper services for a period of up to 15 years. Details of the franchise specification are currently being developed by Transport Scotland and the views and suggestions made through the consultation and subsequent passenger surveys will be considered.

31. The Committee notes the environmental benefits to be gained from rail electrification and supports the recent progress in this area. The Committee agrees that the process of electrification must continue to develop under the next franchise, combined with an integrated approach to considering environmental policies and considers that more challenging targets could be included in the franchise agreement on this basis. (Paragraph 143)

Response: The Scottish Government welcomes the Committee's recognition of the environmental benefits brought about by rail electrification. Some 25% of our rail network is already electrified and the electrification of the Paisley Canal line later this year, along with electrification of lines as part of EGIP will significantly increase the proportion of electrified track in Scotland. We will also be requiring Network Rail to further develop electrification projects in line with the Strategic Transport Projects Review.

32. The Committee welcomes the opportunity to contribute to Transport Scotland's consideration of the rail 2014 franchise. In the context of the findings of the McNulty review of value for money in the GB rail industry, the timing of the franchise is
particularly crucial. The Committee hopes that the franchise will pave the way for progress towards meeting the efficiency savings targets recommended by the McNulty review and the Committee urges the Scottish Government to help ensure that Scotland’s railways deliver increased value for money over the course of the franchise period. (Paragraph 144)

Response: The year 2014 is a milestone year in Scotland as new contracts for both rail passenger services and financial arrangements with Network Rail are due to come into effect. As identified above, the McNulty Value for Money study presents compelling evidence that GB railways cost more than they should, and this applies as much in Scotland as anywhere else on the GB network. However, it should be noted that the McNulty work was predicated on the consideration of all train operating companies in GB, many of which operate in a truly commercial environment, rather than the specific issues facing the train operating companies providing more rural and lifeline services. We consider that continued growth in passenger numbers, combined with a move to a more integrated railway will put our railway on a more sustainable financial footing and better serve the interests of Scotland.

33. The Committee requests that the Scottish Government considers the conclusions and recommendations contained in this report as the development of the new passenger rail franchise progresses. The Committee will continue to take a keen interest in the Scottish passenger rail franchise and looks forward to seeing it progress towards a more cost and user efficient service. (Paragraph 145)

Response: The Scottish Government welcomes the Committee’s interest and shares its aspiration for a cost efficient and passenger focussed railway.