

New Franchising Programme

The Secretary of State for Transport, Philip Hammond:

The Government is committed to a major reform of rail franchising that will benefit passengers and taxpayers alike. In preparing our policies we have paid careful attention to the views the rail industry, and others, have expressed to us. Our reforms will create longer, less prescriptive franchises that will give the industry more freedom to innovate, address passenger needs, and more incentive to invest. The reforms will also help achieve the radical efficiency changes needed for a sustainable lower cost railway for the long term. This will include a more equitable balance of risk between the public and private sectors, including replacement of the 'cap and collar' revenue support mechanism with one linked to economic indicators. There will also be stronger emphasis on partnership and closer working between train operators and their local Network Rail Route teams, allowing integrated decision-making which benefits passengers and drives out cost.

These new type of rail franchises will replace existing ones, as and when they expire, and I have today published a comprehensive forward timetable for the re-letting of rail franchises that represents a deliverable and balanced programme. My aim in doing so is to give the market clarity about the timing of the opportunities that will arise. In producing this timetable, I have had regard to the impact on bidders and their sub-contractors of trying to compete for too many franchises at once, and the likely reduction in value for money to the taxpayer that would result.

In summary, the new programme is as follows:

- As I have already announced, the new Inter City West Coast franchise will commence in December 2012, with an Invitation to Tender (ITT) issued to the pre-qualified bidders in January 2012.
- Following First Group's decision not to exercise its contractual entitlement to take up a 3-year extension on its existing Greater Western contract from 2013, this will

now be the next long-distance franchise to come to market, with the new franchise commencing in April 2013, instead of 2016 as originally planned.

- As a result, and to avoid having to offer more than one long-distance franchise competition at the same time, with possible consequences for taxpayer value, the new Inter City East Coast franchise will commence in December 2013.
- Turning to commuter franchises, there is no change in my plans for Essex Thameside, with the new 15 year contract due to commence in May 2013. The same is true for South Eastern, where the new franchise will start in April 2014.
- In light of the likely delivery timescales for Thameslink rolling stock, I judge it right to exercise my contractual entitlement to bring forward the start of a new franchise to September 2013. The franchise is likely to be shorter than 15 years, with a focus on managing services through the major Thameslink infrastructure upgrade. It would then be re-let at the end of the project.
- To accommodate the changed dates for Thameslink and Inter City East Coast, I intend to move the start of the long term 15 year Greater Anglia franchise to July 2014, exercising the 12 month extension that is included in to the short franchise that is currently being competed.
- I have concluded an agreement with First Keolis TransPennine Express (TPE) which extends the current franchise. The extension incorporates the flexibility to terminate the franchise between April 2014 and March 2015. This flexibility could allow the start dates for the new Northern and TransPennine franchises to be aligned in April 2014, by also exercising the short extension provision in the current Northern franchise. Having both existing franchises end at the same date could allow for these franchises to be combined, or split in different ways. I will be considering the optimal configuration and intend to seek views on the optimum structure from local interested parties. The timescales outlined above will allow for proper consultation and consideration of the possibilities of a radical restructuring in the Northern/TPE area.

In summary, Great Western and Thameslink have come forward (by 35 months and 18 months respectively), the Northern and TPE franchises could now be aligned with a start date of April 2014 - so that we have greater flexibility in re-letting - and two

other franchises (Inter City East Coast and Greater Anglia) have been pushed back to accommodate the acceleration of Great Western and Thameslink. Three franchises (Inter City West Coast, South Eastern and Essex Thameside) remain unchanged.

I have already been clear that not all of these franchises will look the same. I believe in horses for courses and a pragmatic, not dogmatic, approach. I will be guided by what drives value for the taxpayer and service for the passenger on each individual franchise.

Some commentators have suggested this represents a huge programme of work and a major culture shift in Government. I agree with them. It is arguably the biggest programme of franchising since the industry was originally privatised. But it is also a major programme – and a significant culture shift – for bidders. There should be no doubt about our determination to deliver on this agenda, nor the importance of managing it properly.

Revising the programme in this way, while remaining clear about our objectives reflects my view that success depends on having a crystal-clear and unwavering strategy, coupled with a willingness and ability to be agile and tactical in implementing it. The end result of this work will be a new rail franchising system that delivers better outcomes for passengers and better value for money for taxpayers.