

Train Operators
Working Together

ATOC

Franchising and the future: what's next for the railways?

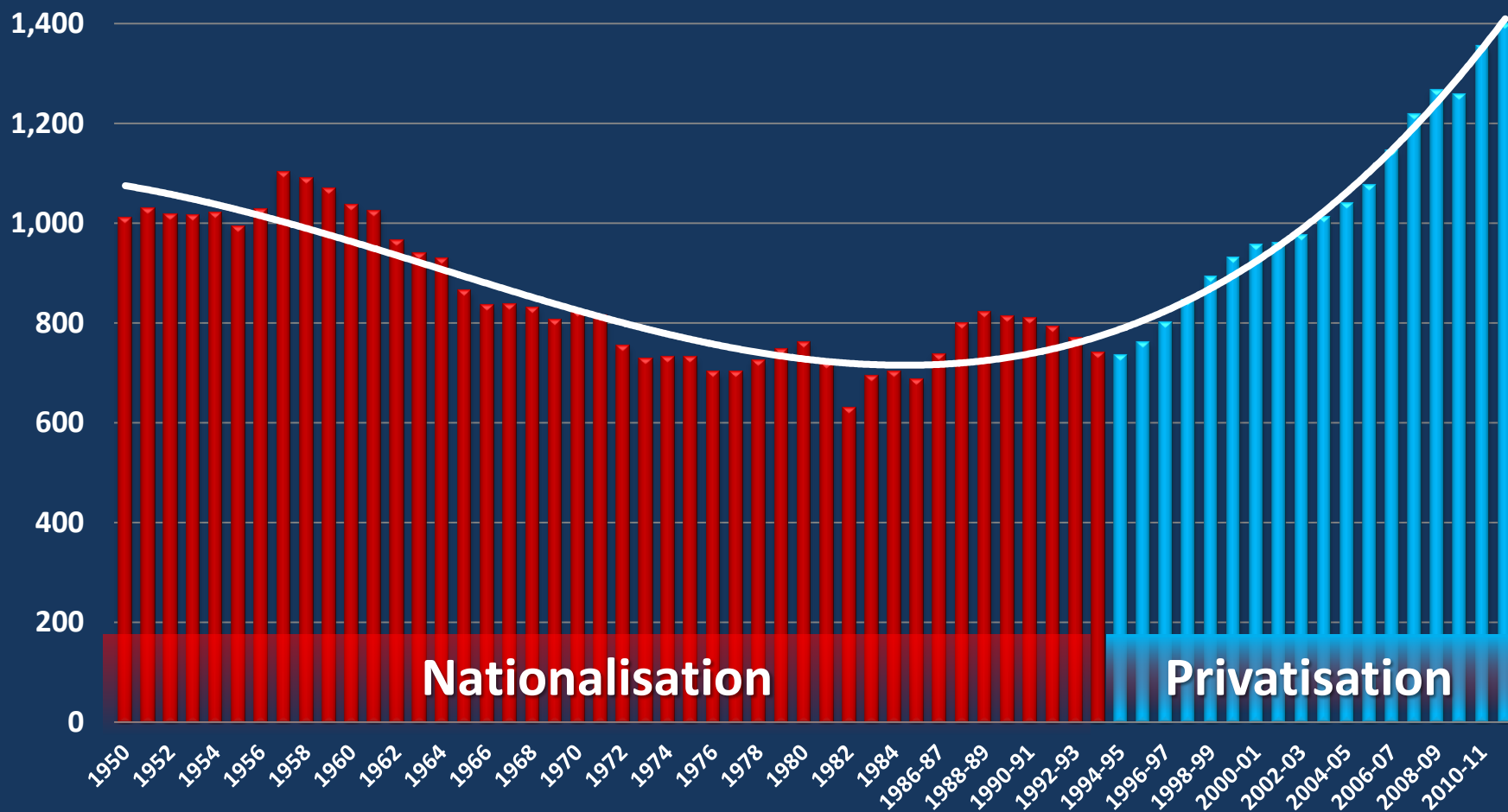
Richard Davies
ATOC

*UK Rail Development
and Investment
18 April 2012*



Growth since privatisation

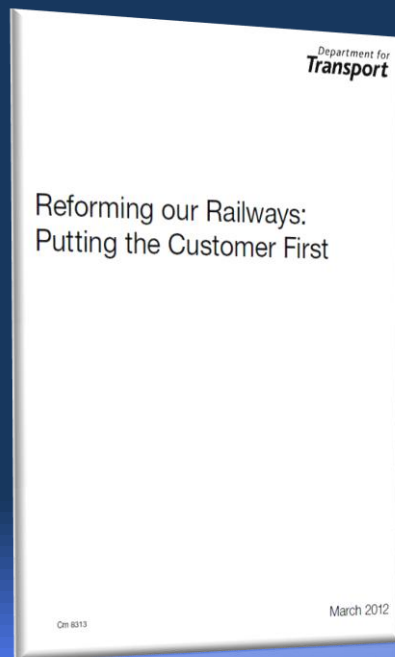
Passenger journeys per annum (millions)



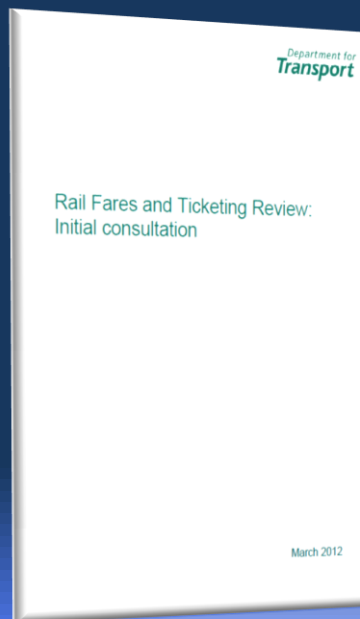
The challenge from McNulty

- Misaligned incentives, roles of government & industry, industry culture, etc → cost inefficiency (20-40%)
- GB rail must evolve:
 - Government to focus on policy, not detail
 - greater role for independent regulator
 - RDG to provide leadership and whole industry solutions
 - franchise and Network Rail (IM) reform
- Little said on revenue growth contribution to vfm

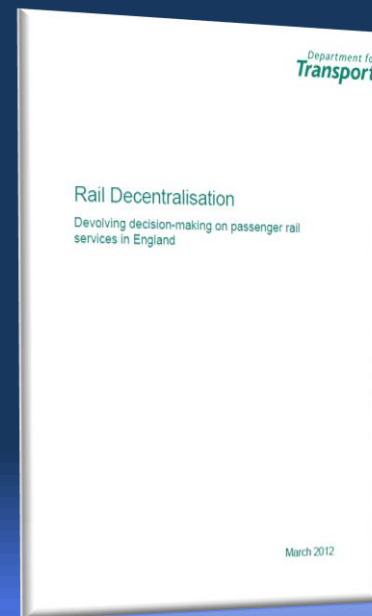
The Government's response



**Command
Paper**



**Fares and
ticketing
consultation**



**Decentralisation
consultation**

Industry reform

- Government role: HLOS + major enhancements
- ORR role: whole-industry efficiency and performance
- NR grant: potential to go via TOCs
- Efficiency benefit share + alliancing

Comments

- **Position on ORR not shared by TOCs**
- **How are benefits of alliances shared?**

Network Rail reform



- “Full menu of options” for greater alignment
- Support for alliances and NR devolution
- Support for IM concessions
- VI “could offer promising benefits”
- NR governance proposals welcomed

Comments

- Noticeably positive re vertical integration
- Governance: life without industry members

Franchise reform

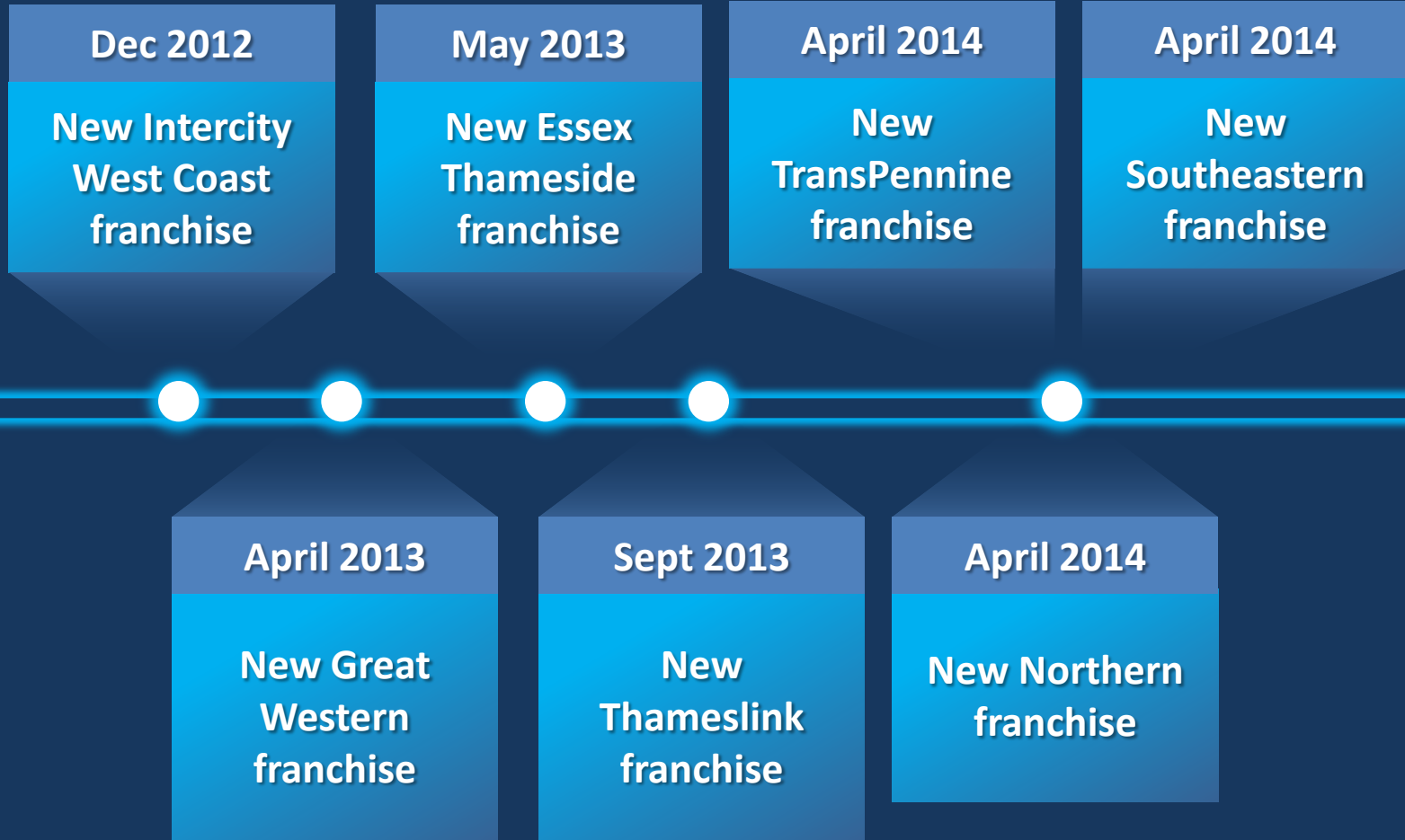


- Longer, more flexible outcome-based franchises
- Profit-share mechanism and alignment of incentives
- Strong focus on TOC cost reduction
- TOCs to finance infrastructure using NR RAB
- Welcome for ATOC rolling stock proposals

Comments

- Support for reform, but awaiting implementation
- Noticeably negative on open access

Franchise timeline: 2012-14



Fares and ticketing



- Fares - focus on structure, not raising revenue
- Regulation – scope to update, not abolish
- Strong support for smart ticketing
- “Fresh look” at ticket office and retailing
- Consider addressing some concerns re complexity

Comments

- **Welcome willingness to consider some change**
- **Recognition of value in choice of fares**
- **Cautious tone on changes to structure, regulation, retail**

Command Paper's conclusions

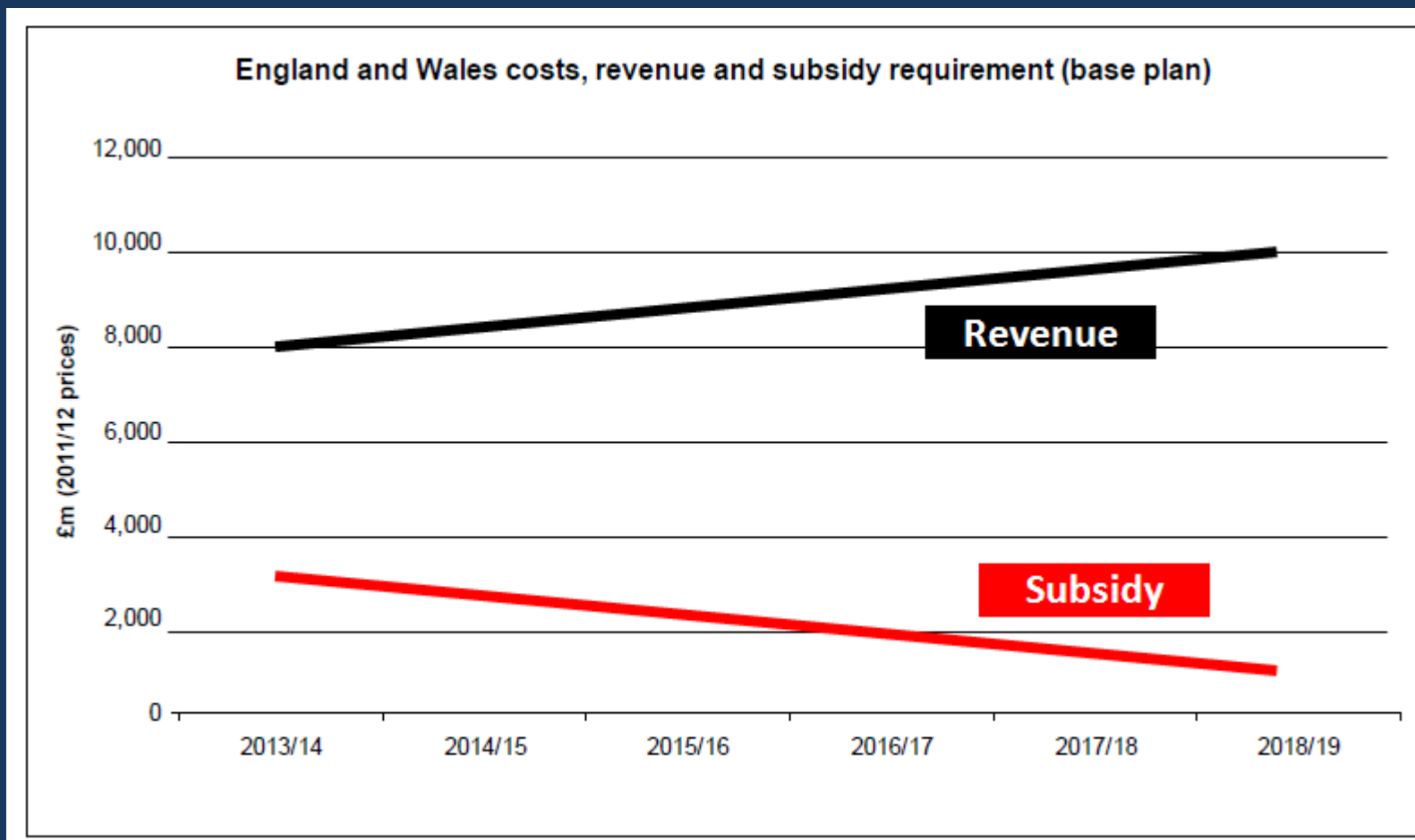
- Positive messages on NR + franchise reform
- Light on detail re implementation
- Heavy emphasis on cost rather than value
- Reliance on RDG rather than industry + Government
- Key decisions yet to come, particularly on franchising (70% of market in next 2 years) and fares/ticketing review
- Pointers towards July HLOS

Industry's input to HLOS

- Objectives for CP5
 - Capacity, journey time, carbon, performance
- New plans:
 - Northern Hub
 - Transpennine and MML electrification
 - Extra 600 carriages for growth
 - Renewal of up to 300 vehicles per year
 - Strategic Freight Network
 - Crowding relief
 - £2.5bn of funds, eg performance, NSIP
- Next stages
 - High Speed 2
 - Crossrail 2 strategies



IIP projected subsidy to fall in CP5



Rail attractive for investors, opportunities ahead

- Long term nature of assets
- Strong growth prospects
- HLOS / SOFA: July
- Passenger demand doubling by 2030
- Subsidy falling as efficiency and revenue growth delivers



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