

**SOUTH EAST ENGLAND
REGIONAL TRANSPORT BOARD**

Date: 1 February 2007

Subject: **Regional Input into the Rail Franchising Process**

Report of: Planning Manager, Regional Assembly

Recommendations:

It is recommended that the Board agree the way forward as set out in the paper to engage with the Department for Transport to enable greater regional input into the rail franchising process.

Purpose of Report:

To set out potential opportunities for improving the alignment of decisions on investment in rail infrastructure and service provision specified in franchises.

Key Issues:

There has been a desire to bring an element of rail investment into the Regional Funding Allocation process. The report identifies a number of potential opportunities to through which greater account might be taken on regional priorities in determining funding priorities at the national level.

1. Introduction

- 1.1 Building on the success of the Regional Funding Allocation (RFA) process, there has been a desire by Government and the Regions to have greater influence on rail spending. Intellectually there is no question that there is a need for the decisions affecting rail expenditure to better reflect regional priorities. However it is increasingly clear that the ability to disaggregate elements of the rail budget to the regional level is fraught with practical difficulties, the majority of which are not readily surmountable.

2. Rail Investment

- 2.1 On this basis to date the regional influence on investment programmes for the rail sector has been limited to two areas. Firstly it has been possible through the Regional Funding Allocation (RFA) to propose that funding is provided for major capital investments in the region. The forward programme submitted to the Secretary of State identifies contributions to the cost of removing the bottleneck at Reading Station and improvements to Oxford Station. Such an approach can continue into the future, however it is likely that such funding will only ever perform the role of 'gap' funding, or part of a wider funding 'package'.
- 2.2 The second area is with regard to the specification of rail services through the franchise process. Whilst there is the potential in theory for the region to propose 'increments' and/or 'decrements' to proposed service levels through the RFA, the potential drain on the regional budget would be too significant for this to be realistically considered over a long term.
- 2.3 This leaves the issue of how regional priorities might be taken more into account in determining future rail investment. Indeed the recent Select Committee¹ investigation into rail franchising promoted the need for stronger reflection of regional priorities in order to support delivery of spatial planning objectives. The Eddington report similarly highlights the need for greater regional influence to achieve RSS/RES goals within the same budgets.

3. Regional Influence on Rail Franchising

- 3.1 At present the level of engagement by the franchising teams with regional organisations is fairly high level and is often only once an initial opinion has been formed within Government on the likely pattern of services. The engagement normally takes the form of a consultation undertaken by the Department for Transport.

¹ House of Commons Transport Select Committee 14th Report - Nov 2006 - Passenger Rail Franchising - <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtran/1354/1354.pdf>

- 3.2 During the preparation of bids by potential franchisees there is the opportunity to influence their content however it is fair to say that the increasing degree of specificity of tender documents gives limited encouragement to bidders to go beyond the basic franchise specification. This is the last opportunity for the region to engage with or influence the franchising process prior to the announcement of a preferred bidder and the franchise being awarded. Recent experience has tended to indicate that the opportunity to secure wider benefits during the detailed discussions with a preferred bidder is not being exploited to its fullest potential.
- 3.3 Potential opportunities to increase the alignment of investment decisions with regional priorities can be set out under four headings:
- 3.4 Development of Franchise
- 3.4.1 There is a need for closer liaison with the Assembly prior to public consultation on the draft franchise specification. Earlier engagement with the Regional Planning Body at this stage would ensure that base case assumptions take into account the long term spatial planning framework. It would also ensure that due account is taken of potential investments in other transport links being promoted at both regional and local levels that may have an influence on the demand for rail services.
- 3.4.2 Such an engagement would provide an informal check to ensure that the franchise proposals are consistent with the statutory regional planning framework. In particular engagement with the region at this stage would enable a limited number of proposals to be identified that might be included within the franchise specification as priced options.
- 3.5 Consultation on draft franchise specification
- 3.5.1 The consultation on the franchise specification needs to acknowledge that the demand for rail services, like any transport service, is a derived demand. All too often the franchise is too operationally focused, a point repeatedly highlighted in the Select Committee Report. Consideration should be given to make more explicit within the draft franchise specification how the proposals support delivery of agreed regional objectives.
- 3.5.2 There is a strong prime facie case for arguing that added weight should be given to the views of statutory planning bodies when analysing the results of the consultation.
- 3.6 Assessment of franchise proposals
- 3.6.1 The most unclear area of rail franchising is the process undertaken to assess the submissions from bidders to the Department. It is clear that the Department takes into account in relation to the base case, priced options set out in the tender documents and any additional options submitted by the bidder.

At present there is no engagement between the Department and statutory planning bodies on how potential scenarios arising from a consideration of the bid might contribute to delivery of regional priorities.

- 3.6.2 It is highly likely that a number of potential scenarios will emerge for each franchise. Each of these will have different impacts, both positive and negative, on the delivery of the regional objectives.
- 3.6.3 The Board should be mindful that the assessment of franchise bids requires careful handling to ensure that issues of commercial confidentiality are not compromised. However there is no reason why there could not be a limited degree of engagement with the statutory planning bodies where the scenarios under consideration have outcomes that significantly different. It may be that a scenario which lies beyond the scope of funds identified by the Secretary of State would bring benefits that the region would wish to purchase through the allocation of funds from the RFA. It is clear that in order to feed into this stage of the process an approach would need to be put in place that enables the Assembly to respond on a confidential basis within tight deadlines to requests for advice from the Department. However such an approach is entirely possible.

3.7 Post Franchise Award Renegotiations

- 3.7.1 As part of the franchising process, operators are entitled to request that the service level be reviewed. It is clear that where such a request is made then it would be essential that there is a discussion with the Board where the potential for service changes is significant.

4. Next Steps

- 4.1 Whilst some of the issues identified in this report may be addressed through the Regional Planning Assessment (RPA) process, these will only provide high level strategic advice on the wider development of rail in the longer-term. The franchising process needs to acknowledge the plan, monitor, manage approach to planning and be capable of responding to changes in circumstances in a way that it currently unable to do.
- 4.2 The process outlined above provides the opportunity to improve the alignment of investment of rail investment decision making with the delivery of regional objectives.

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