Department for Transport

Rail Opportunities Day

Wednesday 22 May 2013

Phil West

Overview of the Day

Department for Transport

Agenda

- **A Welcome from the Secretary of State** – Rt. Hon. Patrick McLoughlin MP
- **The Franchising Programme** – Clare Moriarty, Director General, Rail, DfT
- **Why Franchising?** – Richard Brown CBE, Chairman, Eurostar

- Networking Lunch

- **Running a Franchise** – Alex Hynes, Managing Director, Rail Development, Go Ahead Group
- **Industry Structure** – Nicola Shaw, CEO, HS1
- **Working In Partnership / Future Plans** – Paul Plummer, Group Strategy Director, Network Rail
- **Franchise Bidding Masterclass** – Peter Wilkinson, DfT.
- **Q&A Panel**

Department for Transport

A Welcome from the Secretary of State for Transport

Rt. Hon. Patrick McLoughlin, MP

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The Franchising Programme

Clare Moriarty

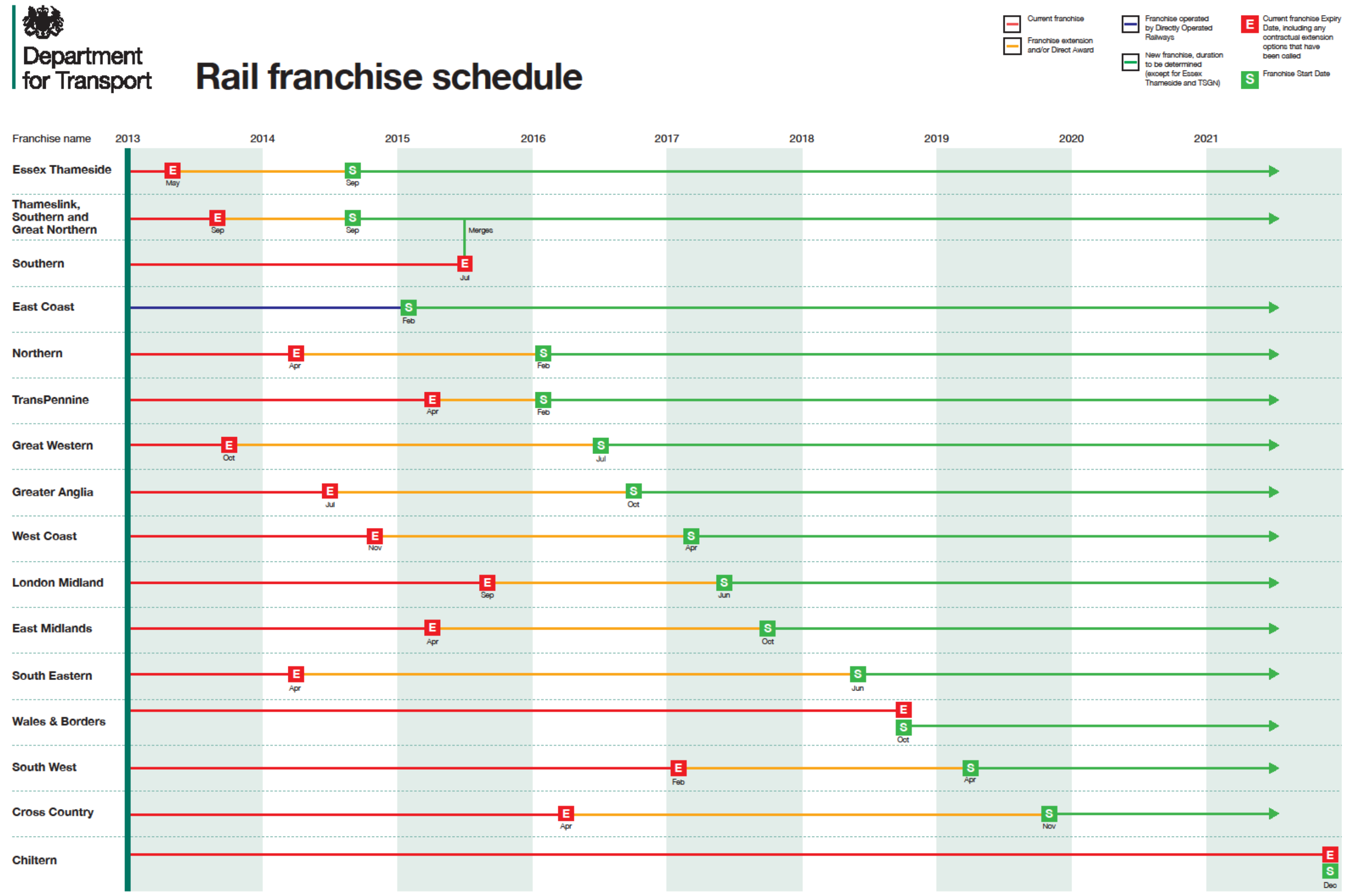
Director General, Rail

Department for Transport

Aims of the Day

- Programme overview
- Opportunities outlined
- Where does the Franchisee fit into the Industry?
- The bidding process
- Our vision (what we are looking for)

The Franchising Programme



For more information please see **www.gov.uk/government/organisations/department-for-transport/series/rail-franchising**

Follow **@transportgovuk on Twitter**

Programme Objectives

- A structured programme
- Mutually beneficial
- A clear and transparent process
- Open

Upcoming Franchises

- Ongoing competitions:
  - Essex Thameside
  - Thameslink, Southern & Great Northern
  - East Coast
- Upcoming competitions:
  - Northern
  - Transpennine
  - Great Western
  - Greater Anglia

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Thank You

Why Franchising?
Presentation to UK Rail Opportunities Day

Richard Brown
Chairman
Eurostar International
May 22nd 2013

The Case for Franchising

- For Government
- For the rail industry and its passengers
- For franchisees
- A model which works

Franchising Objectives for Government

- Allows competition “for the market”, in markets where competition “in the market” is limited
- Allows periodic “market testing” to ensure efficiency and value for money
- Provides contractual underpining to franchise premium/subsidy payments – forward visibility of public expenditure
- Flexible tool – allows Government to vary what it buys franchise by franchise

Benefits for the industry and its passengers

- Stability of funding, stability of services
- Contractual underpining of services, standards etc.
- Strong incentives to grow by attracting new passengers
- Brings in new people, new ideas
- Private companies more consumer focused than the state ones

Attractions for franchisees

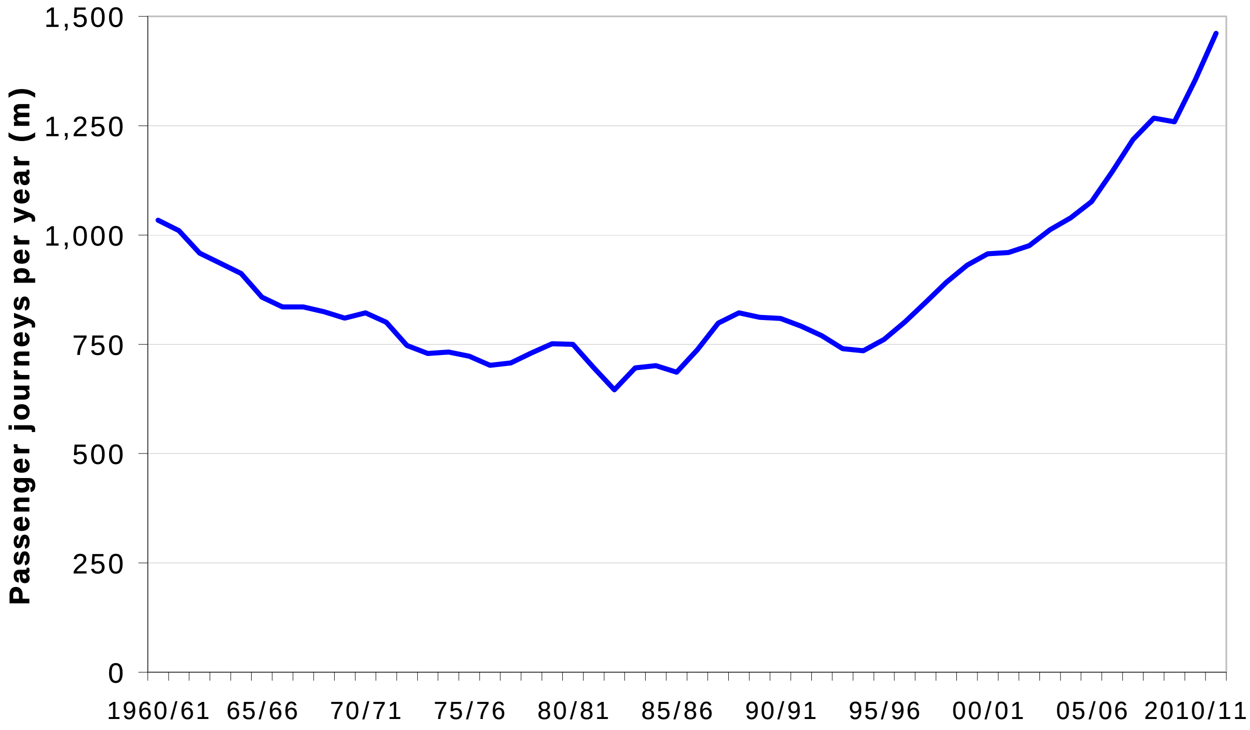
- Essentially an outsourcing opportunity:
  - Low barriers to entry
  - Modest capital requirements, attractive ROCE
- A growth industry
- Scale
- High profile

Franchising: A model which works

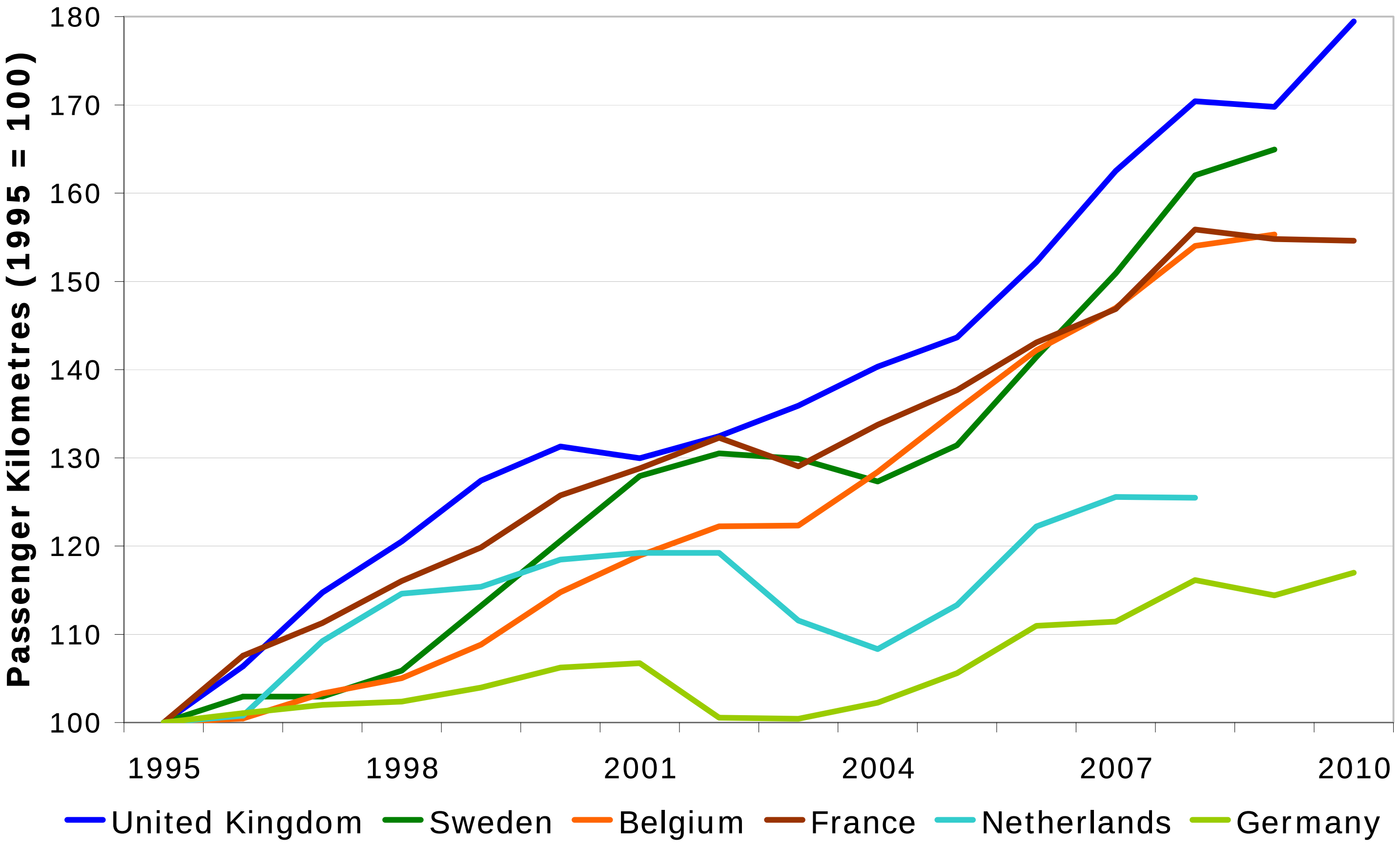
- Sector leading growth

- More consumer orientate

Passenger Journeys

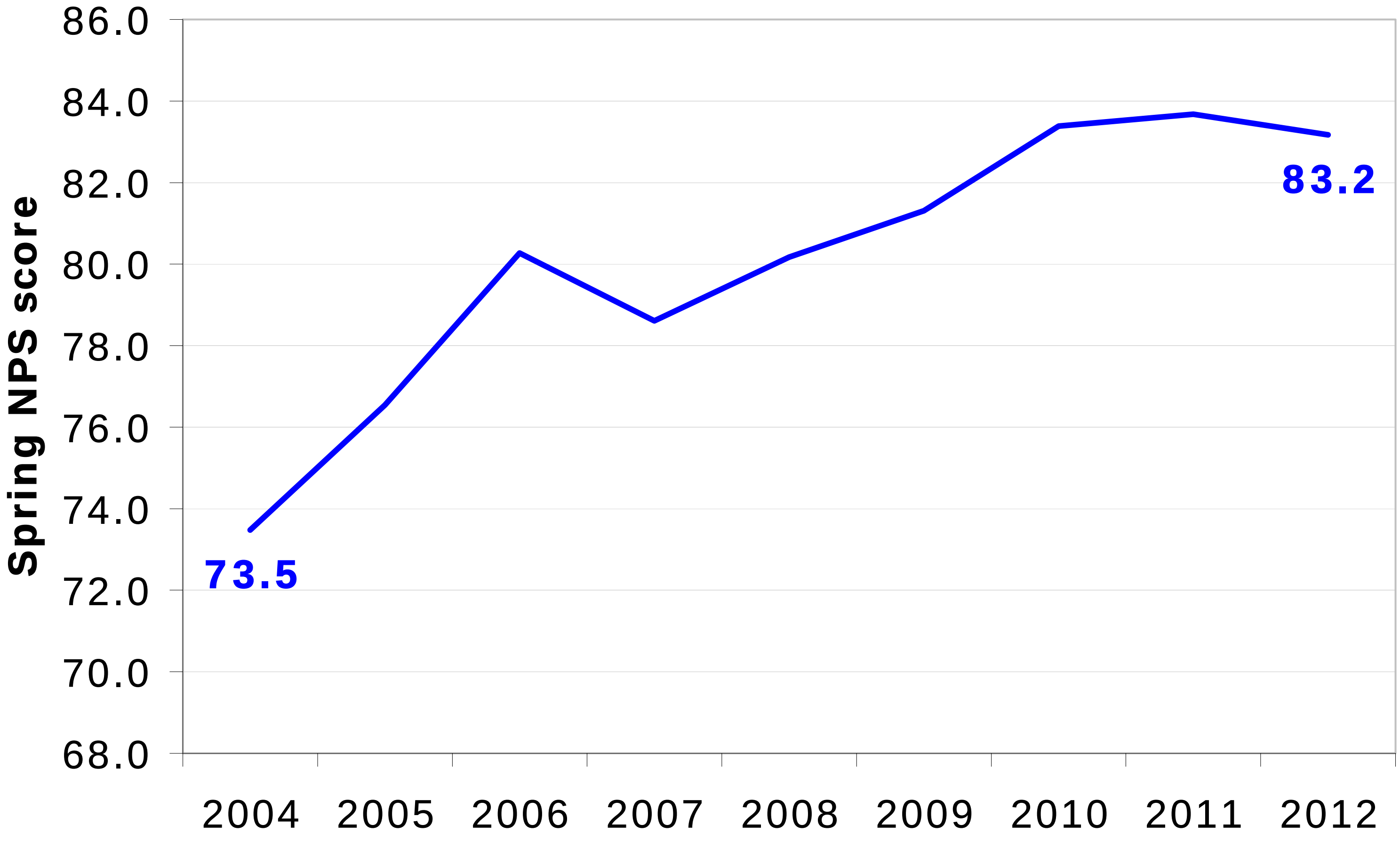


Passenger Kilometres – EU Comparison



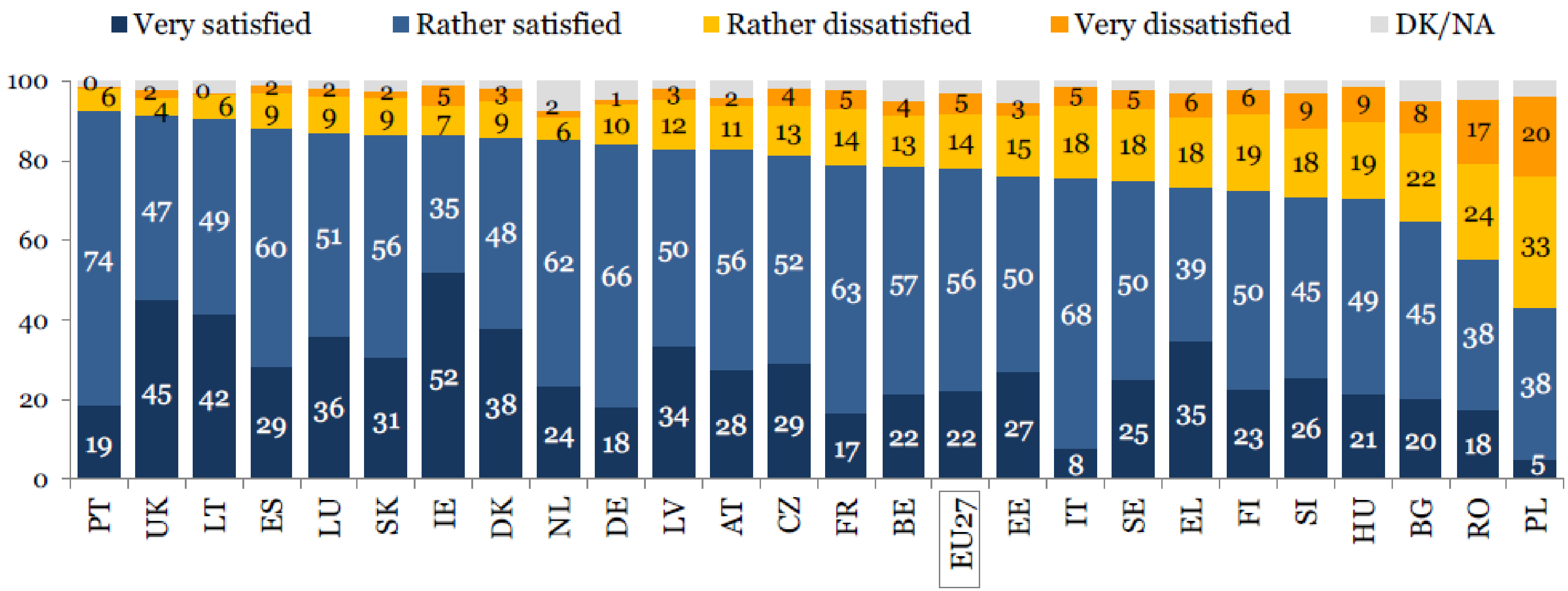
Source: OECD

Improving Passenger Satisfaction



European League Tables - Scheduled Journey Time

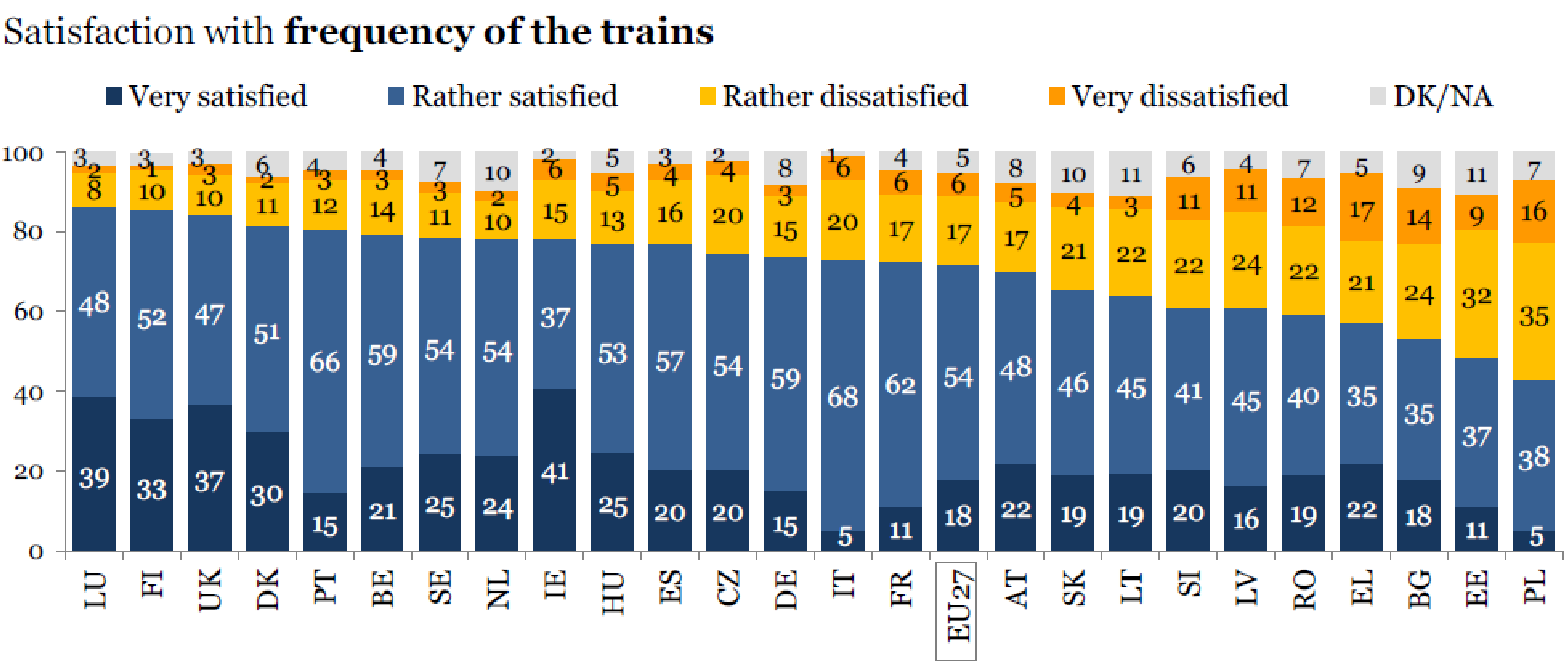
Satisfaction with **length of time the journey was scheduled to take**
(e.g. commercial speed, the travelling speed of the trains)



Q4. Are you very satisfied, rather satisfied, rather dissatisfied or very dissatisfied with the following features of the trains [IN YOUR COUNTRY]?

Base: all respondents, % by country

European League Tables - Frequency

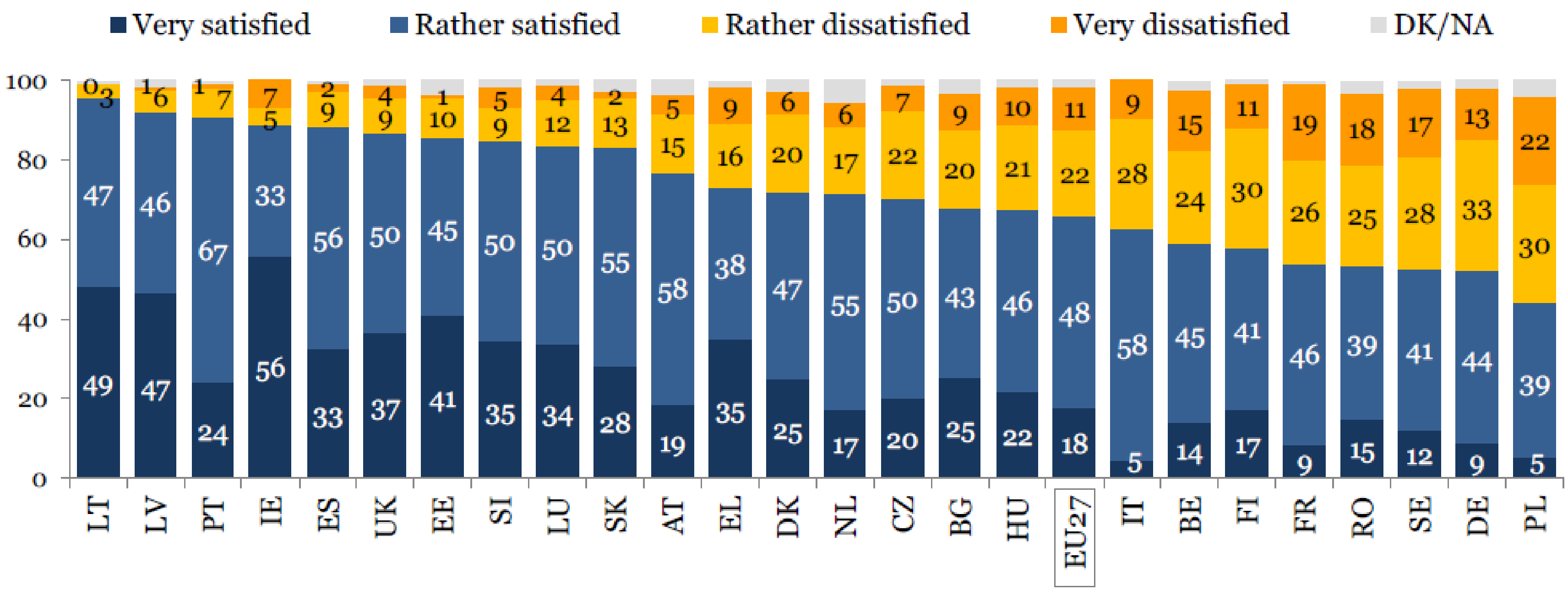


Q4. Are you very satisfied, rather satisfied, rather dissatisfied or very dissatisfied with the following features of the trains [IN YOUR COUNTRY]?

Base: all respondents, % by country

European League Tables - Punctuality & Reliability

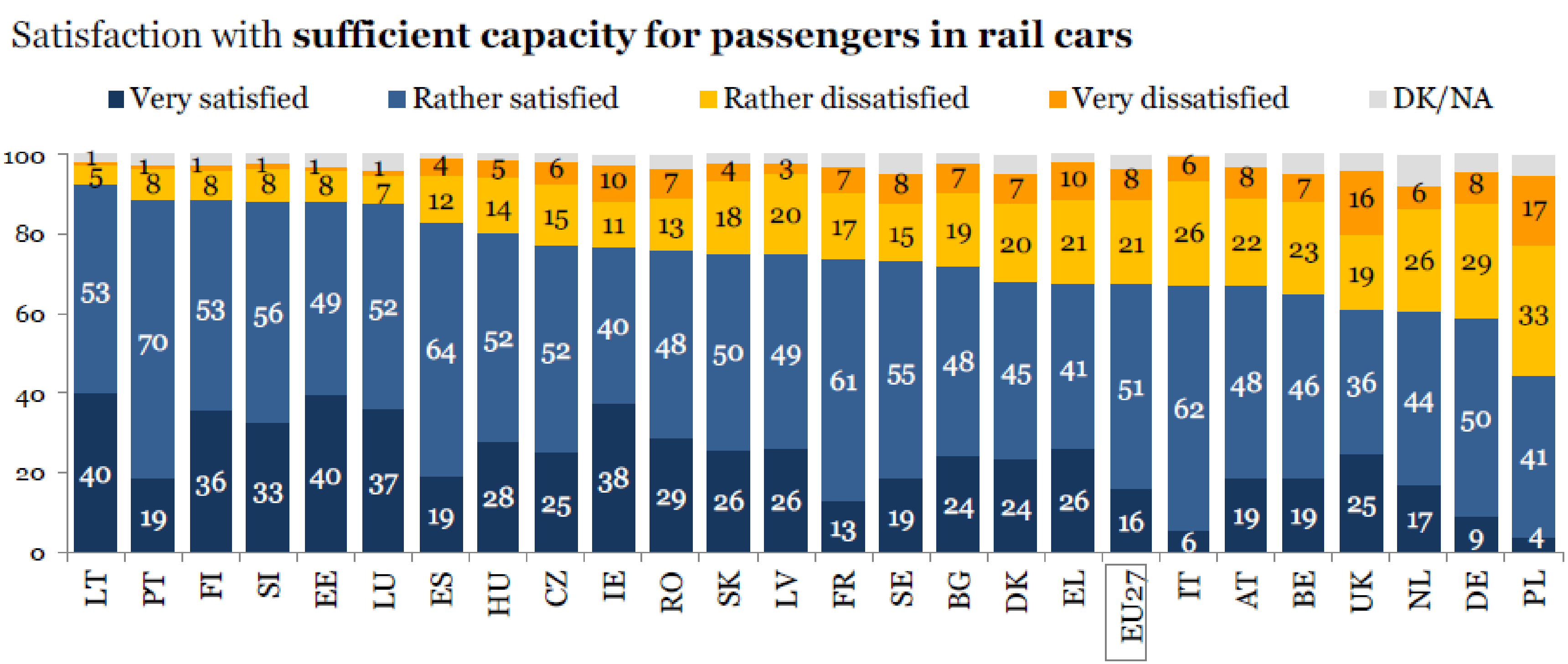
Satisfaction with **punctuality and reliability (i.e. departing and arriving on time)**



Q4. Are you very satisfied, rather satisfied, rather dissatisfied or very dissatisfied with the following features of the trains [IN YOUR COUNTRY]?

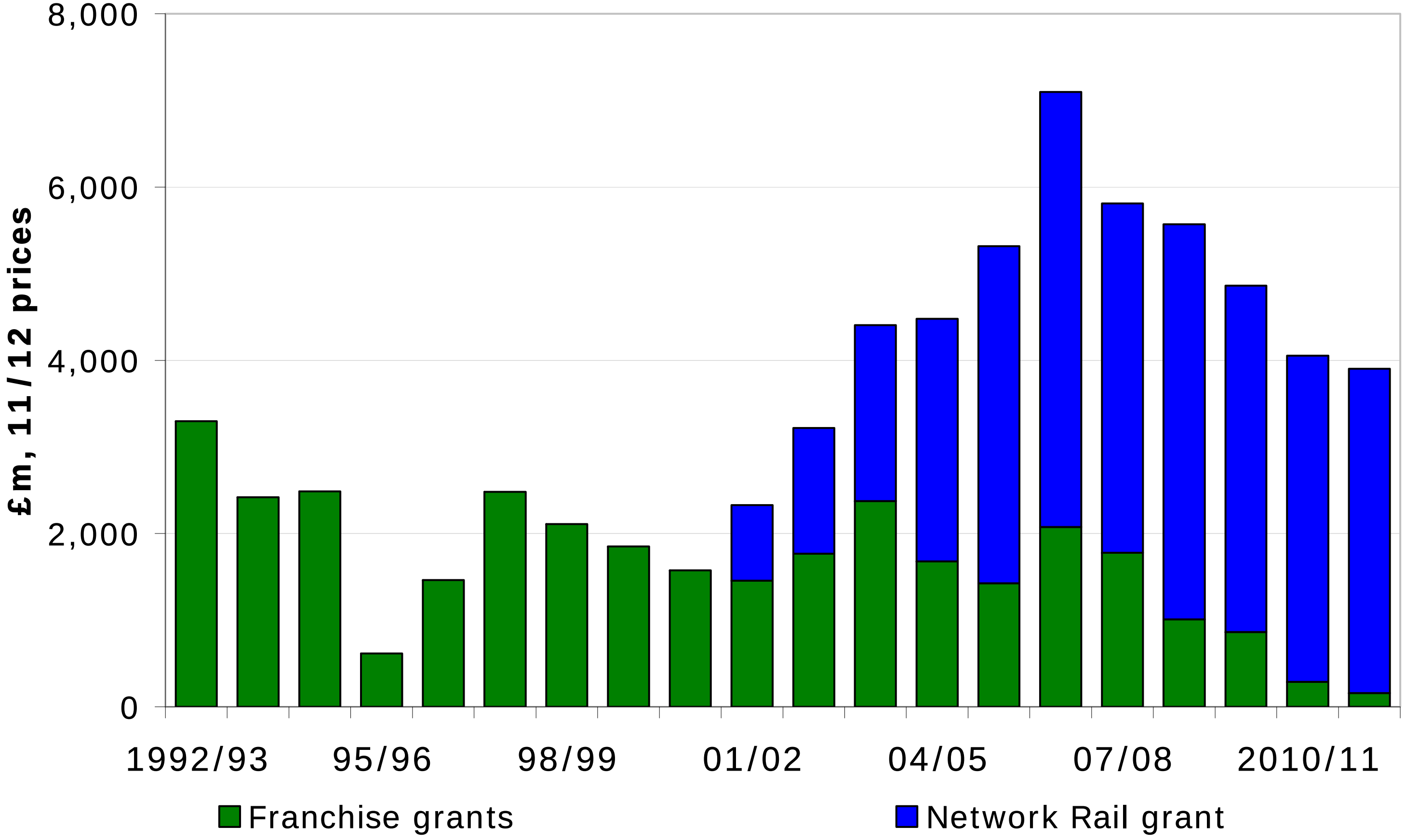
Base: all respondents, % by country

European League Tables - Capacity



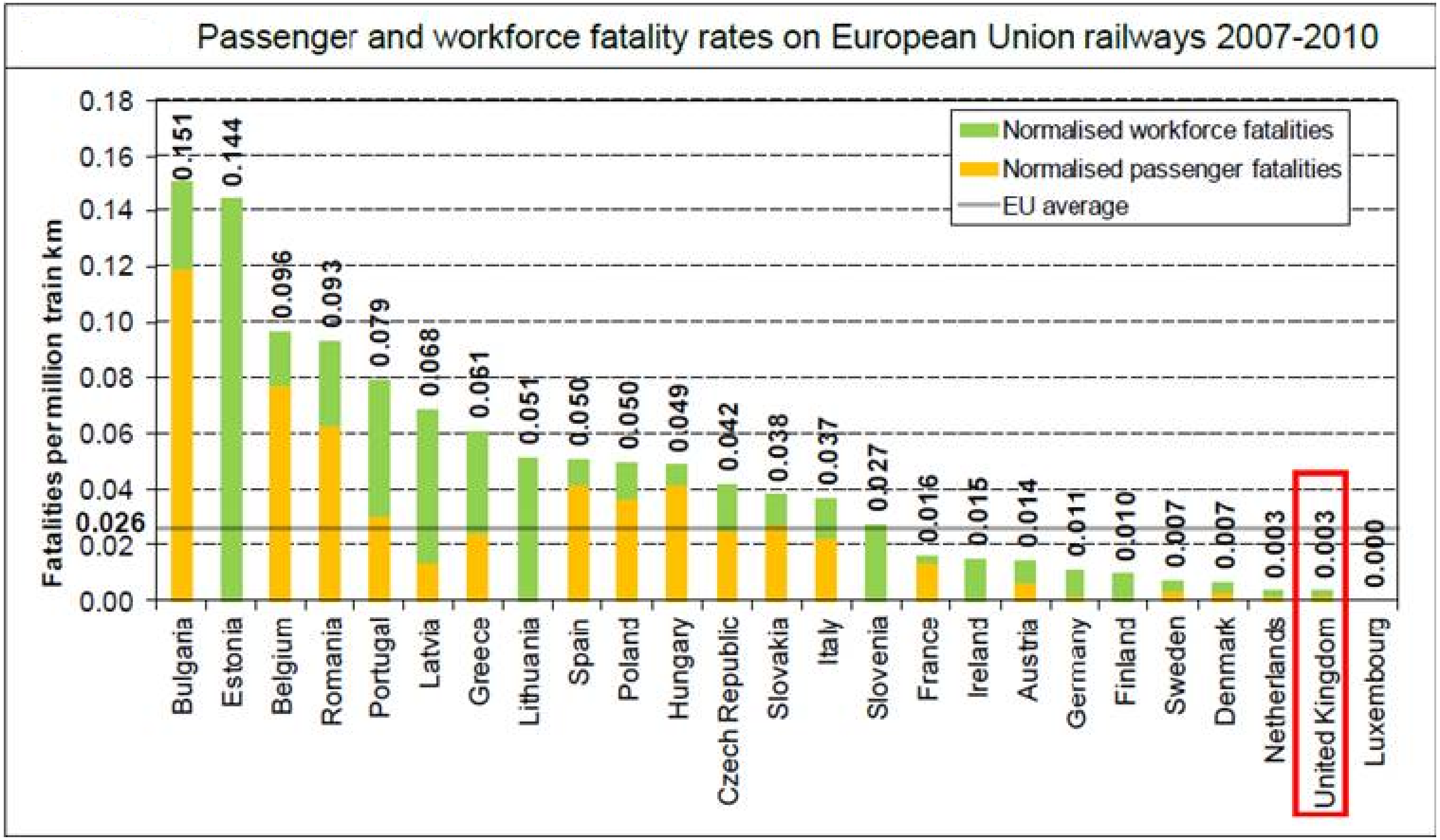
Q4. Are you very satisfied, rather satisfied, rather dissatisfied or very dissatisfied with the following features of the trains [IN YOUR COUNTRY]?
Base: all respondents, % by country

Cost to Government



Source: ORR

Europe's Second Safest Railway



Conclusion

- A model which delivers for passengers and Government
- Attractive business proposition
- But challenging:
    - High Profile
    - Accommodating growth
    - Increasingly discerning customers

Thank You

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Networking Lunch



Running a Franchise – challenges and opportunities

Presentation to UK Rail Opportunities Day

22 May 2013

Alex Hynes, Managing Director – Rail Development, The Go-Ahead Group

Govia

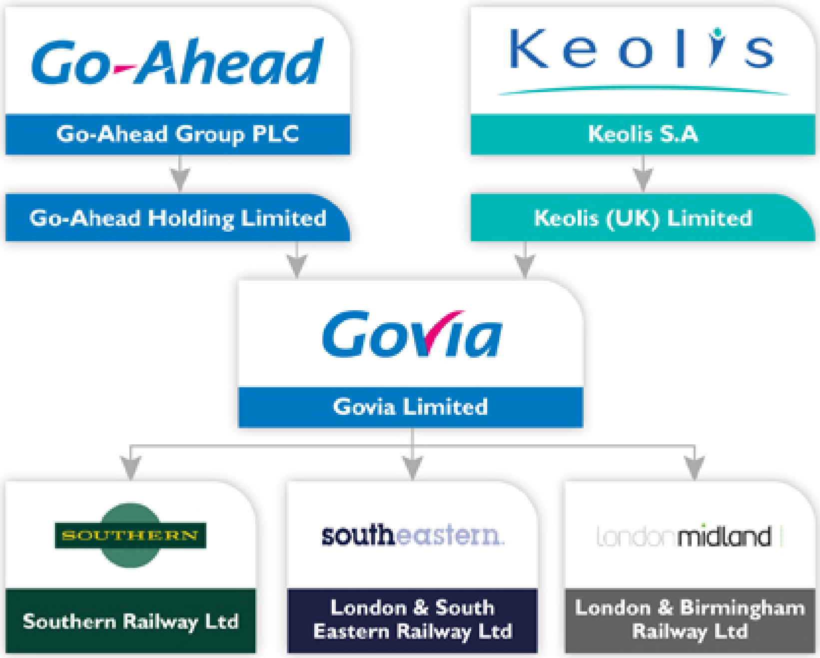
SOUTHERN southeastern. londonmidland

CONTENTS

- Introduction to Govia
- Running a franchise
- What we've achieved
- Stakeholders and passengers
- Turning challenges into opportunities – a case study
- Turnover and profit

INTRODUCTION TO GOVIA

- The busiest rail operator in the UK
- London's largest rail operator
- 30% of all passenger journeys
- 5,000 services operated per day
- More commuters than anyone else
- The only operator of high speed domestic services
- Shortlisted bidder for the Thameslink, Southern and Great Northern franchise



RUNNING A FRANCHISE

IDEALLY

- Beat the bid!

DEFINITELY

- Deliver what you promised to the DfT and stakeholders
- Control costs
- Grow revenue (profitably)
- Get staff engaged

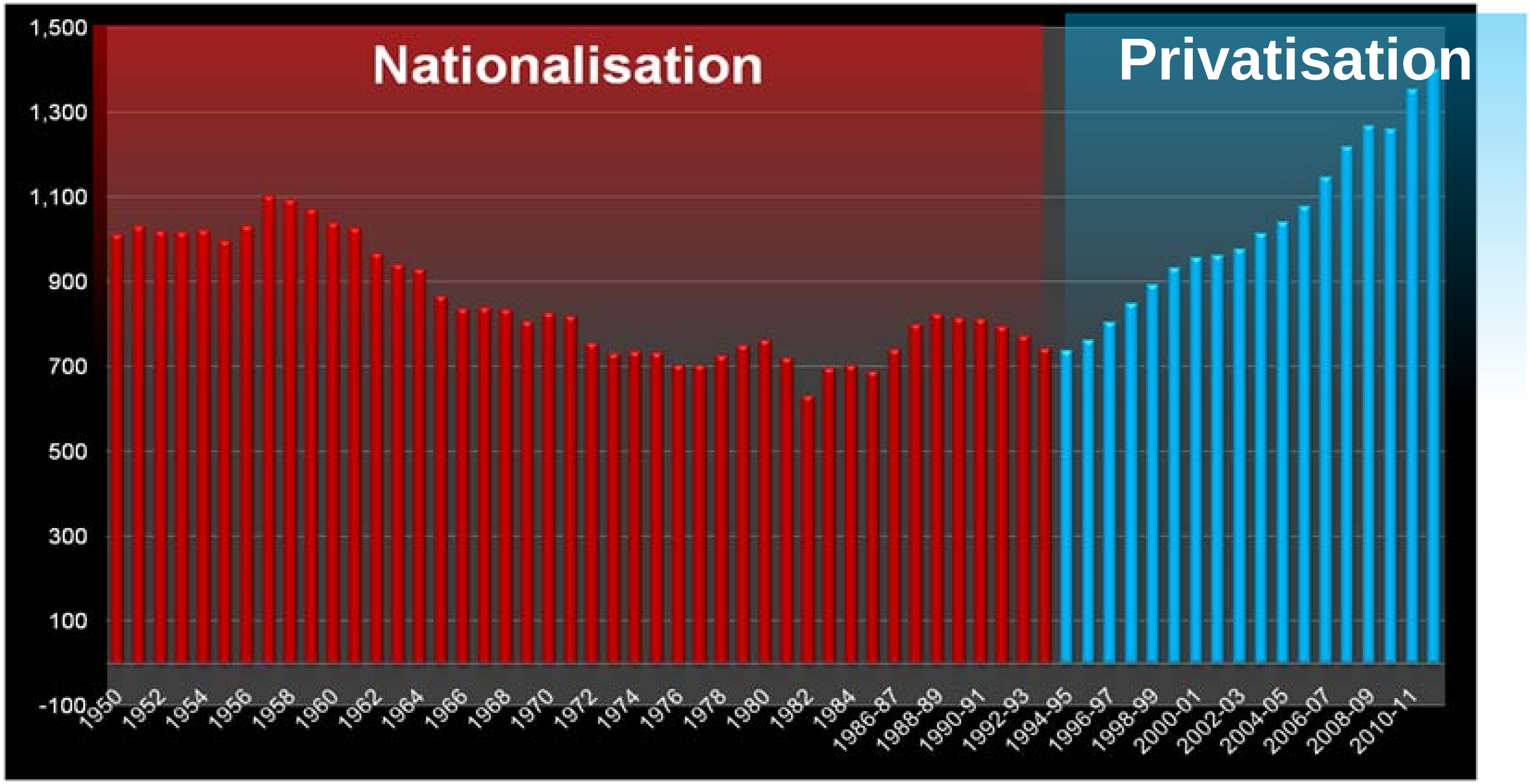
BUT

- Limited flex on outputs or pricing
- Need to work with industry regulation in a contractual matrix and trade union agreements
- High levels of public interest

WHAT HAVE WE ACHIEVED

- Delivered the fastest growing railway in Europe
- Net subsidy has fallen from £2.34bn in 2006-07 to just £20m
- Costs per passenger have fallen 12% since the year 2000

A SUCCESSFUL BUSINESS



COMPLEX MULTI-STAKEHOLDER ENVIRONMENT

NetworkRail

ATOC

Association of Train Operating Companies

Passengerfocus

putting passengers first

ORR

Transport for London

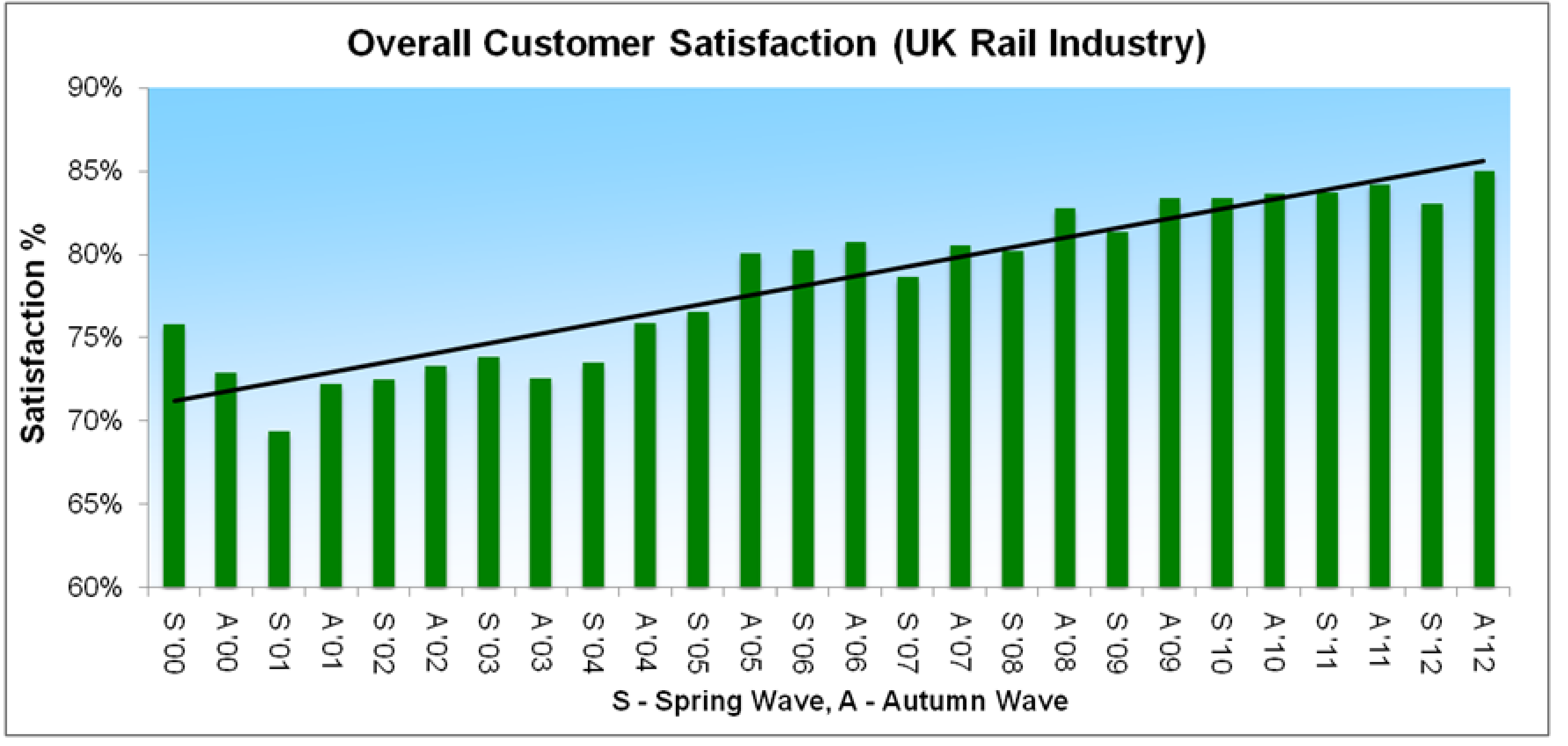
LondonTravelWatch

ASLEF ESTAB 1880

Department for Transport

SIEMENS

IMPORTANCE OF PASSENGERS

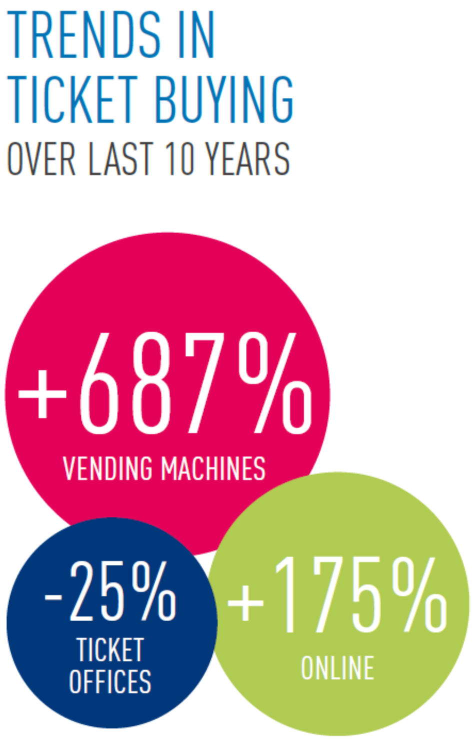


TURNING CHALLENGES INTO OPPORTUNITIES - A CASE STUDY: LONDON MIDLAND

- Franchise started in November 2007
- Lehman Brothers filed for administration in September 2008
- Income growth collapsed over Easter 2009
- Business survival meant pursuing initiatives **not** originally envisaged in the franchise bid:
    - Fares
    - Overheads
    - Mileage
    - Traction energy costs
    - Modernising retailing
    - Innovative timetable development

A CASE STUDY: LONDON MIDLAND TICKET OFFICE OPENING HOURS

- Largest single reduction in ticket office opening hours on the UK network
- Changes made to 86 of 90 locations
- Extra 29 ticket vending machines
- Additional shelters on platforms and better signage
- More boarding ramps and station lifts to be kept in operation at all times
- Better service at lower cost
- Template for the rest of the industry to follow



A CASE STUDY: LONDON MIDLAND INNOVATIVE TIMETABLE DEVELOPMENT

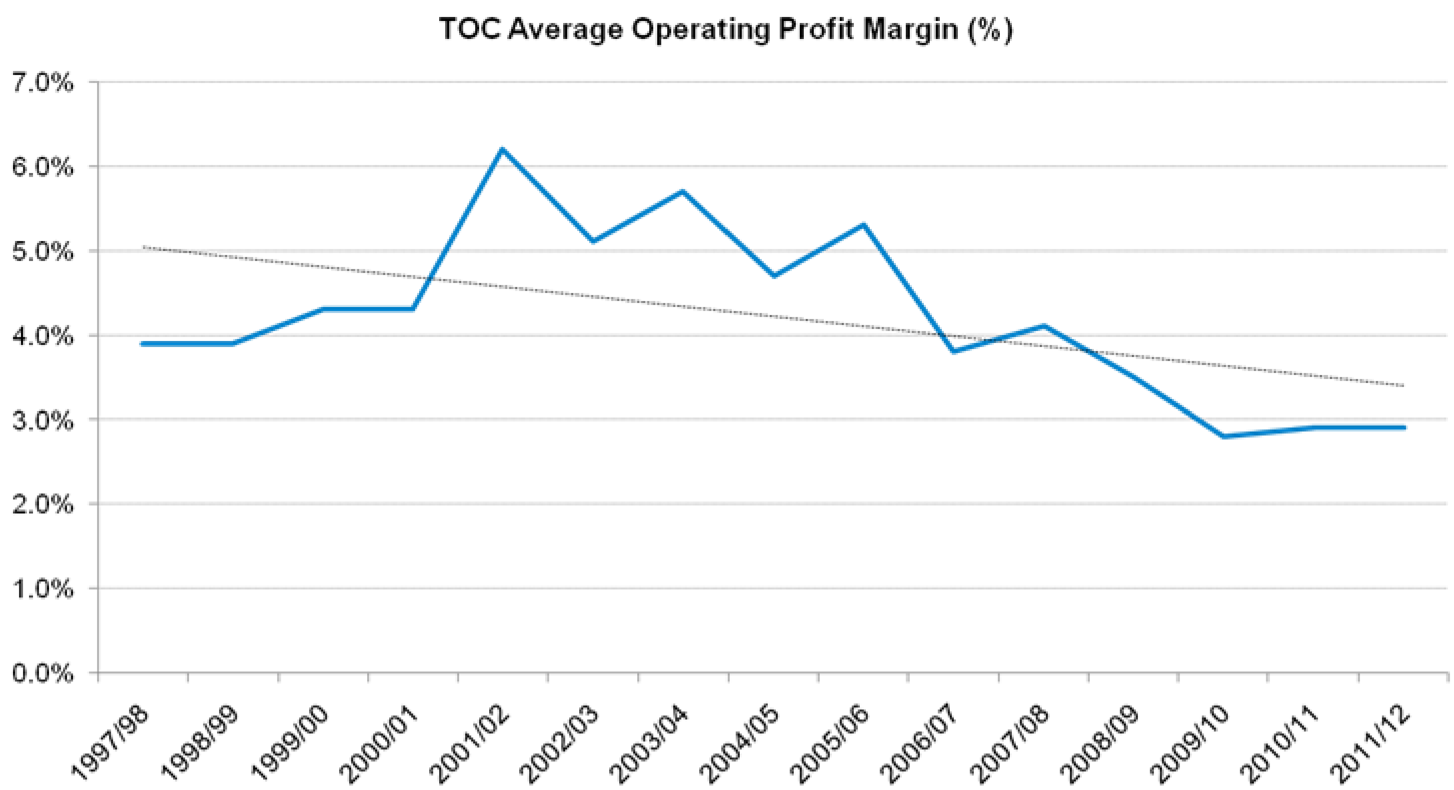
- Track capacity limited by speed differential: 125mph vs. 100mph
- Opportunity to generate two train paths per hour where previously one existed if we could run at 110mph
- Successful collaboration between Network Rail, Siemens, Angel Trains
- Launched in December 2012
- Journey time reductions of 30 minutes on Trent Valley to London services
- Very significant revenue growth
- Only TOC of its generation eligible for, but not receiving, revenue support

TURNOVER

Passenger Revenue by Sector

Revenue (£m)	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	CAGR
National Rail	3,663	3,901	4,158	4,493	5,012	5,555	6,004	6,179	6,620	7,229	7.8%
Long distance operators	1,279	1,384	1,465	1,609	1,842	2,036	2,168	2,216	2,366	2,533	7.9%
London and SE operators	1,848	1,932	2,059	2,197	2,437	2,717	2,963	3,046	3,264	3,602	7.7%
Regional operators	535	585	634	687	733	801	872	916	990	1,094	8.3%
Annual growth rate											
National Rail		6.5%	6.6%	8.0%	11.6%	10.8%	8.1%	2.9%	7.1%	9.2%	
Long distance operators		8.2%	5.9%	9.8%	14.4%	10.6%	6.5%	2.2%	6.8%	7.0%	
London and SE operators		4.6%	6.6%	6.7%	10.9%	11.5%	9.0%	2.8%	7.2%	10.3%	
Regional operators		9.3%	8.4%	8.3%	6.7%	9.3%	8.9%	5.0%	8.0%	10.6%	

PROFIT MARGIN

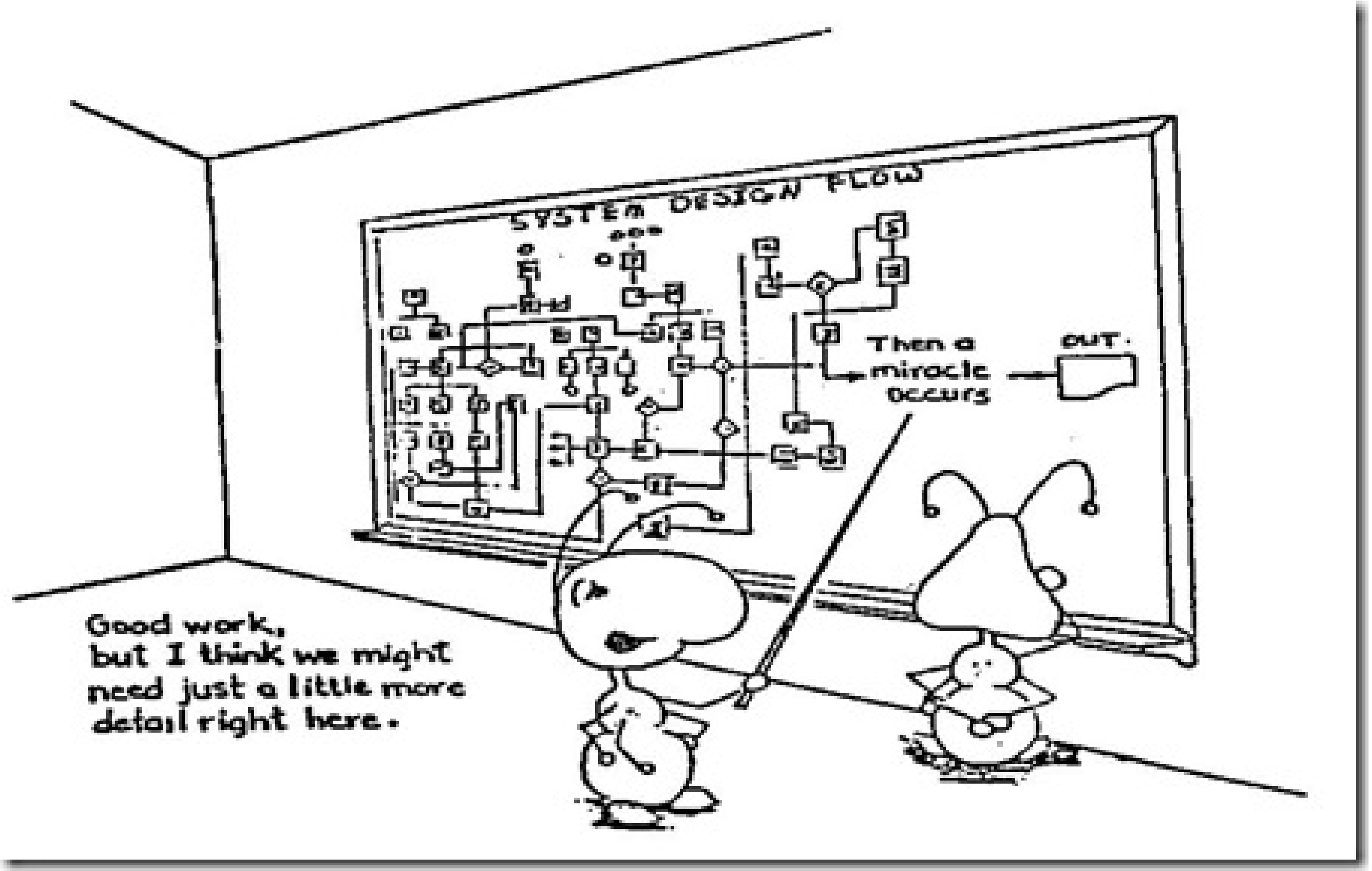


THANK YOU

Nicola Shaw

CEO

Is the UK railway complex?



Less so than the railway on mainland Europe

The top barriers to new operators starting services in Europe are:

Do these apply in the UK?

a) Restrictive implementation of the Directives

b) Persistent discrimination in access to infrastructure and rail related services;

c) Administrative barriers in obtaining safety certificate etc;

d) Information barriers – difficulties in getting information and poor quality of information;

e) Operational barriers such as volatility of access charges, access to facilities and services; and

f) Other non-transport/railway barriers.

So how to join in and get yourself up to speed?

- Encourage
  - Networking
  - Detailed knowledge
  - Evidence
  - Quantification
  - 3LA

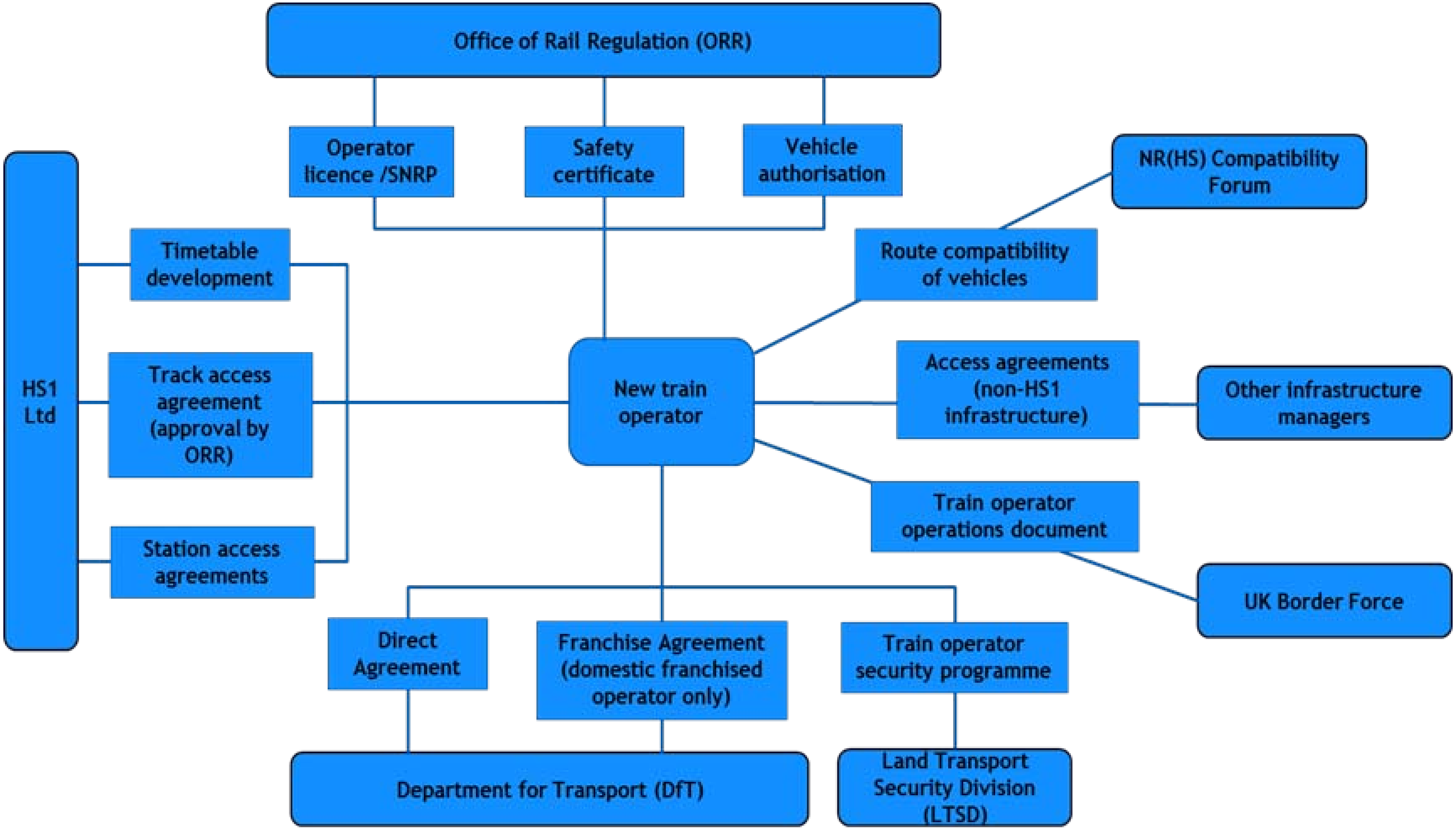
- Avoid
  - Rumours
  - Convictions

- Experience can be helpful; but look for evidence to show that it’s useful and current

Different regimes all require focus and understanding

	DfT (and other Gov't agencies)	ORR	Infrastructure Manager
Licence		Issues Monitors Enforces	
Franchise	Specifies Issues Monitors Enforces		
Access		Approves	Provides
Change	Franchise map and strategy HLOS SOFA	Sets IM charges Enforces delivery	RUS Project design and implementation

Contracts and approvals required for a new operator on HS1



The Wider Firmament

- Passenger Focus
- PTEs / Northern Rail
- BTP
- RSSB
- RDG
- DfT Land Transport Security Division
- Trade Unions
- Rail Industry Association
- Consultants

Helpful resources

- ORR
- ATOC
- NAO reports
- Terry Gourvish
  - Several books on the history of UK rail policy and structure
- DfT

Thank You

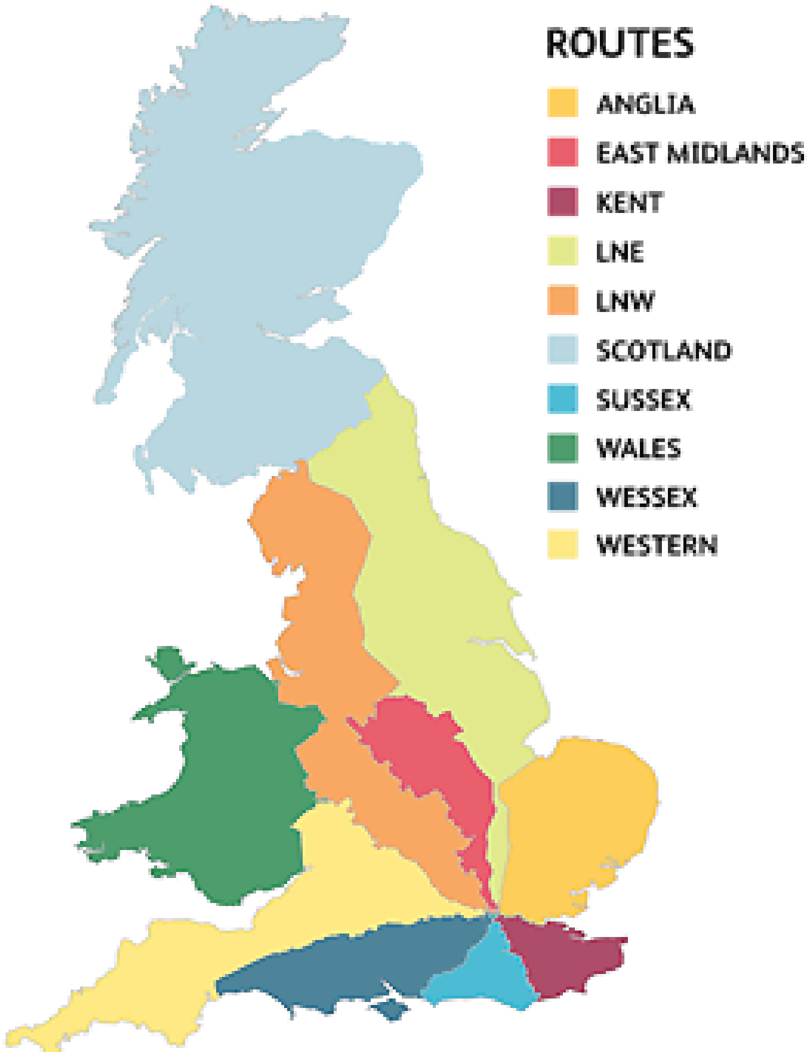
Vision, future plans
Working in partnership

Paul Plummer – Group Strategy Director

22 May 2013

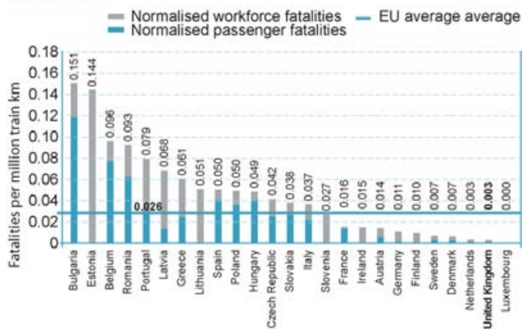
Network Rail

- 1,000 signal boxes
- 2,500 Stations
- 8,200 commercial properties
- 8,600 level crossings
- 20,000 miles of track
- 35,000 employees
- 40,000 bridges and 600 tunnels
- 5 million line-side neighbours
- One of the largest private

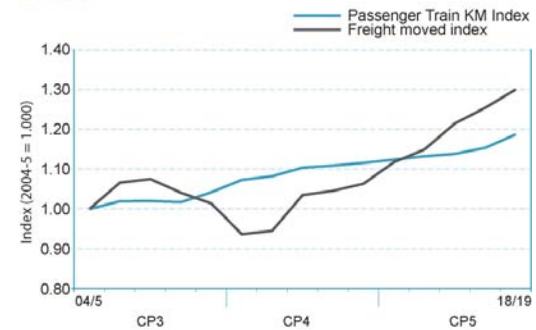


The railway today is a high performing one and we will continue to improve it

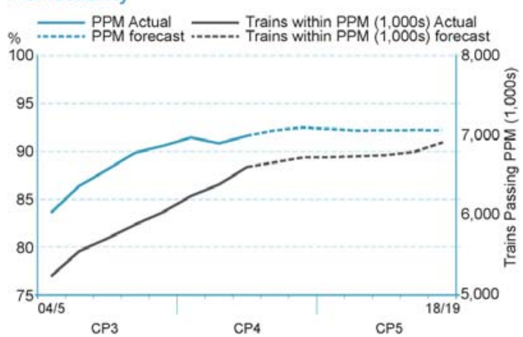
Fatalities



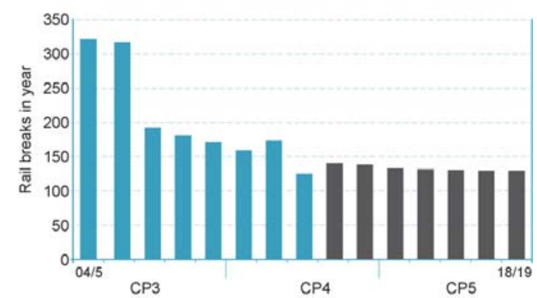
Traffic



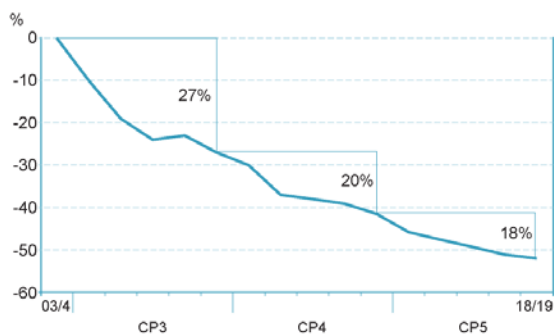
Punctuality



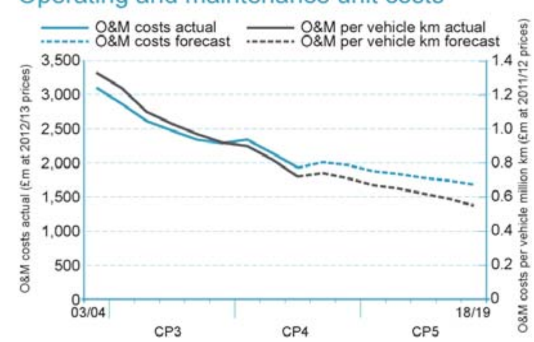
Asset stewardship – rail breaks



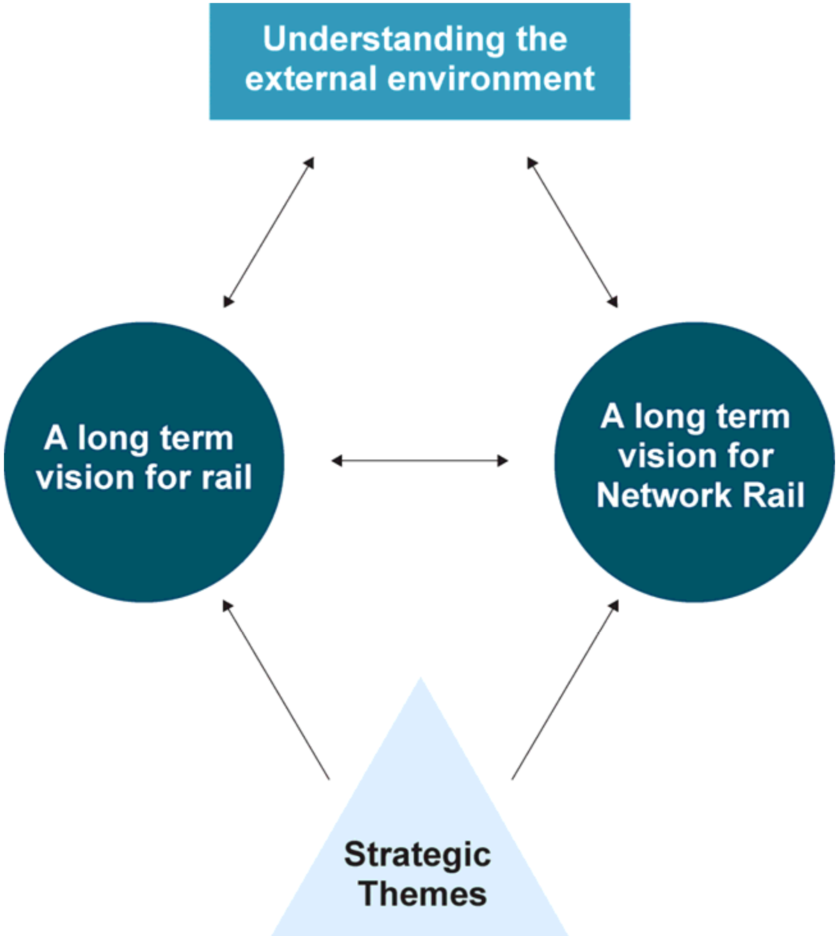
Efficiency



Operating and maintenance unit costs

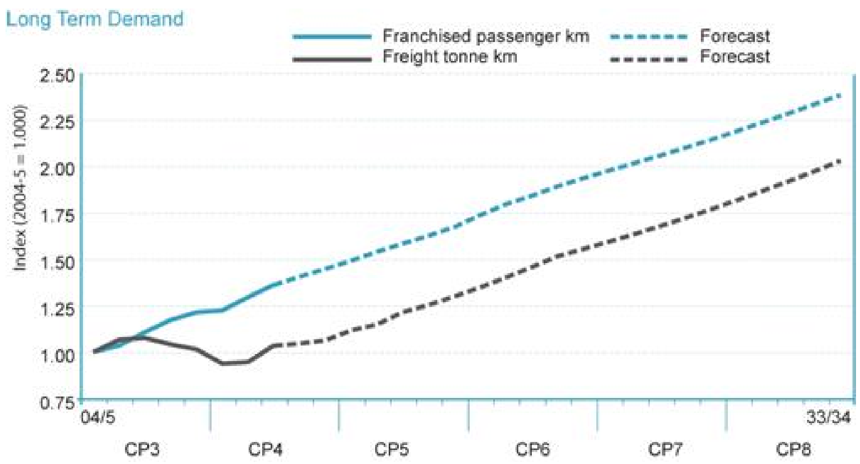


There is a coherent planning framework for the railway and for Network Rail



GB rail industry has a long term vision

- Development of a clear long term vision enables efficient planning, facilitates efficient short to medium term investment decisions and ensures an efficient and sustainable railway for future generations
- Compared to other transport modes, rail is best placed to respond to growth
- While in the shorter term growth may fluctuate year on year, in the longer term we forecast strong and steady growth rates



The Industry Strategic Business Plans set out in more detail the industry's view of longer term prospects for the key rail markets

We have developed a fresh vision for Network Rail:

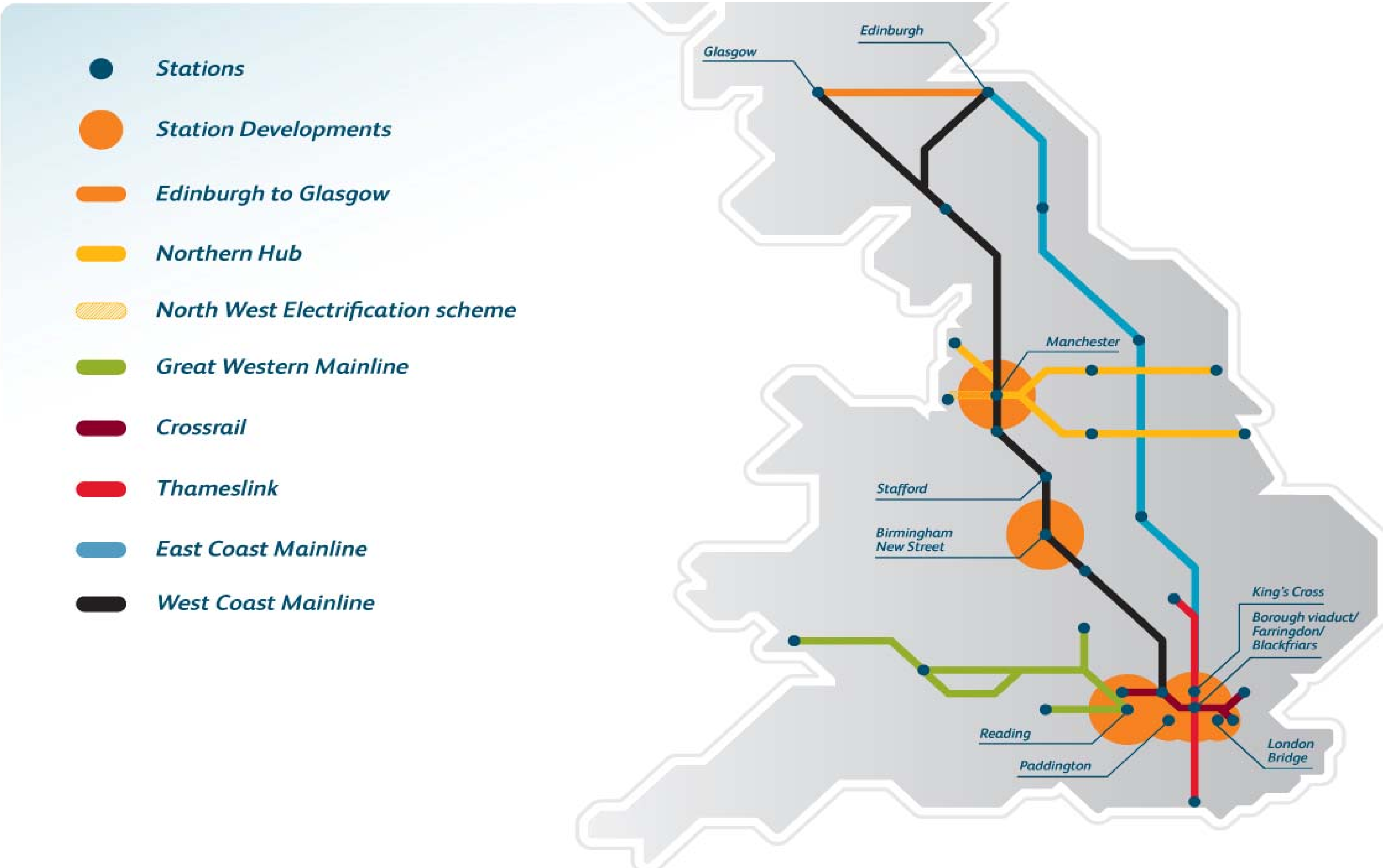
Our purpose (Why we exist)	**To generate outstanding value for taxpayers and customers**			
Our role (What we do)	**A better railway for a better Britain**			
Our vision (What we want to be)	**To be a trusted leader in the rail industry**			
Our strategy (How we're going to do it)	**To work with our partners and use our full potential to improve safety, reliability, capacity and value for customers and tax payers**			
Our behaviours (How we need to work)	**Customer driven**	**Accountable**	**Challenging**	**Collaborative**

The outcomes required to deliver our vision are grouped together in themes

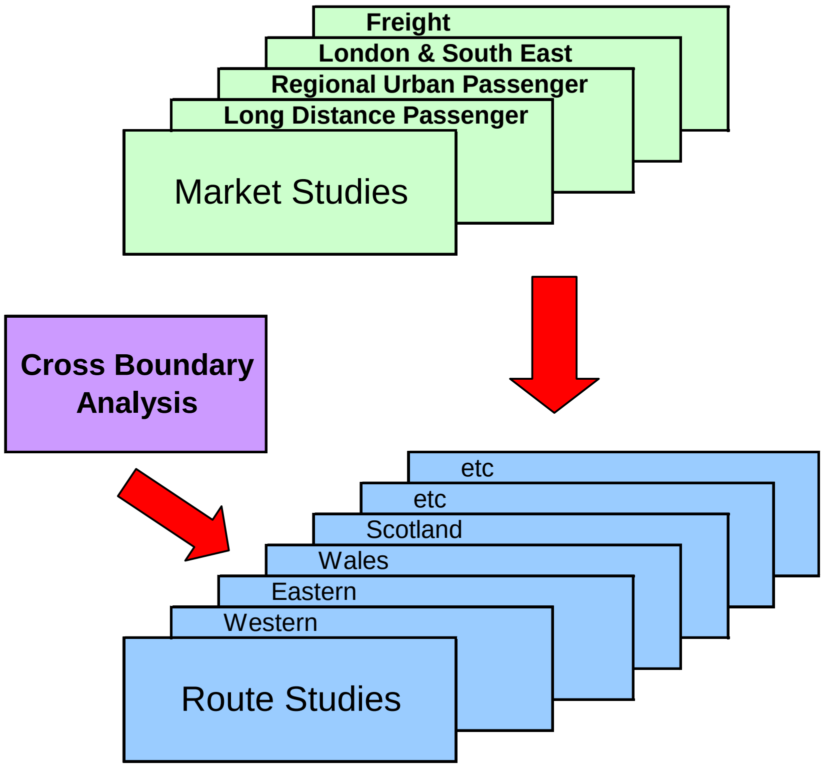
Strategic Themes

We have made progress but we must be honest about remaining challenges

Our plans for CP5 will improve critical networks



Long-term planning process



Market Studies

- Develop **demand forecasts** for 10 and 30 years, with scenarios to capture key uncertainties
- Formulate **conditional outputs** (e.g. service frequency, journey times, capacity) for key flows / corridors

Cross Boundary Analysis

- Ensures consistent treatment of cross-boundary services

Route Studies

- Similar process to gaps and optioneering in existing RUSs

Long-term planning process timeline

2012				2013				2014				2015				2016			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

Market Studies commence - May 2012

Publication of Draft Market Studies for Consultation - April 2013

Publication of final Market Studies – by Autumn 2013

ORR Establishment – by Winter 2013

Cross boundary analysis – ongoing from Q1, 2013

Route Studies (Tranche 1) commence - 18 month duration

Route Studies (Tranche 2) commence - 18 month duration

ORR has agreed that LTPP outputs should be completed in time to inform September 2016 Initial Industry Plan (IIP) for Control Period 6

Technology and innovation

Rail Technical Strategy

Network Rail Technical Strategy

Technology cycle plan & business case for R&D

Network Rail Strategic Business Plan

Technology planning

INDUSTRY

NETWORK RAIL

TRIOTRAIN
Total Regulatory Acceptance Interoperable Network

PANTO TRAIN AERO DYNO

We are devolving to our ten routes…

- Routes are now accountable for the issues that matter most to train operating customers
- There is a new structure, under a route managing director;
  - with authority to take decisions
  - an expectation they will act quickly
  - with objectives aligned to help our customers succeed
  - full control of what happens on their routes
- The ‘centre’ provides support to the routes
- All budgets were transferred from 1 April 2012
  - ultimately leading to separate P&L accounts within the new group structure
  - allows for regulatory benchmarking

Dime - Project development and delivery

Our ambition

To be the best rail infrastructure project delivery organisation in the UK

How?

- Creation of an intelligent ‘client’ capability in Network Rail
- Launch of a series of pilot project alliances to inform and test our revised customer and supply chain engagement approaches
- Creation of a separated business unit to be the deliverer of capital projects. The unit will be commercially astute, customer focussed and operate leaner / faster and will be separated, accountable and empowered to do business

Alliances and partnerships

What we are trying to achieve:

- Deliver improvements beyond devolution alone
- Reduce interface inefficiencies and duplication of resources
- Transform behaviours and interface management, from one driven by defending current contractual positions to one of collaborating to improve industry outcomes
- Drive improved prioritisation, performance management and exploitation of commercial activities
- Drive improved customer satisfaction through alignment of incentives around market and customer
- Drive change across the industry through improving Network Rail and TOC/FOC understanding of each other’s business

THE FRANCHISE PROCESS IS A KEY ENABLER FOR THIS

Thank You

22 May 2013

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Franchise Bidding Masterclass

Peter Wilkinson

Director, Rail Franchising

Department for Transport

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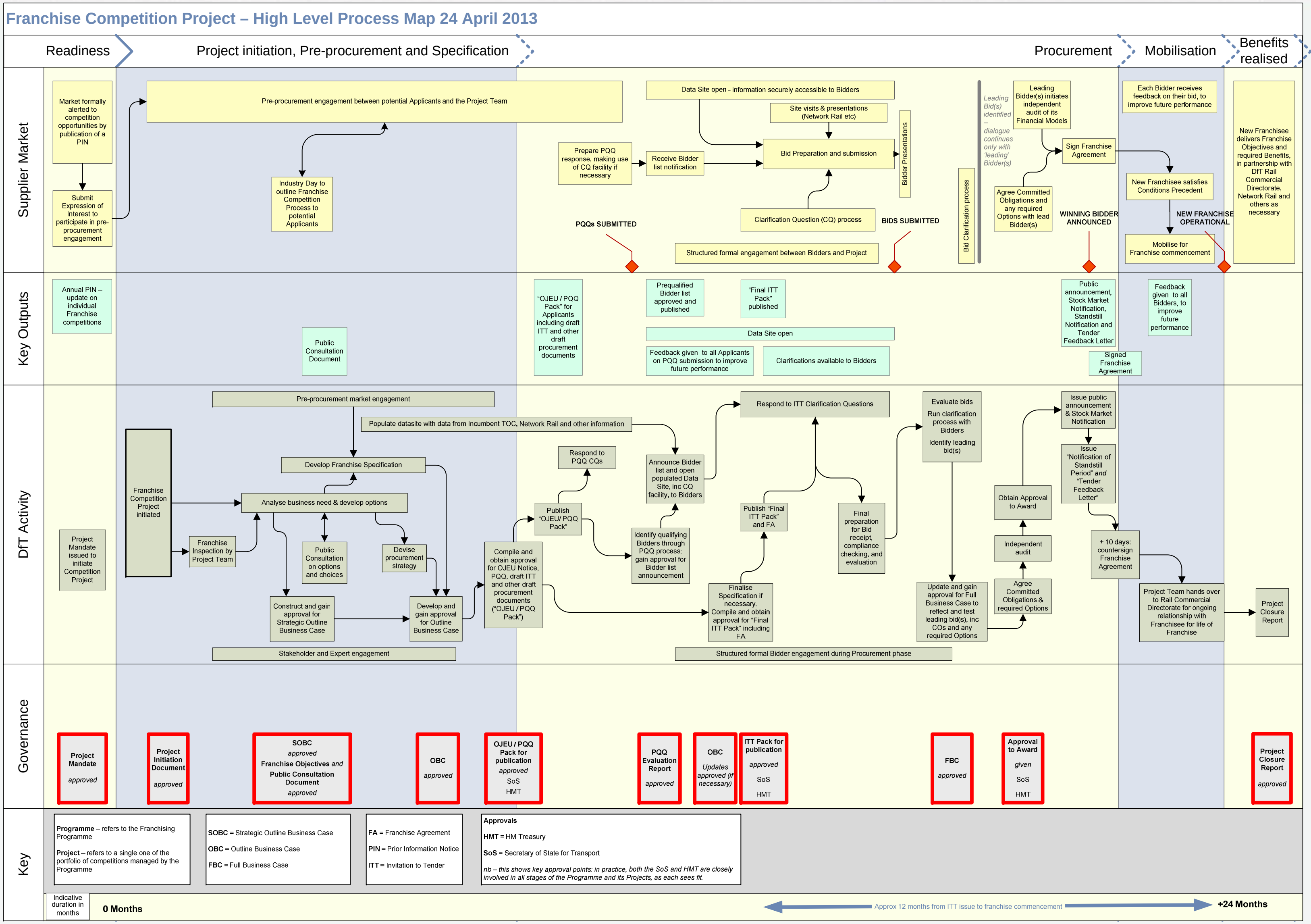
The Process



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The Evolution of the Process

- Engagement
- Innovation
- Partnership
- Transparency
- Simplicity
- Sustainability

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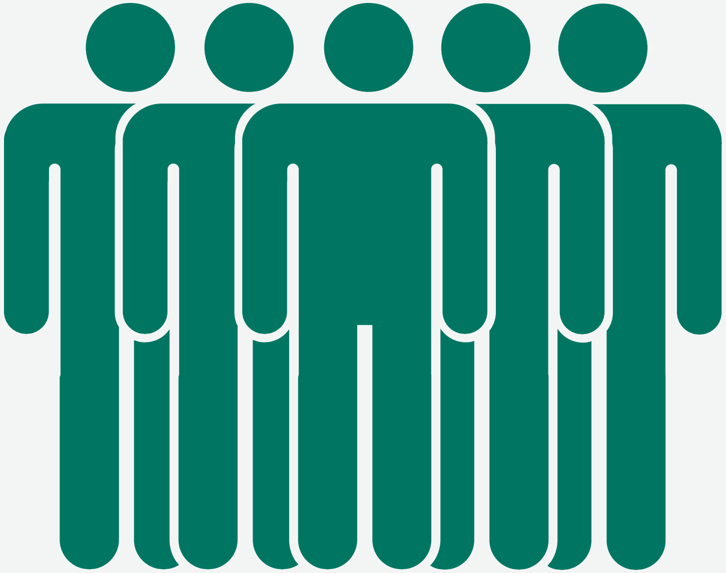
Engagement

- Involve you all as early as possible
- Empower and enable stakeholders
- Meet and discuss aspirations and ideas



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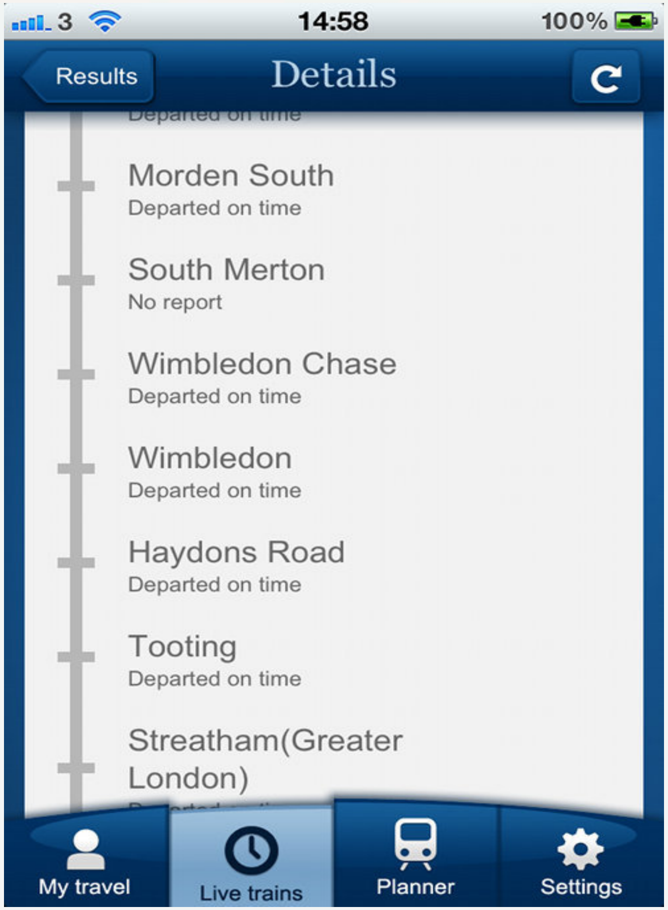
Innovation

- New ideas
- New partnerships
- New (or borrowed) technology
- New ways of working
- Excellence in operational safety
- Help available through Enabling Innovation Team



Partnership

- With Stakeholders
- With Passengers
- With our new and existing bidding partners

Transparency

- Honest and open
- Clear objectives
- Informed decisions
- Feedback to unsuccessful applicants so that they can be successful next time

Simplicity

- The ITT should form a framework
- It should facilitate, not stifle creativity and innovation

Sustainability

- Sustainability fundamental to rail's long term success
- Must be embedded throughout the franchise: it's a core requirement not an optional extra.
- We want ambitious, innovative proposals to deliver environmental improvements, support economic growth and bring communities together

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Thank you

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Personal Needs Break

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Question and Answer Session

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Next Steps

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Thank You

Networking Coffee