



# TRANSPORT COMMITTEE



Committee Office • House of Commons • 7 Millbank • London • SW1P 3JA  
Enquiries 020 7219 6263 Fax 020 7219 0909 E-mail [transcom@parliament.uk](mailto:transcom@parliament.uk)

<http://www.parliament.uk/transcom>

Committee Office Information Line for recorded information about Committee meetings: 020 7219 2033

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## PRESS RELEASE

### Publication of Report

### Passenger Rail Franchising (HC 1354)

**Embargoed until 00:01 am on Sunday 5 November 2006**

## **“Passenger rail franchising policy is a muddle”**

**The system of passenger rail franchising is a complex, fragmented and costly muddle which is unlikely to provide the innovation and investment needed for the passenger railways of the future. The system has had a decade to prove itself, but it has failed to achieve its core objectives. This was the conclusion of the House of Commons Transport Committee’s report published today.**

**The Committee called on the Government to develop a set of coherent objectives for the passenger railways and a system capable of delivering those objectives at the best value for money for passengers and tax-payers. This should be done as part of the Government’s forthcoming long-term strategy for the railways.**

The Committee identified fundamental tensions at the very heart of the franchising model. It said that “the Government has embraced the notion that private enterprise is best at delivering high-quality, innovative services such as the passenger railways, and yet it does not trust companies to deliver these services without highly detailed and specific contractual requirements which reduce the scope for innovation. It supports competition, and yet appears to see open access operators as a threat to stability. It wants risk to be transferred from the public to the private sector, and yet risk cannot be transferred in anything other than name because, as everyone knows, no Government could afford to let the railways go bust. The Government hails the growth in passenger numbers, and yet it does not provide the long-term strategy and investment to increase capacity on the network. It wants coordination and yet continues to operate a system of fragmentation. Finally, the Government wants the private sector to invest, take risks and innovate, and yet it prioritises price above all of these.”

Chairman of the Transport Committee, Gwyneth Dunwoody said: **“This muddle is unsustainable. For the best part of a decade, the Government has tinkered timidly round the edges to try to resolve the many problems. But no amount of tinkering can resolve the fundamental flaws inherent in the system.”**

She added: **“The current franchising model has passed its sell-by date. The railways require a coordinated long-term strategy for development and investment to provide the capacity and**

service levels that future generations will demand. This can only be delivered through coordination, innovation and above all, stability. Franchising delivers only fragmentation and short-term thinking, and is, at best, a costly means to preserving the status quo.

Mrs Dunwoody emphasised that **“In the current system, the Government tries to entice bidders into promising ever greater premiums, but in return, it has to underwrite virtually all the risks to which operators are exposed. At the end of the day, passengers will pay the price when operators cut service levels or hike fares to pay the premiums, and taxpayers will foot the bill when operators default or walk away from their contracts. It is easy to see the costs to passengers and taxpayers, but we found it difficult to identify any benefits of this system.”**

The Committee also recommends that, until a better system can be implemented, a number of short-term measures are needed to ensure the best possible functioning of the current system. The Committee concluded that:

- The Government must hold firm on its commitment not to re-negotiate franchising contracts with operators who have over-bid to win their contracts. Were the Government to give in to such pressures, the flood gates could be open to many future claims, and tax-payers would be left to foot the bill.
- The Government must re-balance the way it evaluates bids so that more emphasis is placed on innovation, environmental improvements and wider socio-economic factors, and less weight is given to increasing premiums and reducing subsidies. Innovation should be rewarded through an option to invest parts of the franchise premium directly into the services or infrastructure of the franchise. The Government also needs to create incentives for operators to control their costs more effectively.
- More needs to be done to integrate passenger priorities, local and regional policy objectives and regional economic strategies, as well as broader strategic network considerations into the terms of franchise agreements. Franchise specifications also need to be coordinated better with wider Government policies.
- The Government must take action to ensure that new entrants are encouraged to the franchising market. The current concentration with a small number of large players dominating the market indicates that barriers of entry in the rail franchising market are too high.
- The Government must ensure that decisions to grant open access are fully coordinated with overall network strategy and the contractual commitments of franchise operators.

### **Notes to editors**

The Transport Committee's 14<sup>th</sup> Report of the 2005–06 Session, *Passenger Rail Franchising* (HC 1354), will be published on Sunday 5 November at 00.01 am. **Media representatives who would like to receive a PDF copy of the report should contact Select Committee Media Officer Laura Kibby on 020 7219 0718 or 07917 488 557.**

**Members of the Committee:** Gwyneth Dunwoody (Chairman) (Crewe and Nantwich), David Clelland (Tyne Bridge), Jeffrey M Donaldson (Lagan Valley), Clive Efford (Eltham), Louise Ellman (Liverpool Riverside), Robert Goodwill (Scarborough and Whitby), John Leech (Manchester Withington), Eric Martlew (Carlisle), Lee Scott (Ilford North), Graham Stringer (Manchester Blackley), David Wilshire (Spelthorne).