TRANSPORT Briefing

Brown defends faith in rail franchising system

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Brown: rail concessions unlikely to be viable franchise alternative in most areas

Eurostar chairman Richard Brown has defended his support for the rail franchising system while giving evidence to the House of Commons Transport Committee on Tuesday (15 July).

Brown's report on the future for rail franchising, commissioned by transport secretary Patrick McLoughlin following the collapse of the West Coast refranchising process, was published last week (TB 9012).

But Labour MP Graham Stringer said that in concluding the franchising system is not broken Brown had failed to provide comparisons to back up this claim. He suggested that a hybrid/franchise concession with an element of profit share offered an alternative model while allowing the state-owned operator of last resort - Directly Operated Railways - to bid for future franchises could provide a useful benchmark.

In response Brown said that he had recommended profit share mechanisms be built into future franchise agreements. He said that Directly Operated Railways did not provide a direct comparison because allowing it to run franchises fails to transfer risks from the government. However, he conceded that DOR could serve as a benchmark and acknowledged that this had not come across clearly in his report.

Asked by the committee to elaborate on the difference between franchises and concessions, used to provide London Overground services, Brown said the principal difference was whether the train operator was taking revenue risk. He argued that any authority letting a concession would not only need to take revenue risk but would need the means to collect revenue and ideally have their own ticketing system. For that reason, he said it was unlikely to be viable in most areas - although the West Midlands was mentioned as one which could conceivably gain its own franchise or concession.

Brown also repeated the case cited in his report for letting a management contract for the new Thameslink/Southern/Great Northern franchise based on the disruption expected during the building of London Bridge station and introduction of new Thameslink trains. In this instance he said minimising disruption should be the principal focus of the train operator, although some degree of revenue incentive should also be provided.

MPs asked the Eurostar chairman to clarify a number of other points in his report. Brown said the pre-contracted franchise extensions he has proposed would not allow future franchisees to walk away. He said the mechanism formed an important part of his recommended package because it would discourage bidders from putting in overaggressive, unrealistic bids.

Committee chair Louise Ellman asked how this fitted with his recommendation that the government should tolerate bidders defaulting. Brown said he was making the point that pricing out all risk of franchisee failure was likely to increase the cost for the government and taxpayers. However, he said his changes would not result in more franchise defaults because, under his recommendations, future bidders would be asked to put up more capital than in previous competitions - with the notable exception of the recent failed West Coast procurement.

Brown said that under his proposals good past performance would be key to pre-contracted franchise extensions being exercised. In the event of a default he said companies should not automatically be excluded from future competitions but past record would be an important consideration in deciding whether or not they should be awarded a new deal.

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On the issue of anonymous bids Brown said this could be appropriate during early technical evaluations but when it was time to take a decision those in charge should know who was being considered. This knowledge would lead to more probing questions being asked about bids he suggested. "As Laidlaw pointed out… I think it was the [DfT] Permanent Secretary himself, who became aware of the identity of one of the bidders and excluded himself from further decisions," added Brown. "Now that clearly can't be sensible can it?"

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