

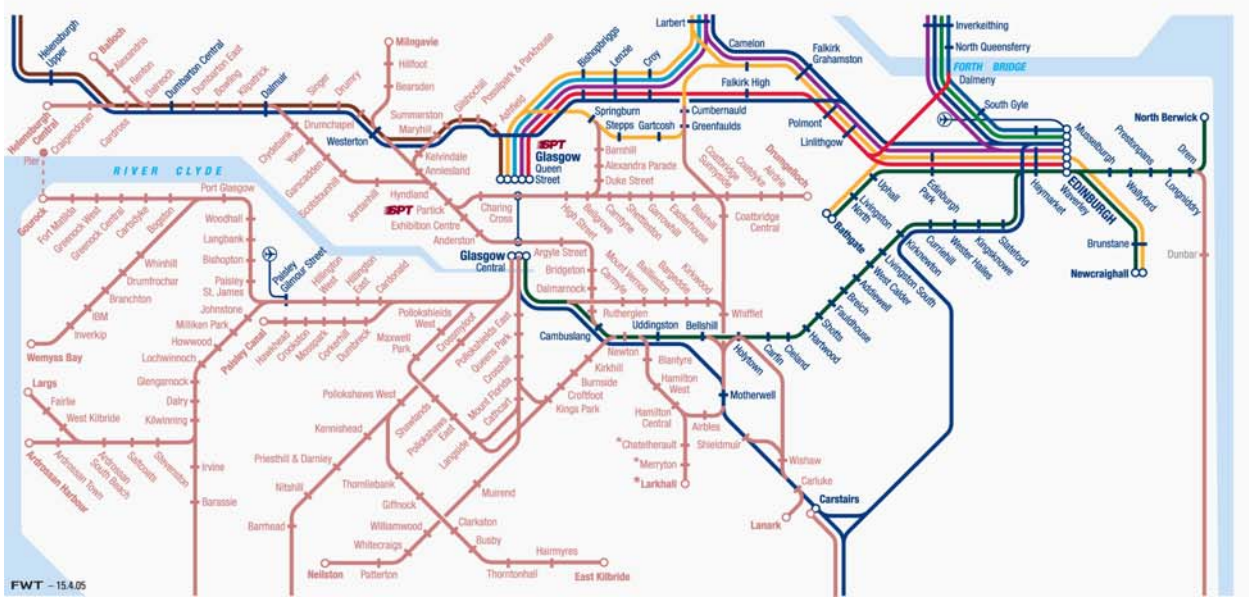
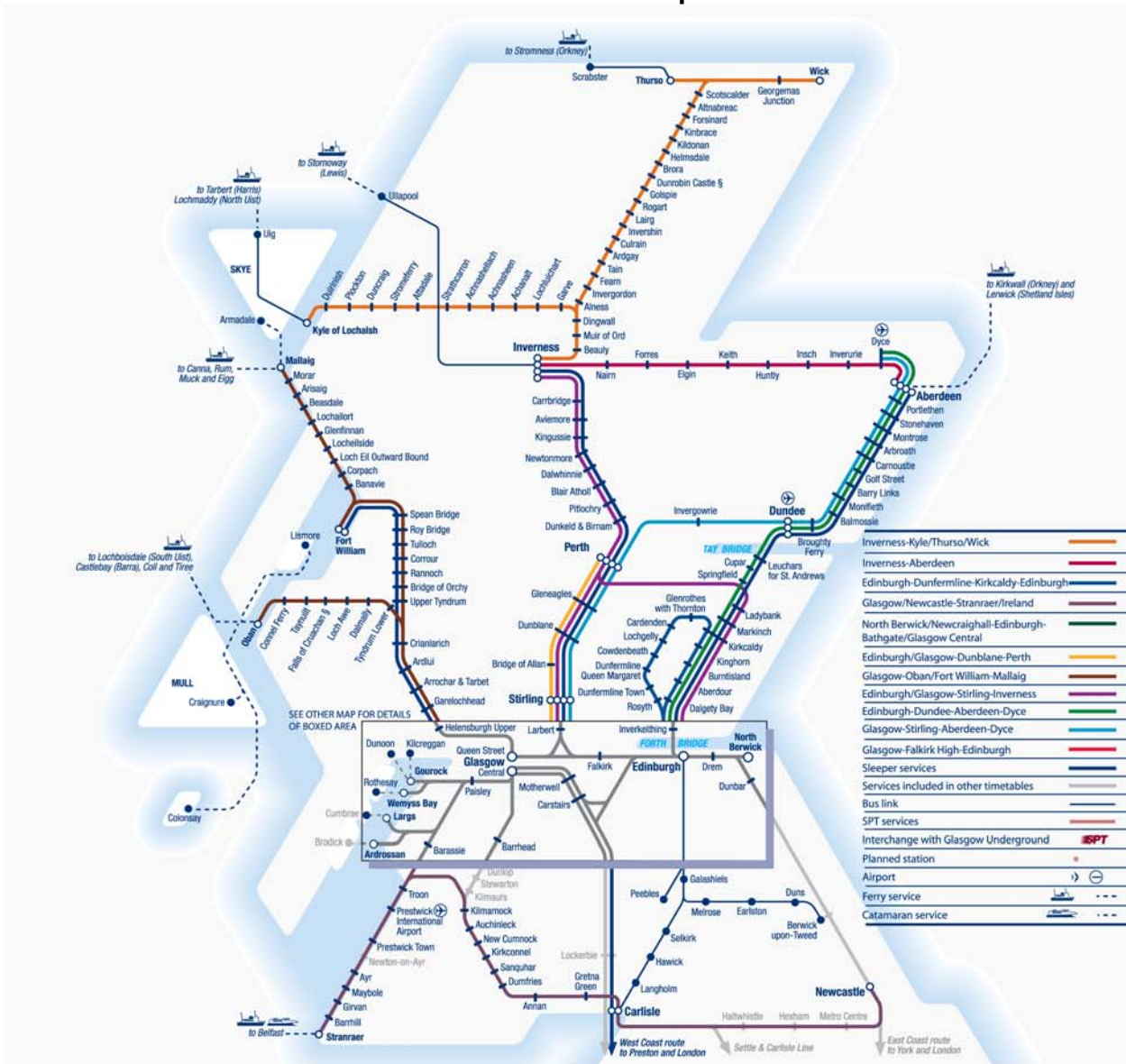
The ScotRail franchise

Franchise description

1. The original ScotRail franchise was awarded to National Express Group and operations commenced on 31 March 1997. The contract was let for seven years, but it was subsequently extended to allow time for a new franchise to be awarded. FirstGroup plc (First) took over the franchise on 17 October 2004 for a period of seven years. First's other franchises include: the Greater Western franchise; Transpennine Express (in joint venture); and Thameslink/Great Northern. First also operates the non-franchised (open access) service linking London to Hull and Humberside.
2. The franchise is made up of intensive suburban services in the Greater Glasgow area, commuter services in the Edinburgh area, inter-urban services between the major cities of Glasgow, Edinburgh, Stirling, Perth, Dundee and Aberdeen, and rural services around Scotland. Services also extend across the border to Carlisle and Newcastle. The company also operates the overnight sleeper car services between London Euston and Aberdeen, Edinburgh, Fort William, Glasgow and Inverness. The following figure shows the routes operated by the franchise:

FIGURE 1

First ScotRail map



3. First ScotRail will receive subsidy payments of £1.9 billion (2004 prices) over the life of the franchise.
4. Transport Scotland is responsible for investment in the Scottish rail network and has power to fund and specify where resources are targeted by Network Rail on track maintenance and investment in Scotland. The Office of Rail Regulation sets Network Rail's outputs and corresponding revenue requirements in Scotland in the light of the statement of what Scottish Ministers want to be delivered by the railway and their statement of funds available.

Key aspects of the franchise agreement

Fare regulation

5. Within Strathclyde, all fares are controlled by the relevant regulatory body.¹ First told us that outside Strathclyde regulated fares² accounted for 58 per cent of the Scottish Rail Franchise's revenue. This proportion increases to an estimated 60 to 65 per cent if the Strathclyde area is included.
6. The Scottish Rail Franchise is not subject to the same regulatory regime as other franchises.³ At the time of the franchise negotiation, the Scottish Ministers decided to apply a price cap of RPI+1 per cent a year to the Scottish rail franchisee's individual regulated fares with effect for three years from January 2004. This applies to all fares within the Strathclyde area and to certain services extending up to 25 miles over the SPTE boundary and to season and saver tickets in the rest of Scotland. If this policy is changed during the term of the franchise, the level of subsidy will be changed to ensure that the franchisee suffers no gain or loss from the change.
7. Within a region extending about 20 miles around Edinburgh, certain fares (weekly, monthly, quarterly and annual season tickets; singles and open returns) are regulated separately in a commuter fares basket. The increase in the fare basket is capped at RPI+1 per cent a year and increases in individual fares are limited to RPI+4 per cent a year.
8. The Scottish Executive told us that the issue of fare regulation was currently under review.
9. Unregulated fares include first-class fares; standard single (except in the area covered by the Edinburgh region commuter fare basket) and open return fares; cheap day return fares; low-price advanced purchase return fares (such as super-saver or apex tickets); and any new types of fare developed by the franchisee. These fares are constrained to varying degrees by the effect of the controls on regulated fares and the commercial need to keep a reasonable relationship between regulated and unregulated fares.

Level and quality of service

10. The minimum level of service that must be provided by the Scottish rail franchisee is set out in two Service Level Commitments contained in the Franchise Agreement.

¹The term refers to the Strategic Rail Authority (SRA) and the Strathclyde Passenger Transport Executive (SPTE) for the period prior to transfer of responsibilities to the Scottish Executive in 2005 and to the Scottish Executive subsequently.

²Saver return fares and weekly season tickets for flows where such fares existed in June 2003. Where no saver ticket existed the standard day return is regulated.

³For other franchises, fares are regulated as part of a basket. The overall basket cannot increase by more than RPI+1 per cent, but individual fares can increase by as much as RPI+6 per cent.

The franchisee may only operate a service different from Service Level Commitment requirements with the approval of the relevant regulatory body.

11. Service Level Commitments can be specified on a timetable-by-timetable basis and can be changed every year. The original Service Level Commitments included the service intervals, maximum journey times, and stopping patterns of each service. A target that no passenger would stand for more than 10 minutes was also set for certain services. The franchisee will also be required to add additional services subsequently specified by the relevant regulatory body.
12. A train plan showing the proposed allocation of the train fleet to meet the Service Level Commitments and target passenger demand was also required as part of the franchise process.
13. The performance of the franchisee in areas such as punctuality, short train formations and timetable changes is monitored and can result in financial rewards and penalties. Poor performance relating to cancellation, capacity and service delivery can lead to improvement plans, and then breach and ultimately default under the franchise agreement.
14. As part of its franchise agreement, First committed to the following service improvements:
 - (a) introduce commuter services from Kingussie and Aviemore to Inverness (known as the 'Invernet' service);
 - (b) improve commuter services around Aberdeen, including more stops at Portlethen;
 - (c) extend services between Aberdeen and Inverness to Stonehaven;
 - (d) introduce services from Larkhall to Milngavie;
 - (e) support through bus-rail ticketing, and participate in multi-modal schemes proposed by local authorities;
 - (f) extend bus-rail links depending on the outcome of trials in the Leven Valley, which involve only First's bus operation (ie is not open to other bus operators);
 - (g) establish a customer contact centre and improve website information; and
 - (h) introduce email performance bulletins and text messages with real-time journey information.
15. Since being awarded the franchise, First Group has made the following announcements in relation to new services planned for December 2005:
 - (a) Announced the launch of a trial commuter service from Arrochar and Tarbet to Glasgow. Funding was obtained from the Highland Rail Partnership.
 - (b) Launched 'Invernet', the first suburban train service linking Inverness to Kingussie, Aviemore and Carrbridge. Funding support was obtained from HITRANS, The Highland Council and Caithness and Sutherland Enterprise.
16. The December 2005 timetable also included an increase in the number of services in Aberdeenshire.

17. We noted that, according to the *Rail Industry Monitor 2005*, ScotRail was also working with Network Rail, GNER and Virgin to develop a programme of linespeed improvements to reduce journey times on links between Edinburgh/Glasgow and Perth/Aberdeen/Inverness. According to the same source, the long-term aim was to achieve the following journey time savings:
- (a) Edinburgh–Aberdeen: from 2.5 hours to 2 hours.
 - (b) Aberdeen–Inverness: from 2 hours 13 minutes to 2 hours.
 - (c) Glasgow–Aberdeen: from 2 hours 37 minutes to 2 hours 22 minutes.
 - (d) Inverness–Perth: from 2 hours 15 minutes to 2 hours 5 minutes; and
 - (e) Glasgow–Inverness: from 3 hours 20 minutes to 3 hours 10 minutes.
18. However, this information appeared to be out of date, and [redacted] told us that it did not recognize these proposals [redacted]. Both [redacted] and the main parties drew our attention to Network Rail’s draft Route Utilisation Strategy (RUS) for Scotland,⁴ which is currently subject to a public consultation. The RUS includes options for infrastructure improvements that could have the effect of improving rail journey times on flows on the Saltire Cross. However, we found that the effect on journey times was either small or unclear, and that the timescales for implementation were such that we were unable to expect material rail journey time improvements on the Saltire Cross during the period relevant to our inquiry.

Revenue risk

19. The Scottish Executive contains the franchisee’s level of revenue risk by including revenue-sharing and revenue-support arrangements in the agreement, referred to as a cap-and-collar mechanism. Under these arrangements, the Scottish Executive provides a given level of revenue support and if revenue exceeds certain levels above target, the franchisee would share a proportion of the excess revenue with the Scottish Executive.

⁴www.networkrail.co.uk/browseDirectory.aspx?dir=\RUS%20Documents\Route%20Utilisation%20Strategies\Scotland&pageid=2895&root=