Public sector franchises

Good or bad?

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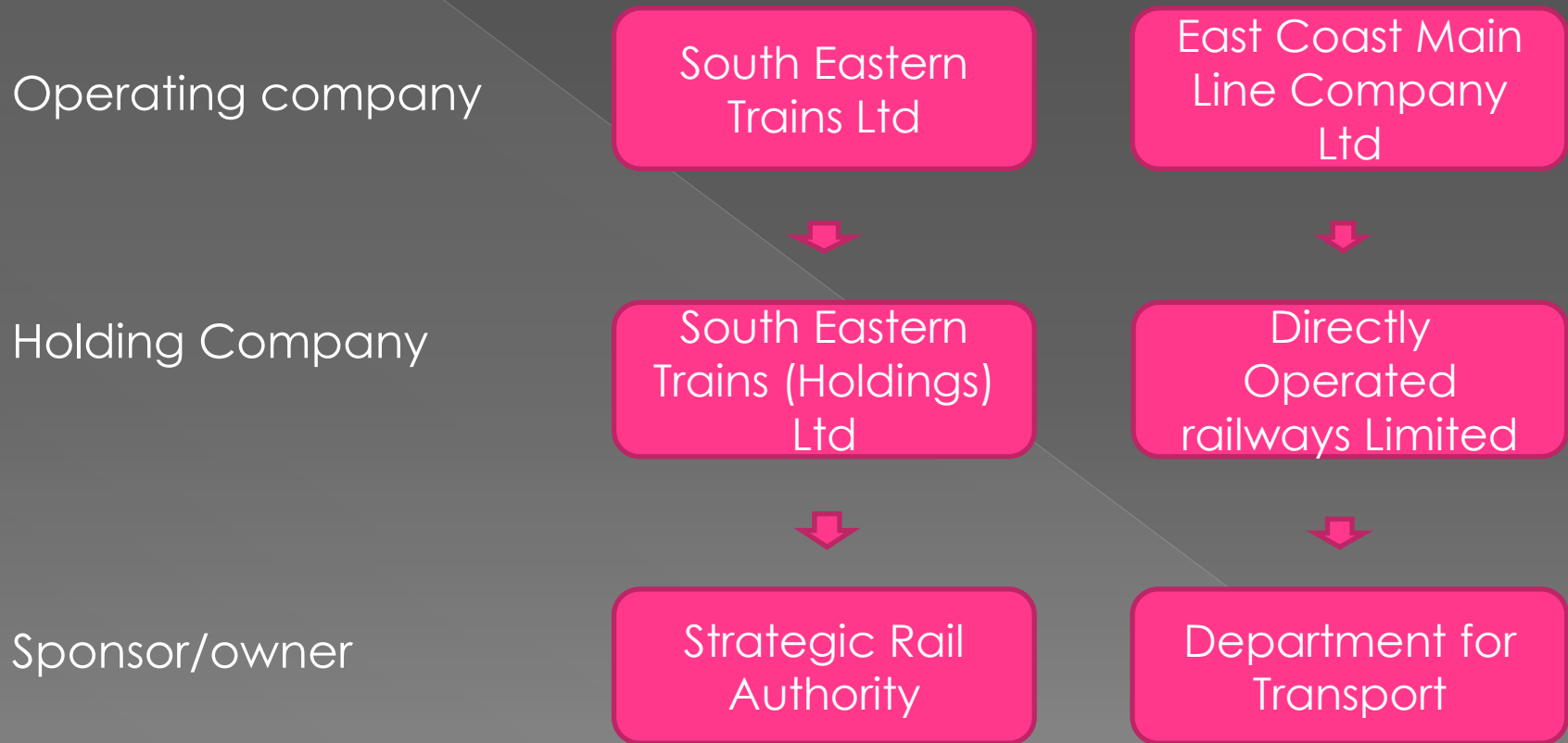**Institution of Railway Operators South East Branch**
16th May 2016

Legal landscape around franchising

- EU principle re separation of infrastructure from operations – actually accounting separation only is required
- 1993 Railways Act (as amended)
- EU Directive 1370 introduced in 2007
- Section 30 responsibilities
- Operator of Last Resort

When has public sector operation been invoked since privatisation?

- Forced early termination of Connex South Eastern franchise in 2003
- Mid term handback of National Express East Coast franchise in 2009
- Mobilisation to take over Inter City West Coast franchise following failure of procurement in 2012
- Plans prepared for emergency takeover of several franchises during Direct Award programme 2013-15

Organisational structure utilised

Operating company

| South Eastern Trains Ltd | East Coast Main Line Company Ltd |

Holding Company

| South Eastern Trains (Holdings) Ltd | Directly Operated railways Limited |

Sponsor/owner

| Strategic Rail Authority | Department for Transport |

Provided appropriate organisational separation whilst retaining control

How the businesses were run

- As _commercial enterprises_ as if in the private sector, as far as possible within a public sector environment
- As _arms length businesses_ as far away as possible from the Secretary of State for Transport
- Strategic reviews conducted during mobilisation period
- Preferred option to take the business forward selected and developed
- For SET an 18 month business plan horizon was initially adopted, subsequently extended
- For East Coast a 3 year business plan horizon was adopted, subsequently extended; a 5 year business plan was developed during 2012/13

South Eastern Trains – the inheritance

- Financial difficulties had become all-consuming for Connex
- Connex had worked with the SRA to develop options to reduce the cost base – however these changes were not acceptable
- Driver establishments had been artificially constrained leading to excessive dependence on RD working and poor reliability of service
- Fleet availability and reliability was poor; – key "seats to plan" metric had worrying trend
- Trains and stations were in very poor presentation condition: filthy, run down and graffiti-ridden; train toilets only 50% operational
- The marketing department had been effectively shut down with nothing invested in revenue development
- Recruitment had been slowed so vacancy gap was at 8%
- No investment was taking place in systems or people development
- New trains were being built for which there was no depot or equipment to maintain them, and no funds to address
- Operational control and levels of customer information were poor
- Operational performance was in steady decline and levels of passenger satisfaction were grim
- Safety indicators poor and capability to manage safety weak

The business was approaching a tipping point – something had to be done to arrest the decline and start to build improvement

SOUTH EASTERN TRAINS
What do we want to achieve in advance of the new franchisee arriving?
Time horizon : say 18 months from now

STRATEGIC OPTIONS	DO MINIMUM CONSISTENT WITH SAFETY	MAINTAIN STATUS QUO	IMPROVE
WHAT DOES THIS IMPLY	– Allow leakage of key staff, preserving only those essential to continued safe operation – Minimise expenditure on all areas except that required for basic service – Minimum investment to that required to support the new trains – Batten down the hatches and weather the storm	– Retain key execs and mangers with some strengthening in critical areas (finance and engineering) – Strengthen financial reporting system and expenditure controls – Some investment essential to enable cut-over to new trains – Concentrate all resources and energy on core business and key deliverables	– Ensure top quality executive team in place and existing management cadre retained and strengthened – Improve financial control systems – Invest in new facilities for new trains ASAP – Increase spend levels on key passenger benefits e.g. train's presentation and station maintenance – Investment in new ticketing systems
WHAT SORTS OF OUTPUTS FOLLOW AFTER ONE YEAR	– Train service performance may decline by 5 percentage points in a year – Cancellations increase above threshold – Short formations increase dramatically – Staff satisfaction and morale declines alarmingly – Passenger satisfaction further eroded	– Train service performance declines slightly from January due to impact of new trains with inadequately enhanced facilities – Cancellations on Kent Coast increase but stay within threshold overall – Short formations increase as availability suffers – Staff morale deteriorates due to lack of clear vision and uncertainty of ownership – Improvement in passenger satisfaction stalls due to transitional problems with new train programme	– Train service performance improves by 3 percentage points from P6 MAA – New TT in May 04 creates more robust deliverable plan – Cancellations and short forms held at current levels through strong management of new trains programme – Staff satisfaction recovers and held at early 2003 levels pending new ownership clarity – Increased costs partially offset by lower fines – Customer satisfaction improves measurably
FINANCIAL IMPLICATIONS	– Fines increase requiring additional subsidy over 2003 levels	– Slight increase in fines offset by internal improvements through tighter focus - subsidy held at 2003 levels	– Subsidy requirement increases over 2003 levels

South Eastern Trains – "The 500 day franchise"

"The 500 Day Franchise"
- Our original priorities

- Stabilise the business

- Improve managerial capability, business processes and stakeholder/funder relationships

- Reinvigorate safety management

- Produce a 3 year Business Plan in March 2004

- Maximise the value of the business at the point of transfer

- Identify what can be improved for passengers within a year and make it happen

southeastern
PUTTING THE PRIDE BACK

3

South Eastern Trains – leadership actions

- Built a strong executive team around me with fresh appointments to key roles of operations and safety, fleet, retail, marketing and finance
- Introduced core management skills training and work on values and behaviours
- Improved financial systems and processes, including financial forecasting, internal control, risk registers
- Introduced project control office with business cases, stage gates and reviews
- Developed a suite of KPIs covering the whole business, cascaded to departmental and individual targets
- Major focus on improving safety management
- Created a mission: "Putting the pride back"

South Eastern Trains – short term business actions

- Recruited and trained drivers as fast as we could
- Rapidly developed a solution for 375/376 maintenance, got it approved and built at Ramsgate and Slade Green in time for service introduction
- Absolute focus on radically improving fleet and station presentation very fast:
- zero tolerance of graffiti
- daily and heavy cleaning regimes
- re-glazing and 'filming' all train windows
- target 100% toilets in service
- all trains to be exterior washed nightly with regular 'handbashing' regime

South Eastern Trains – medium term business actions

- Networker maintenance programme review
- Recovery and re-establishment of fleet management practices; creation of war rooms
- In house refurbishment of entire Networker fleet achieved on time and on budget
- New customer information displays and controllers re-located to new service delivery centre
- Customer relations management brought back in house
- Station upgrade programme, new TVMs, better maintenance
- Conductor management team introduced
- Improved gateline management and revenue protection
- Pioneered use of Rail Enforcement Officers
- Entire IT system upgraded or replaced plus new all-location data network

South Eastern Trains - some KPIs

KPI	Year to Nov 2003	Year to March 2006
PPM	79.6%	86.7%
Passenger satisfaction - trains	51%	77%
Passenger satisfaction - stations	51%	75%
Passenger satisfaction - information	42%	55%
Passenger satisfaction - complaints	42%	57%
Vacancy gap	8%	4.5%
Staff satisfaction	22%	51%
Revenue growth shortfall compared to LSE average	6%	0.6%

SET met all its financial objectives, increasing the percentage of the cost base delivered through the fare box along the way

NAO report December 2005 gave a clean bill of health

Company KPI's	Period Actual	Period Target	Variance to Target	YTD Actuals	YTD Target	Variance to Target	Absolute move Period	from Pre Period YTD
Charter Punctuality - Metro (a)	88.3%	80.0%	8.3%	85.0%	86.2%	(1.2%)	5.9%	1.0%
Charter Punctuality - Mainlines (a)	93.0%	80.0%	13.0%	87.8%	86.2%	1.7%	6.8%	1.3%
Charter Reliability - Metro (a)	99.2%	99.0%	0.2%	99.0%	99.0%	0.0%	0.0%	0.0%
Charter Reliability - Mainlines (a)	99.4%	99.0%	0.4%	99.3%	99.0%	0.3%	(0.1)%	0.2%
PPM (a)	91.1%	86.1%	5.0%	86.7%	86.1%	0.6%	2.6%	1.0%
SET Impact Delay Minutes	30,490	42,883	(12,393)	41,723	47,935	(6,211)	(7,053)	(2,800)
Seats to Plan - Metro (a)	99.5%	99.5%	(0.0)%	99.2%	99.5%	(0.3)%	0.32%	0.08%
Seats to Plan - Mainlines (a)	99.4%	99.0%	0.4%	99.1%	99.0%	0.1%	(0.09)%	0.19%
GPH SPADs (b)	0.00	0.24	(0.24)	0.08	0.26	(0.18)	0.00	(0.08)
Non GPH SPADs (b)	1.00	1.70	(0.70)	2.23	1.70	0.53	1.00	(1.31)
Miles per casualty-375-3/6/7 (c)	25,210	22,500	2,710	21,723	20,385	1,338	6,529	1,027
Miles per casualty-375-8/9 (c)	37,580	22,500	15,080	21,915	20,385	1,531	10,188	1,905
Miles per casualty-376 (c)	22,692	13,500	9,192	12,936	11,723	1,213	3,049	1,281
Miles per casualty-465/0&1 (c)	8,589	9,400	(811)	8,574	8,616	(42)	(778)	101
Miles per casualty-465/2&466(c)	11,310	10,600	710	10,453	10,747	(294)	5,331	347
Miles per casualty-465/9(c)	12,435	10,600	1,835	6,342	5,923	419	6,055	946
Miles per casualty-508(c)	7,274	8,000	(726)	5,995	8,000	(2,005)	3,378	(592)
Operating Irregularities (d)	3	1.15	2	11	13.8	(3)	3	(5)
Lost Time Accidents (g)	3.00	3.38	(0.38)	1.46	3.50	(2.04)	2.00	1.69
Assaults- staff (g)	36	28	7.85	35	27	8.07	0.00	3.15
Train Cleaning/Presentation Scores (e)	96%	90%	6%	95%	90%	5%	1.12%	0.05%
PBIT (f)	2,241.3	1,581.6	659.6	(2,111.2)	(3,232.2)	1,121.0	636.39	
Complaints (g)	1,839	2,250	(411)	2,249	2,404	(155)	(384)	(65)
Retail Standards Index (a)	79.6%	75.0%	4.6%	76.6%	75.0%	1.6%	0.70%	0.21%
CIS Availability (a)	99.64%	99.97%	(0.33%)	99.95%	99.97%	(0.02%)	(0.36)%	(0.03)%
Customer satisfaction - Stations (CSS) (h)	72%	65%	7%	75%	65%	10%		
Customer satisfaction - Trains (CSS) (h)	74%	65%	9%	77%	65%	12%		
Customer satisfaction (NPS) (h)	76%	65%	11%	71%	65%	6%		
Schedule 17 (a)	87.83%	96.00%	(8.17%)	90.83%	95.85%	(5.02%)	(2.86)%	(0.64)%
Head Count (d)	3,924	4,088	(164)				5	
Targets Achieved			22 of 30			20 of 29		

(a) Period=%, YTD=MAA   (b) Period=Number, YTD=MAA per 1m train miles   (c) Period =Miles, YTD=MAA   (d) Period and YTD=Number   (e) % average score of combined 'basket' of train presentation measures, YTD = Emerging MAA   (f) Period and YTD=£'000   (g) Period=Number, YTD=MAA   (h) Latest half yearly/Quarterly results, YTD = previous half year/quarter results

South Eastern Trains company KPIs as at March 2006

East Coast – the inheritance

- Poor safety culture and outcomes
- Lack of leadership, knowledge and capability within the fleet organisation, leading to poor quality servicing, maintenance and engineering
- Fleet stretched operationally given its usage, age and condition, causing poor service delivery
- Very poor train presentation, especially toilets, air-conditioning and exterior cleanliness
- Inadequate financial management and controls, focus on transactions rather than business support
- No attention to detail on train performance
- No contingency plans and limited diversionary capability during line blockages
- On board catering offer down-graded and incoherent to passengers
- Poorly managed supplier contracts
- Limited employee engagement, lack of common purpose, and demotivated workforce
- Stagnant timetable due to stalled approach to expansion
- Revenue in freefall, with open access becoming serious competitors

This slide is easy to write now with the benefit of hindsight. When we took the franchise over in 2009 we had no idea just how bad things had become

Our first attempt at an East Coast strategy

This wheel was created during the mobilisation phase during late summer 2009 before handover from National Express.

It demonstrates just how little we had understood the scale of the challenge before we looked under the hood

East Coast: refined strategy as it developed

- New timetable from May 2011 to better exploit the route: more frequency and reduced journey time to key destinations, standard pattern to maximise revenue
- Move to complementary first class offer from same date
- Significant investment in fleet: depots, production processes, strategic spares, people and skills
- Air conditioning workshop reinstated at Bounds Green
- Closer working with Network Rail to tackle endemic poor ECML infrastructure performance and bad weather capability
- Focus on Right Time running developed leading to multiple timing adjustments
- Introducing market-leading revenue management system
- Upgraded Wi-Fi across the fleet
- Focus on train presentation across all customer touch points
- Station development plan put in place
- Emphasis on complaints shifted from clearing to learning
- Focus on the brand: "Welcome to East Coast" initially developed into "Feel at home with East Coast"

All this was underpinned by a major focus on leadership with "authentic leadership" programme and many engagement initiatives

East Coast – the legacy

- Industry-leading NRPS scores at handover
- Fleet performance at best-in-class levels
- Passenger complaints markedly reduced and used to drive business improvement
- Handed over with key performance metrics at top of Long Distance Operators league table despite everything thrown at us
- Loyalty scheme, other marketing initiatives and service improvements were successful in driving revenue to exceed budget by the final year
- Numerous station development and retail schemes completed
- Staff engagement moved from 62 to 74%

The franchise was successfully rehabilitated and on an upward trajectory, ready to be taken on by its new owners

Opportunities presented by public sector operation

- Recovering a failing business
- Educating government so that it becomes a more informed client
- Re-franchising process:
  - assisting franchise specification
  - improving bidders' understanding
  - levelling the playing field for bidders

Problems we experienced

- Short termism and repeated mandate extensions
- Owning groups – at times
- ATOC, and latterly RDG: involvement and handling conflicts
- Being used as a political football on public/private divide
- Harsh treatment by franchise management eager to demonstrate even-handedness
- Tendency for ministerial meddling to micro-manage "our TOC"
- Trade Unions – double edged sword
- DfT caution when in difficult areas
- Conflict of interest at DfT once control of Network Rail was taken back

Opportunities we experienced

- Definite opportunity to rehabilitate a failing TOC in a reasonably safe space – conventional bid process likely to prove difficult for this to succeed
- Can act as a bridge between the industry and government, with a foot in both camps
- Can be used to demonstrate to those in government what running a rail business is actually like
- Benchmarking opportunity for government
- By being seen as a bit of a threat in the market place provides commercial leverage to government

Can a franchise be successfully operated in the public sector?

Yes it can!

But probably best done only in certain, well-defined situations

Assessment: public vs private

- Very difficult to maintain a commercial approach over time
- Public sector risk aversion and slow decision making process
- Political intervention
- Political 'hot potato'
- Large scale investment very challenging

Businesses succeeded despite being in the publicsector, not because of it

My success factors for public sector operation

- Select a senior team with both industry expertise and private sector experience, and who are motivated to want to deliver public service well
- Get as long a mandate as you can from the beginning, and ensure you have enough freedom to manoeuvre
- Ensure the operation is considered as a one off, temporary arrangement
- Small scale, seen as not aiming to replicate, helps
- Work with private sector colleagues in the rest of the industry, not against them
- Good personal chemistry between senior team and client organisation is essential, as is unfettered access to the decision maker
- Be completely open with your sponsor team and ensure potential bad news is not hidden
- Behave in a way which builds trust

And now your views please!