DELTIX
transport consulting

# Rail 2014:
# potential implications of a 'dual focus franchise'

***Final Report to HITRANS***

***February 2012***

*business • community • environment*

## CONTENTS

## 1. EXECUTIVE SUMMARY

This report focuses primarily on the potential implications for Highland rail services of a "dual focus franchise" of 'economic' and 'social' sectors, or even creating more than one franchise, and on the wider issue of achieving Highland policy aims – such as providing an alternative to the car, bringing tourists to the area, offering commuting opportunities and an alternative to flying, and connecting with other modes.

Important enhancements to rail corridors in the Highlands – particularly at stations and for some train services – have been secured within the existing franchising environment. However, the wider structure of the rail industry and its associated cost base – plus constraints on some areas of public spending on transport – are major barriers to progress in key areas such as (a) train service improvements dependent on the provision of extra rolling stock and route infrastructure upgrading, (b) high-quality rolling stock for the tourist market, and (c) adding stations to the network.

It can reasonably be assumed that the requirement, in the case of a separate franchise, for a separate management team / train crew / rolling stock, as well as the costs of putting together a separate franchise bid, would add significantly to costs – and would therefore have little appeal to the Scottish Government, even if it could be demonstrated to bring an additional local focus to management and marketing.

Division of a future ScotRail franchise into economic and social management units would not offer any Highland-specific focus. The social unit would inevitably encompass a diverse and scattered range of services across Scotland, many with roles and supply and demand circumstances far removed from the Highland situation. The Highland Main Line might be part of an 'economic' unit, but it is not clear how this new arrangement would allow commercial delivery of key route and service enhancements beyond those achievable within the existing franchising environment.

The most likely benefit of social rail would be on the revenue side, with a local focus on local markets – but this is already substantially achieved through HITRANS initiatives within the existing franchising environment. There is insufficient evidence to suggest that the added complexity of a dual focus franchising regime would produce significant benefits in either the service on offer, or the cost of these services, both on 'economic' and 'social' routes. Securing appropriate rolling stock for rural routes remains – and would remain under a dual focus franchise – an unresolved issue.

The recommendations of the 2011 McNulty *Rail Value for Money* report and recent analysis by Paul Salveson – pioneer of the 'community rail' concept in England & Wales – point towards the possibility of a pilot 'vertically-integrated sub-franchise' for the rail network north of Inverness, potentially unlocking a wide range of rail cost and revenue benefits as well as generating enhanced value from the rail system.

As a pilot project with potentially benchmarking value for other self-contained sections of the rural network throughout Britain, this might attract additional funds for pump-priming, research and development. New forms of ownership and staff involvement and flexibility could be crucial to creating (a) a better and more sustainable balance between rail costs and revenues, and (b) a business model which encourages investment and enhancement in infrastructure and rolling stock.

An important issue which needs further analysis is the need to maintain the integrity of the whole Highland network and indeed strengthen its management, while recognising its diversity through appropriate models of ownership and management, such as a distinctly different sub-franchise north of Inverness.

## 2. BRIEF, METHODOLOGY & REPORT STRUCTURE

### 2.1 Brief

HITRANS commissioned Deltix Transport Consulting in January 2012 to provide advice that it can consider when responding to Transport Scotland's *Rail 2014* franchise consultation reference to the possibility of creating a "dual focus franchise" of "economic" and "social" sectors, or even creating more than one franchise. This could involve all or part of the Highland rail network being treated differently, for example by franchising out to another party, or involving local/regional authorities in the specification or management of routes.

This report focuses primarily on the potential implications for Highland rail services and the wider issue of achieving Highland policy aims, rather than the possible mechanics and detailed specification of new franchising arrangements. It also considers the opportunities which might be raised for the Highlands by potential new directions in British / Scottish rail policy beyond the immediate emphasis of the consultation document.

The report does not consider the consultation's document suggestion of a discrete franchise for the Caledonian Sleeper services, which is being separately investigated for HITRANS.

### 2.2 Methodology

The study has involved consultation with six 'informed sources' – representing a wide range of aspects of rail business including the provider of rail services; rail passengers; rail campaigners; and the 'community rail' perspective – followed by distillation and analysis of the intelligence and views gathered.

### 2.3 Report structure

The report sets the scene by highlighting key HITRANS rail policy aims and issues, and summarising the relevant sections of the *Rail 2014* consultation document.

The extent to which policy aims can be achieved within the existing franchise structure is considered, and reference is then made to possible longer-term changes in the direction of national rail policy which might nevertheless have shorter-term implications.

Subsequent chapters then consider the implications of (i) separate franchises, and (ii) a dual focus franchise, with particular emphasis on the latter since the consultation document concentrates on this model. A potential 'third way' is explored, and finally, outline conclusions are drawn on the potential advantages and disadvantages of the different models for the Highland rail network.

## 3. HITRANS RAIL POLICY AIMS AND ISSUES

The HITRANS web site refers to the main role of Highland rail services as being to:

- provide an alternative to the car
- bring tourists to the area, including on the world renowned West Highland and Kyle lines
- over longer distances, offer an alternative to flying
- increasingly, offer commuting opportunities
- connect with other modes
- offer some freight traffic a more sustainable form of transport.

The web site highlights key issues facing rail services:

- increasing populations and demand for rail services, including by tourists
- low service frequency
- poor passenger facilities.

While the Highland rail network is characterised by lengthy single-track routes (all longer than 40 miles) it is also diverse, comprising an inter-city route (Inverness-Edinburgh / Glasgow), a cross-country line (Inverness-Aberdeen) and the classic scenic rural routes radiating from Glasgow and Inverness to the north and west.

The role of the railway varies not just from route to route but also within routes. The Spyria Partnership's *Highland Boost* extension of the National Passenger Survey in 2010, found that there was significant variation between the different routes as to the dominance of different trip purposes. On the Glasgow and Edinburgh routes to Inverness, the most prevalent trip purposes were on company business, visiting friends and family, and travel to or from holiday, while commuting was more prevalent on the Inverness to Wick route than any others. The Glasgow to Fort William and Mallaig route – with its scenic qualities and relatively slow journey times – unsurprisingly had a high prevalence of passengers reporting that they were on leisure trips, a day out or travel to / from holiday.

The extent to which these policy aims are currently achieved and might be achieved, in a different franchising environment, is explored in Chapters 5-11 below, after the Chapter 4 summary of the relevant sections of the *Rail 2014* consultation document.

## 4. THE RAIL 2014 PUBLIC CONSULTATION DOCUMENT

Under the heading of "multiple franchises / operators", the consultation document's Section 3 *Procuring rail passenger services* sets out (in paragraphs 3.13 to 3.17) the principles of possible alternatives to the current franchising arrangements:

> "There is no statutory limit to the number of franchises that could operate in Scotland. ScotRail could be subdivided along lines that would create geographically or operationally distinct franchises, for example, the sleeper services, regional routes, all or some inter-urban services (such as Edinburgh - Glasgow)…
>
> As well as having a number of franchises it would also be possible for those franchises to apply different types of operation. This could include, for instance, different levels of service specification within a single franchise. We think that having a single franchise of multiple service specification would allow us, for example, to define services where we consider there is a social requirement for their existence, whilst also allowing the franchisee to determine and develop the service requirements of the more commercial inter-city and commuter network. If this approach was taken the ScotRail franchise would be operated as two managed units:
>
> **1. Economic rail** - the provision of services where the commercial risk is borne by the operator, where industry would be willing to invest, and where the industry would be given freedom to change its operations in response to demand. In order to safeguard passenger interests the operator would have to comply with a number of requirements and a minimum service specification. It is likely that the inter-city routes and some of the commuter routes would fall into this category.
>
> **2. Social rail** - the focus for the provision of the services falling within this category will be to achieve particular social objectives, for example, economic and social stability in a particular locality, or to assist with regeneration. These services would be distinctly managed for a fee in accordance with social objectives to address local circumstances. There would be greater opportunities for community involvement in the specification of services, and local communities would be able to support the challenge of reducing the gap between revenue income and subsidy. It is likely that most of the rural lines would fall into this category.
>
> The two managed units as outlined above would clearly require different incentives and safeguards. However, whilst being managed and reporting for different outcomes, we would not wish to have two separate and distinct railways. The ScotRail services would be one operation, contracted through a single franchise, where the franchisee is able to maximise the opportunities and flexibilities in meeting our objectives for economic and social rail.
>
> The dual-focus franchise proposition, as outlined above, could be a significant contribution to achieving our objective of incorporating the best private sector attributes with public sector ethos in the provision of rail passenger services in Scotland."

Question 1 in Annex D of the document then asks: "What are the merits of offering the ScotRail franchise as a dual focus franchise and what services should be covered by the economic rail element, and what by the social rail element?"

# 5. REALISING POLICY AIMS IN THE CURRENT FRANCHISE STRUCTURE

## 5.1 Key aims

The key elements of the rail system – through which policy aims can be delivered – can be categorised as follows:

- the trains – frequency and speed of service
- the trains – quality of rolling stock and facilities offered
- the trains – service delivery / reliability
- the stations – quality and facilities, including development as community hubs
- the stations – integration with other modes of transport
- the stations – adding (or removing) stations to (or from) the network
- the route infrastructure – capacity and speed capability.

## 5.2 Highland experience

The partnership focus of Highland Rail Developments (HRD), the Highland Rail Partnership (HRP) and more recently HITRANS has delivered – in conjunction with investment and other inputs by Transport Scotland, Network Rail, ScotRail and third parties – important improvements in the Highland rail system. A key success has been in the area of **train service frequency**, with particular highlights being:

- the Invernet commuter service network
- additional Monday-Saturday and Sunday services to Thurso/Wick and Kyle
- extra summer Saturday services (and an extended season) to Oban
- two additional Highland Main Line trains services from December 2011
- the Plockton school train during the early 2012 A890 closure.

Additional train services (particularly those over longer distances) have typically required increased subsidy by Transport Scotland, but in times of major constraints on (some elements of) public spending in the transport sector, this requirement can be a severe hurdle to cross. A 2009 Halcrow study for HITRANS which investigated the feasibility of increasing service frequency on the Oban line from 3 to 5 trains daily identified a benefit to cost ratio of 3.9:1 to 5:1, described as a "strong economic case" and "excellent value for money" – but as incremental costs were more than double the incremental revenue, Transport Scotland concluded that it could not afford the additional subsidy of £400,000+ pa suggested by the study.

By far the largest element of the cost of providing additional train services over lengthier routes (as opposed to short hauls where some marginal costing may be possible) is staff costs which typically constitute around 50% of operating costs. The other key cost categories are leasing and operation / maintenance of rolling stock and track access charges, each of which typically constitute around 20% of total operating costs. Perhaps surprisingly, in the Oban line study, fuel represented just 5% of operating costs – a potentially strategic issue in future years should oil prices reach increasingly higher levels, since rail's bus and in particular car competition is more sensitive to fuel costs (as fuel represents a higher percentage of costs of operation).

In terms of the **quality of rolling stock and facilities offered**, the Highlands has seen one of the rare British examples of subsidised routes benefitting from a refurbishment programme which has materially improved the internal design and quality of trains (rather than basic like-for-like refurbishment) – the 2007/8 £9m refurbishment of the Inverness-based Class 158 fleet. Funded by Transport Scotland, this upgrade took out 15 seats, enabling better alignment of seats with windows, with more luggage and cycle space – key factors on the tourist routes north and west of Inverness.

However, the current franchising environment has not facilitated any progress towards the creation of new or upgraded rolling stock which would provide a travel experience to match the world-class scenic quality of the likes of the Kyle and West Highland lines. Since British Rail last operated tail-end observation cars on the Kyle line in the early 1990s, all the examples of provision of distinctly different rolling stock have been outwith the franchised railway sector – notably the luxury Royal Scotsman, the steam-hauled *Jacobite* between Fort William and Mallaig and occasional private charter trains over virtually all routes on the Highland network. Arguably, there is a significant gap in the market between these higher-end providers, which in different ways provide a 'unique' travel experience, and the standard ScotRail service using rolling stock which can be found on inter-urban, commuter and rural routes throughout Britain. In contrast, in Switzerland for example, new trains have been introduced with larger picture windows which 'wrap round' the roof of the carriage, maximising the passenger's ability to enjoy the scenery.

**Service delivery on, and reliability of, trains** are key criteria for franchise performance, and are monitored closely as part of Transport Scotland's Franchise Management processes.

A variety of upgrades of **stations facilities and quality** have been delivered through the ScotRail franchise process and investment by HITRANS, Network Rail, Transport Scotland and others. Examples include:

- a new waiting room, refurbished travel centre and toilets at Inverness
- on-line CCTV and flatscreen Customer Information Service (CIS) at key stations throughout the network
- automated announcements at Highland Main Line and Inverness-Aberdeen line stations.

A further dimension in the enhancement of stations has come through ScotRail's 'Adopt-a-Station' scheme introduced as part of the 2008 extension of the ScotRail franchise. This built on more than a decade of experience in England & Wales, particularly through Community Rail Partnerships (see 5.3 below) which have typically encouraged the development of stations as business locations and/or community hubs.

The scope for stations to act as **hubs for integration with other modes of transport** (in particular the bus) has not been realised in the same way as is routinely provided in most mainland European countries – in some cases as a result of specific development pressures (Inverness) and more generally due to the deregulated bus service environment. Within the Highlands, rail linkage with ferries is important at Thurso (for Scrabster), Mallaig and Oban, but the robustness of these connections between separately managed systems remains an issue. It is not evident that the structure of the rail industry or the franchising system has been a major factor in these missed integration opportunities.

Given – by Scottish standards – the lack of Highland route and station closures in the Beeching era, opportunities for **adding stations to the network** have necessarily been limited. The Highlands are served by 69 stations, some 20% of the Scottish total in an area with just 5% of Scotland's population. British Rail opened three new stations in the 1980s (Falls of Cruachan, Loch Awe and Loch Eil Outward Bound), but the only addition since then has been the 2002 opening of the short-platform Beauly station. The cost and complexity of station re-opening – which has been a barrier to mooted new stations in the expanding Inner Moray Firth area such as Conon Bridge and Dalcross – have grown substantially since privatisation, but this is attributable more to the structure of the industry as a whole, as opposed to the franchising system.

Increasing the frequency and/or reducing journey times of train services is significantly dependent on the **capacity and speed capability of the route infrastructure**. Examples of capacity constraints on expansion include the single-track Inverness-Dingwall line and the predominantly single-track Highland Main Line. Speed constraints are particularly prevalent on the routes radiating north and west from Glasgow and Inverness, and while this is regarded as less important for routes where the tourist market predominates, it inevitably inhibits the railway's ability to compete with bus and car. There are few if any examples of route infrastructure enhancements – such as additional crossing loops or improved signalling systems – since the introduction of Radio Electronic Token Block on the West and North Highland lines in the late 1980s. As in the case of new stations, the cost of infrastructure upgrading has grown substantially since privatisation.

A recent – and most unusual – aspect of successful delivery of rail corridor improvement, specifically for the tourist market, has been the **lineside tree clearance beside Loch Lomond** to improve views from West Highland Line trains. This has been funded by partnership between the Friends of the West Highland Line, Network Rail and the Loch Lomond & Trossachs National Park.

### 5.3 Experience elsewhere

The pattern of what can and cannot be achieved in the existing franchising environment – other than the Highland example of specially enhanced Class 158 refurbishment – has been repeated in other parts of Britain. A recurring feature is the inability to secure train service and rolling stock improvements on rural routes. Even on the particularly successful Settle & Carlisle line – which has seen substantially increased traffic since its reprieve from closure in the 1980s – the overwhelming majority of enhancements for passenger have been at stations, often involving the Settle-Carlisle Partnership. Despite the scenic qualities of the line and its popularity with tourists, the franchised train service provided by Northern is relatively infrequent and uses various standard diesel trains which can be found on commuter, inter-urban and rural routes throughout Britain.

One usual example of train service enhancement – perhaps unrepeatable elsewhere – is the Welsh Assembly Government-funded daily locomotive-hauled service from Holyhead to Cardiff. This travels over secondary main lines (with the ability to achieve competitive speeds) rather than rural routes, serves some significant intermediate centres of population – and it is understood that its primary purpose is to convey AMs to the Assembly in Cardiff as ,well as to symbolically link the Principality together.

'Community Rail' has one of the great success stories of the rail industry in England & Wales over the last fifteen years, promoting rural and regional lines, driving up ridership and bringing in additional small-scale investment. Community Rail Partnerships (CRPs) bring together a diverse range of stakeholders along a local railway (or network of lines) with the aim of promoting the railway, ensuring it meets the needs of local communities and encouraging community engagement at stations. It has included environmental improvements, re-use of station buildings, schools involvement, music trains and other innovative schemes. There are now over 40 CRPs across the UK, federated into the Association of Community Rail Partnerships.

Initiated by Paul Salveson in 1993 with the Penistone Line Partnership in Yorkshire, the community rail concept won Government approval in 2004 with the publication of the Community Rail Development Strategy, which is managed by the Department for Transport. The three original aims were cost reduction, increasing passenger numbers and encouraging community involvement. There has been success in the latter two areas, but as Paul Salveson comments: "However successful community rail partnerships have been in winning new business and getting communities involved, they have hardly made a dent in the area of how regional lines are operated." Drawing wider conclusions, Salveson says:

> "Several community rail routes which have clear potential to expand are stuck with inadequate timetables, offering low frequencies and slow journeys. Lightly-loaded out-of-season trains operating on routes which are part of large, sprawling franchises with little focus on local markets, is not a recipe for development. Lack of accountability to local decision makers, be they county councils or PTEs, is a further brake on change. Community rail partnerships undoubtedly made a difference but they have been hampered by the inflexibility of the current franchising system and the financial structure of the industry, in particular the high cost of rolling stock."

Centralised specification of franchised services has rarely produced infrastructure improvements on rural routes – but there have been cases where external funding has allowed a transformation in circumstances. The 2009 opening of a new crossing loop on the single-track Truro-Falmouth line was made possible by a Cornwall Council led partnership scheme costing £7.8m, which included £4.7m from the European Regional Development Fund, £2.5m from the Council and £600,000 from Network Rail. The doubling of train service which this has enabled has led to a 90% increase in patronage in the space of just three years. This line is part of the Devon & Cornwall Rail Partnership, a number of whose routes are among the top ten fastest growing branch lines in Britain.

### 5.4 Conclusions

Experience in the Highlands and elsewhere shows that important enhancements to rural and regional rail corridors – particularly at stations and for some train services – can be secured within the existing franchising environment, in the case of the Highland in no small part due to the focus, drive and leadership shown over the years by HRD, HRP and HITRANS. However, the wider structure of the rail industry and its associated cost base – plus constraints on some elements of public spending on transport – constitute major barriers to progress in key areas such as:

- train service improvements dependent on the provision of extra rolling stock and route infrastructure upgrading
- higher quality new or upgraded rolling stock for the tourist market on rural routes and for all-year markets on the Highland Main Line
- adding stations to the network.

# 6. NEW NATIONAL RAIL POLICY DIRECTIONS?

## 6.1 The 'McNulty Report'

In May 2011 Sir Roy McNulty delivered his *Realising the Potential of GB Rail: Report of the Rail Value for Money Study* to the UK Government. The study concluded that the original objectives of rail privatisation had still not been achieved, and that GB rail costs were 40% less efficient than four European comparators (France, the Netherlands, Sweden and Switzerland) – but McNulty did not challenge the general rationale of privatisation nor the concept of franchising *per se*.

The study supported the Department for Transport's ongoing development and reform of passenger franchising, including presumptions in favour of longer franchises, simplifying service specifications, and changing the revenue support system. It also recommended devolved decision-making, since "The high degree of Government involvement has led to too many decisions being made remotely from the market – and even where decisions are devolved to industry, they are too often taken centrally within organisations". Specific recommendations in this area included:

- less prescriptive franchises to allow TOCs to react to the market
- greater localism, with more involvement in England of local authorities and/or PTEs, with local decision-making brought more closely together with budget responsibility and accountability
- greater devolution should support increased partnership working.

McNulty argued that train operators do not have a strong alignment with Network Rail in terms of incentives or structures, and amongst three levels of potential closer alignment its most radical suggestion was full 'vertical integration' through a concession of infrastructure management and train operations combined. The study did not argue for a system-wide presumption in favour of any one specific level of alignment, suggesting instead that it was a matter of "horses for courses", depending on operating route characteristics, particularly the extent to which there is one dominant train operator

The study examined the cost of 'regional railways' and concluded there was a need to deliver better value for the taxpayer through opportunities such as lower-cost infrastructure, and different working methods and standards. Experience elsewhere in Europe suggested that it was possible to define a more appropriate level of specification for both infrastructure and operations that can maintain existing standards of safety, but also reduce the costs of networks which are used less intensively – and that "Local authorities and PTEs could potentially play an important role in examining the options in Great Britain". He recommended that several routes with different characteristics are identified where the principles of lower-cost regional networks could be developed, piloted in operation and benchmarked.

The study identified in various parts of its analysis the opportunity for greater local involvement, through PTEs and/or groups of local authorities, and the potential advantages of greater devolution of budget and decision-making – partly based on mainland European examples of the successful use of tendering of services on a localised basis. However, McNulty cautioned that before a more devolved approach could be put in place, there would be a need to establish a framework that can bring local decision-making more closely together with budget responsibility and accountability, taking account of:

> "the extent to which there can be a meaningful common agenda between national Government (which currently has a clear focus on reducing the cost of the GB railway) and the PTEs and local authorities (whose priorities may be increased services and/or lower fares in their areas); and what would be required to create groupings of PTEs and/or local authorities with the capabilities and governance structures to take on more responsibility and interface effectively with franchise or route geographies."

In his examination of potential cost efficiencies, McNulty noted that staff represent a major cost element in the industry, approaching £4bn a year, and argued that this area cannot be immune from changes that the industry has to make:

> "many of the working practices and agreements within the industry have not undergone significant change for many years, if not decades, and the salary levels of the workforce, including top management, have increased faster than average earnings in the economy as a whole. The expectation that salaries, at all levels of the railway industry, will increase ahead of inflation has to end. Indeed, with many passengers and taxpayers having their salaries frozen at present, even the granting of inflation-level increases must be questioned.

The study recommended that Train Operating Companies should review station staffing as a matter of priority, and that the default position for all services on the GB rail network should be Driver Only Operation (DOO), with a second member of train crew only being provided where there is a commercial, technical or other imperative.

A short web search indicates that ScotRail train drivers enjoy an annual salary of some £37,000 for a 35-hour 4-day week – around 15% more than the average bus driver in Scotland and perhaps a third more than the average lorry driver salary in the UK. Bus drivers (in particular) and lorry drivers also perform an important 'customer interface' function – unlike train drivers (except in the case of DOO services, for example public address announcements during 'out of course' running).

### 6.2 Community management of local railways

Paul Salveson, the pioneer of the Community Rail concept, has recently been reviewing his analysis of the successes and failures of this sector, has been exploring potential policy changes by a future UK Labour Government. His 2011 paper *Beyond Microfranchising: Community Management of Local Railways: a contribution to the Labour Party Policy Review* notes that part of the longer-term thinking of community rail was 'microfranchising', in which small discrete parts of the network could be franchised separately, possibly by more locally-based bodies (e.g. PTEs or county councils). Salveson's paper takes the concept considerably further and argues for:

> "a radical departure from many of the assumptions behind an increasingly tarnished model of rail franchising and the need to move towards different forms of social and public ownership. It is about going beyond microfranchising and looking at more permanent, accountable, socially-owned models."

The idea of 'microfranchising' was inspired by the 'North European model' based on devolution of responsibilities to powerful elected regional bodies with the political will, and resources, to invest in the local rail network. Salveson notes that the idea of microfranchising has won some support within the UK Government and the railway industry but has never progressed beyond the 'ideas' stage – however, the "dual focus franchise" mooted in the Rail 2014 consultation for ScotRail appears to embody much of what has been proposed under the microfranchising heading. The McNulty

Report effectively endorsed the idea and suggested some pilot schemes within the current framework of the industry as part of a drive to reduce costs, but Salveson warns that it implies a degree of short-termism and instability which is a structural feature of any form of franchising, and that:

> "If 'microfranchising' is pursued as part of a cost-cutting agenda it is likely to fail and confirm its critics' view as being a step towards closure. The continental drive for local control of rail services was based on a desire to improve the quality and accountability of local and regional rail, not as a way of reducing costs. A 'microfranchise' could very easily, under current arrangements, go to a large transport group with little interest in driving up quality and service with an agenda to reduce staffing on trains and at stations."

Salveson argues that having control over infrastructure is critical if the railway is to develop to meet rising demand, and that being able to raise capital through local share ownership is a model which needs careful examination, potentially getting local railways out of the grip of government funding constraints: "Having a stable, long-term business horizon is absolutely fundamental and any franchising system, however long-term, will always militate against that." His paper highlights the possibility of taking the railway out of the current structure and developing a genuinely community-owned operation which learns from the experience of the larger 'heritage railway' operations. The railway would operate on a concession either from the DfT (in England) or from a devolved body, e.g. a PTE, county council or a future regional authority. An agreed amount of subsidy would be sliced from the existing franchise payments to ensure that the operation had an on-going financial basis, combined with payments to the tendered bus network and support for voluntary / community transport schemes

Salveson suggest that the model would involve creation of a co-operative which has multiple stakeholders – local authorities, employees and the wider community including local users of the line. It would own the infrastructure and rolling stock (with the option of hiring or leasing if required) and rather than being a purely 'railway' company it would have a wider remit for all aspects of local transport, currently supplied by a fragmented range of operators. He concludes that:

> "If the concept is right, the vision of a community-owned railway will result in a progressive improvement in service quality with a parallel growth in business. Having a strong local management focus will ensure that sources of external investment are energetically pursued, allowing for station improvements and – most difficult of all – additional rolling stock."

Amongst the current barriers to rural and regional rail enhancement which Salveson's model could help to overcome are:

- **inflated track access charges**, due to averaging out of fixed costs across the whole network, as decided by the Rail Regulator – rather than reflect actual expenditure on a particular route

- **centralised track and signalling maintenance responsibilities** – local 'vertical integration' could reduce costs, with revival of knowledge of local conditions which has been lost in many areas by centralising expertise

- **rolling stock design standards and procurement:** current rail industry standards add unnecessarily to costs – derogations for units on local lines could allow modifications to better suit the tourist market for example.

## 6.3 Conclusions on new national rail policy directions

The McNulty Report creates an opportunity for innovation within the existing franchising structure, but there is a danger that in a Scottish context, this would focus very largely on cost reductions (since, in the case of some routes, costs are much higher than revenue), rather than a balance between cutting costs and boosting revenue. The pioneer of 'Community Rail', Paul Salveson suggests that a more radical approach is needed, but this would presumably require a change in UK legislation allowing changes to the currently prescribed franchising requirement – implying a longer-term time frame than the current Rail 2014 consultation for the ScotRail franchise.

Nevertheless, there could still be medium-term opportunities for a local franchising trial in Scotland which seeks to make the most of the two approaches outlined above. Paul Salveson suggests that there is no ideal size for a local franchise but "experience on the continent suggests that the number of train services operated is a useful guide – typically 25–30." The question then arises as to how this might fit with the physical separation of the two halves of the Highland rail network (focussed on Glasgow and Inverness), and whether indeed one half of the network (or for example the self-contained lines north and west of Inverness) would offer sufficient economies of scale to justify a separate local/sub-regional solution. These issues are explored in the following chapters.

# 7. IMPLICATIONS OF SEPARATE FRANCHISES

## 7.1 Introduction

This chapter and the following chapters 8-11 seek to explore the implications of separate franchises or a dual focus franchise in the context of Highland rail policy aims and explicitly the extent to which they might or might not:

a) allow the past pattern of achievement of enhancements to rural and regional rail corridors – particularly at stations and for some train services – to continue and/or be expanded; and,

b) enable the rail industry and partners to deliver the type of enhancements which the existing industry structure, funding arrangements and/or franchising environment has typically failed to provide, notably:

- train service improvements dependent on route infrastructure upgrading
- higher quality new or upgraded rolling stock for the tourist market on rural routes and for all-year markets on the Highland Main Line
- adding stations to the network.

## 7.2 The inputs and outputs of a separate franchise

The Rail 2014 consultation document states that, "There is no statutory limit to the number of franchises that could operate in Scotland", but does not appear to encourage the idea of an entirely separate franchise for 'social' or other elements of the ScotRail franchise (other than the Caledonian Sleepers), as opposed to a 'dual focus' within a single franchise.

It can reasonably be assumed that the requirement in the case of a separate franchise for a separate management team / train crew / rolling stock, as well as the costs of putting together a separate franchise bid, would add significantly to costs – and would therefore have little appeal to the Scottish Government, even if it could be demonstrated to bring an additional local focus to management and marketing.

There would in any event be difficulties in defining what range of services might be incorporated in a separate franchise – but as Chapter 8 will demonstrate, this is also a difficulty associated with the definition of a dual focus franchise.

## 8. DEFINING A DUAL FOCUS FRANCHISE

The Rail 2014 consultation document states that “the inter-city routes and some of the commuter routes” would be likely to fall into the category of ‘economic rail’, while ‘social rail’ would be likely to include “most of the rural lines”. The practical task of defining what routes / services were allocated to each category would however be problematic, and would of course depend primarily on definitions of ‘economic’ – although “commercial” appears to be a more appropriate description.

Anecdotally it is thought that only the Edinburgh-Falkirk High-Glasgow service is likely to be fully commercial in terms of covering both its operating and rolling stock leasing costs and allocation of a fair share of fixed costs of infrastructure, central overheads etc.

A wider definition – which the consultation document seems to imply – might exclude the allocation of fixed costs, and thereby encompass some or all of the ‘inter-city’ services linking Glasgow and Edinburgh with Aberdeen and Inverness. While the consultation document also refers to “some of the commuter routes”, it seems unlikely that more than few of these – with infrastructure, rolling stock and staffing geared to a high peak demand for no more than four hours a day – could fall into this wider definition of commercial.

What is then left by implication for the ‘social rail’ element of a dual focus franchise is a collection of quite distinct sub-networks of routes and services, with different cost structures, roles and market characteristics:

- North Highland (and possibly Inverness-Aberdeen) services focussed on Inverness
- West Highland services focussed on Glasgow
- much of the Strathclyde commuter network focussed on Glasgow
- the Ayr-Stranraer and Glasgow-Kilmarnock-Carlisle cross-country services
- some of the East of Scotland commuter routes focussed on Edinburgh.

From the first ScotRail franchise award in 1997 until after ‘rail devolution’ in 2005 there was effectively a dual focus franchise in Scotland, in that Strathclyde Passenger Transport Executive (SPTE) planned and specified local services within its boundaries. While SPTE had a territorial network coherence and reasonably homogenous market, the same could not be said of the ‘social’ element of a future dual focus franchise, defined not so much by what it is, as by what it is not, ie not the inter-city routes and some of the commuter routes. This has at least two implications for the Highlands:

- the Inverness-focussed network would be split between the two managed units if the Highland Main Line (and possibly also Inverness-Aberdeen) was part of the ‘economic’ network

- management time and marketing effort within the ‘social rail’ unit would be spread over not just the rural Highland routes but also across a diverse range of Scottish services, many of whose roles and supply and demand circumstances are far removed from the Highland situation.

In practical terms, even within a ‘commercial’ or ‘economic’ railway which included the Highland Main Line, elements of the resource base might be ‘social’ in terms of their cost and revenue profiles, eg the unstaffed stations at Carrbridge, Newtonmore and Dalwhinnie, in that there is unlikely to be any commercial reason for stopping at these stations, so continuing service provision would need to be mandated on the operator. The same might also be true of the last train of the day.

An element of cross-subsidy is inevitable within any managed unit – for example by location and time of train service – and therefore there can no 'pure' division of the rail system into 'economic' and 'social'. In addition, patterns of supply and demand will change over the duration of a franchise, and there might be a benefit in transferring some services from one managed unit to the other.

# 9. IMPLICATIONS OF A DUAL-FOCUS FRANCHISE

## 9.1 Economic rail

The Rail 2014 consultation document defines 'economic rail' as:

> "the provision of services where the commercial risk is borne by the operator, where industry would be willing to invest, and where the industry would be given freedom to change its operations in response to demand. In order to safeguard passenger interests the operator would have to comply with a number of requirements and a minimum service specification."

In what areas might an train operator be willing to invest and how might this impact on existing and potential passengers, bearing in mind an assumed policy aim to (a) continue and/or expand the past pattern of enhancements at stations and for some train services, and (b) encourage new investment in route infrastructure upgrading, high-quality rolling stock for the tourist market and additional stations on the network?

A fundamental issue is that train operators own very few assets – the route infrastructure is owned and managed by Network Rail (NR), the stations are owned by NR (although typically managed and maintained by the operator), and the rolling stock is leased from leasing companies. The key areas of train service supply where operators are likely to be able to enhance the offer are in making some changes to train timings and in the services which on-train and station staff can provide to the customer.

Insofar as it would be possible within the terms of a minimum Highland Main Line service specification laid down by Transport Scotland, the operator might seek to reduce the number of trains calling at smaller intermediate stops in order to speed up journey times between the principal stations eg Inverness, Aviemore, Pitlochry, Perth, Edinburgh and Glasgow. This would inevitably have practical political repercussions – even though the decisions had been made by the operator rather than Transport Scotland / Scottish Government – and the outcomes might not accord with the wider rail policy aims of HITRANS.

Another option might be to change the on-train service offer to passengers – such as enhanced catering for First Class (and possibly also Standard Class). However, to achieve any significant upgrade to the existing trolley service would require investment in modifications to rolling stock – and it seems unlikely that a business case could be developed to justify this on a purely commercial basis. Some years ago ScotRail secured additional Class 170 units from Hull Trains which had been provided with a buffet counter and associated small kitchen facility – however, this offer was withdrawn after a relatively short period of time due to technical / health & safety issues. These might have been more capable of resolution if a sufficiently large sub-fleet of these units had been available to provide a consistent catering product. It is not thought that lack of demand for enhanced catering was a determining factor, but (a) the need to justify upgrading investment, and (b) the problem of rolling stock inter-operability with routes where such an enhanced offer would not be appropriate (Edinburgh-Glasgow) could be future barriers to progress in this area.

There may however be an argument that if the main Edinburgh-Glasgow service was developed as a separate franchise, then the remaining 'inter-city' Class 170 units would be consistently allocated to the Edinburgh/Glasgow-Aberdeen/Inverness corridors, potentially creating more justification for investment geared to the circumstances of these long-haul inter-urban routes. In any event, on completion of the EGIP investment programme in 2016, Class 170 units will be cascaded away from the Edinburgh-Glasgow route – potentially to some of the rural Highland routes. A major 'mid-life' refurbishment could then allow a more bespoke train interior to be developed for longer distance journeys – the opportunities for which will be explored in the 'Turbo Boost' Class 170 refurbishment scoping study being commissioned by HITRANS.

A more significant issue for the Highland Main Line than catering is the overall quality and speed potential of the rolling stock. While the Class 170s appear to be generally well regarded in terms of the passenger experience – and provide perhaps the best window size and spacing quality for viewing the scenery of any of ScotRail's diesel rolling stock – their power-to-weight ratio is a limiting factor on the steeply graded Highland Main Line, with its frequent acceleration / deceleration requirements to negotiate a predominantly curved alignment.

A reasonable aspiration would be for the deployment of the Super Voyager type train – as used on inter-city services from Aberdeen, Dundee, Edinburgh and Glasgow to the Midlands and beyond – with their superior acceleration and possibly tilting capabilities. However, given that there are likely to be both additional leasing costs and higher fuel, maintenance and access costs, Transport Scotland would necessarily have to fund such an upgrade of service quality, on the grounds of resource savings from higher speeds (leading to better utilisation and higher fare income) plus strategic policy benefits such as increased rail modal share etc.

Another area of potential enhancement where the costs involved are likely to be well beyond the scope of a train operator is the funding of route infrastructure upgrades. While certain franchises with mass-market potential for business growth – like East Coast – might be able to contribute to such schemes and secure a commercial return, most if not all parts of ScotRail (with a relatively small population base and no major visitor destination anywhere near the scale of London) do not offer similar scope to profit from commercial innovation and enhancement.

Chapter 5 reviewed the success of partnership working over the last 15 years in terms of station upgrades and complementary alternative uses – and less success in terms of station integration with bus services or adding additional stations to the network. It is unclear whether the cost areas (and potential revenue) which would be allocated to the 'commercial risk' category would include stations.

Stations with larger throughputs might benefit from more commercial freedom to develop retail and other additional facilities, although Network Rail would necessarily have to be involved in enhancement projects Given the large degree of societal aspects of the benefit of regeneration work at smaller stations, it is hard to see how these could gain from increased commercial freedom for the operator – indeed without appropriate safeguards to protect a minimum service level, smaller stations could be expected to lose out in such a business environment.

Arguably the biggest stations-related failure in the current franchising environment is the ability to deliver new stations cost-effectively, but this is a reflection of wider industry structures and cost trends since privatisation – and there is no prospect of a train operator achieving a commercial return in this area along the Highland Main Line, which bypasses only small villages.

A final station-related aspect of the interface between 'economic rail' and 'social rail' is the question of maintenance of connections between, for example, North Highland and Highland Main Line trains at Inverness. For example, might the commercial freedom given to the operator for the latter service– and associated arrivals and departures at Inverness – lead to it taking a view that a particular service should break previous connections, as an alternative path offered a faster transit to Edinburgh / Glasgow and/or a preferable arrival time (possibly for long distance connections) at either of these destinations?

## 9.2 Social rail

The Rail 2014 consultation document defines 'social rail' as follows:

> "the focus for the provision of the services falling within this category will be to achieve particular social objectives, for example, economic and social stability in a particular locality, or to assist with regeneration. These services would be distinctly managed for a fee in accordance with social objectives to address local circumstances. There would be greater opportunities for community involvement in the specification of services, and local communities would be able to support the challenge of reducing the gap between revenue income and subsidy."

In what ways might these particular social objectives be defined? Bearing in mind that the 'social rail' unit would almost certainly encompass a very diverse range of services the length and breadth of Scotland, the consultation document's reference to these services being managed "in accordance with social objectives to address local circumstances" raises the issue of managing and prioritising a diverse range of local and regional inputs to the unit's specification. How would agreement be reached on the service specifications involved – given that many would cross the boundaries of different regional transport partnerships? The appropriate balance between local / regional requirements would need to be determined by Transport Scotland in the wider strategic interest – and this decision-making process would take place far removed from the travelling public.

A possible option in terms of franchise payment would be for Transport Scotland to underwrite the fixed cost of train services on the social rail sub-franchise, providing a block grant to HITRANS to cover variable costs and a management fee to be paid to the operator. IF HITRANS became responsible for specifying train services, this would presumably require the buying-in of additional technical / train planning expertise, with associated additional costs.

The overall economics of the 'social rail' services – and what could be afforded by the public purse – would, as now, be determined by public spending priorities and the extent of the gap between rail costs and revenues. Unless there were safeguards built into a block grant award from Transport Scotland, it is possible that in times of severe spending constraint there might be pressure on HITRANS to use some rail funds to achieve a different balance between rail and bus provision on certain corridors and/or at specific locations. A key difference between current Highland circumstances and those of mainland European regions where there has been – as explored by Paul Salveson in his *Regional Rail: The European Dimension* paper for HITRANS – a "flowering of innovation in local rail services and some outstanding successes", with new management, station refurbishment and new rolling stock, is that strong local government with robust revenue-raising powers has delegated responsibility (and directed investment) to powerful regional transport authorities.

In any likely scenario there will be pressure to reduce rail costs – while the McNulty Report and wider governmental pressures may lead to systemic national cost reductions, these will not necessarily translate into any service enhancement, as opposed to theoretical reduction in the burden on the taxpayer. Since the mid-1990s emergence of 'community rail' a big potential prize for rural and regional routes has been to reduce specific (as opposed to averaged national) route costs to help ensure a robust future for individual lines and to secure 'more for less', but there has been little progress in this area.

However, it is not clear how rail services (and enhancements) could be delivered any more cost-effectively within a 'social rail' sub-franchise. Rail staff would continue on the same employment and payment terms, rolling stock would be leased on the same market as at present, and route infrastructure / stations would still have the current cost base.

Might the notionally more local or regional focus of a social rail sub-franchise help to lever in additional investment funds from external parties? The development agency Highlands & Islands Enterprise now has a more limited transport brief than in the past, and its potential input to rail enhancements with wider economic benefits has already been explored through the regional focus of HRD, HRP and HITRANS. A useful contribution to the enhancement of the tourist value of the West Highland Line has been made by Loch Lomond & Trossachs National Park's part-funding of lineside tree clearance, but this has been achieved within the current franchising environment. The continuing major deterrent to enhancement schemes, irrespective of franchising changes, is the underlying cost structure of the rail industry and its impact on the business or cost-benefit cases for development projects.

It has been suggested that in practice the most likely benefit of social rail would be on the revenue side of the equation, with a local focus on local markets. However, given that the social rail sub-franchise would encompass a geographically diverse and scattered range of routes across Scotland, it is hard to see how this improved focus could be delivered without increased management costs. It should be noted, nevertheless, that within the current franchising environment there appears to be much less of a local ScotRail management and marketing function in Inverness than in the British Rail era of 'Highland Rail' branding and an Inverness Area Manager with wide geographical responsibility for operational and commercial issues.

It is also the case that HITRANS (and previous to that HRD and HRP) has consistently been able to develop a local and regional rail focus and to deliver enhancements to meet these needs within the current franchising environment – and if it was felt that more devolved rail management was required, this could be stipulated as part of a single ScotRail franchise. The Highlands currently benefit from a unified ScotRail marketing structure in that nationwide offers – such as Club 55 and Kids Go Free – bring rural routes to the attention of a large urban market; while within the region there is the longstanding bespoke Highland Railcard.

.A practical impact of a split between 'economic rail' and 'social rail' might relate to the current inter-operability of rolling stock and train crews between Highland Main Line and North Highland / Aberdeen services. Current arrangements minimise 'dead time' for train sets and staff, but it has been suggested that discrete fleets would reduce that capability. However, prior to 2005, rolling stock was routinely shared between SPTE and non-SPTE services, with agreements drawn up to fairly allocate costs and revenues.

As noted earlier, a key failure of the current franchising system has been its inability – anywhere in Britain – to deliver higher quality new or upgraded rolling stock for the tourist market on rural routes. This is another contrast with many mainland European regions, where the standard new diesel unit on rural lines is often of a type with very large windows which maximise opportunities to appreciate the view from the train.

Would a 'social rail' sub-franchise improve the prospects for new rural rolling stock? To take the example of the West Highland Line, currently there are no plans to replace the Class 156 units for at least the next seven years. While it can be argued that the 156s, with their relatively large windows and low seat backs are more suitable for the tourist market than some other 'modern generation' train types, their limited toilet accommodation and draughty opening windows make for a less than ideal travel experience – and the train sets are nearly 25 years old. In both a 'single focus' and dual focus ScotRail franchise, the cost of procuring purchased or leased new trains would fall to Transport Scotland – and given the curvature and slow speed potential of the West Highland Line, it seems unlikely that new trains would generate resource savings from higher speeds (and consequently better utilisation and higher fare income). This would leave the upgrade to be justified by increased business from a better passenger environment and strategic policy benefits such as increased rail modal share etc.

In any conceivable scenario of future franchising within the current industry structure – and with ongoing constraints on (some elements of) government spending on transport – rural routes are likely to depend on the cascade impact of planned electrification of inter-city and commuter routes. While cascade has a long tradition going back well before privatisation – and can deliver welcome upgrading in speed potential and quality – units designed essentially for inter-city and commuter routes may technically (and in terms of cost) not be ideally suited to rural routes where, for example, higher axle weights may mean additional speed restrictions over structures, as well as higher track access charges. Is there therefore a need for a Britain-wide regional/rural rail perspective to be developed, cutting across franchise and company boundaries in order to create the critical mass for, *inter alia*, design and construction of a bespoke diesel train to meet the needs of the non-inter-city and non-commuter market?

## 9.3 Conclusions

There is insufficient evidence to suggest that the added complexity of a formal dual focus franchising regime would produce significant benefits in either the service on offer to the public or the cost of these services. An 'economic railway' could see contraction in some elements of non-commercial service, in a way that could not happen in a highly-specified 'social railway'.

There is evidence from around the GB network to suggest that appropriate managerial focus, and flexibility in train service specification, can provide these service and cost benefits to both categories of train service. However, securing appropriate rolling stock for rural routes remains – and would remain under a dual focus franchise – an unresolved issue.

## 10. A POTENTIAL ’THIRD WAY’?

Given the evident limitations of what a dual focus franchise could do for the Highland rail system, might there instead be greater potential benefit in identifying a Highland focus for selected elements of possible new national rail policy directions, as identified by the McNulty Report and by Paul Salveson in his thinking on development of the microfranchising concept?

McNulty advocates devolved decision-making and experimentation with ‘vertical integration’ of track and train management and operation where there are appropriate operating route characteristics, notably one dominant train operator. This links to his recommendation that several routes with different characteristics be identified where the principles of lower-cost regional networks could be developed, piloted in operation and benchmarked.

While Paul Salveson is wary of the inherent limitations of franchising, and warns that if microfranchising is pursued as part of a cost-cutting agenda it is likely to fail and confirm its critics’ view as being a step towards closure, he does argue that control over infrastructure is critical if the railway is to develop to meet rising demand.

The self-contained rail network north of Inverness has (a) many of the characteristics identified by McNulty for distinctive treatment and by Salveson in his assessments of the scope for micro-franchising and beyond, and (b) examples of enhancements blocked by the current structure and cost base of the rail industry:

- a dominant operator – ScotRail – which provides 95% of train services over the network (others being freight and summer passenger charters)
- 26 passenger trains daily on weekdays
- a natural management / operations base and principal market at Inverness
- some route infrastructure constraints on traffic growth, notably the single track section between Dingwall and Inverness
- opportunities for new stations serving commuter and other markets
- substantial tourist potential.

It is suggested that this sub-network could be considered for a vertically-integrated pilot / demonstrator sub-franchise within a single ScotRail franchise, with a view to further elaboration beyond the limitations of the franchising system towards a new model of community management – potentially unlocking a wide range of rail cost and revenue benefits as well as generating enhanced economic, social and environmental value from the rail system. Such a body could also take on a role in greater integration of rail and bus services in the Highlands – although the deregulated bus environment (unlike the situation in most of mainland Europe) will continue to be a barrier to progress.

As a pilot project with potentially benchmarking value for other self-contained sections of the rural network throughout Britain, this might attract additional funds for pump-priming, research and development – some of which could come from beyond governmental transport sources, for example if a co-operative and/or social enterprise model was envisaged. New forms of ownership and staff involvement could be crucial to creating (a) a better and more sustainable balance between rail costs and revenues, and (b) a business model which encourages investment and enhancement in infrastructure and rolling stock. Greater staff flexibility in return for above-average salaries would be needed to make the most of a devolved sub-network more responsive to local needs and playing a bigger role in the regional transport system.

The *Rail 2014* consultation document also raises the issue of length of the ScotRail franchise. Irrespective of other arguments for and against an initially short franchise, the latter could be an ideal time frame to initiate, implement and review the success of a devolved sub-franchise north of Inverness.

The model of a successful vertically-integrated pilot could then be applied to other parts of the Highland network, with the Mallaig extension of the West Highland Line potentially another relatively self-contained candidate for the sub-franchising approach. However, it may not be appropriate for the Highland Main Line, where five operators make regular use of the Network Rail route infrastructure, nor for the Inverness-Aberdeen line, which has both an inter-regional function as well as distinct commuter markets at each end of the line. These examples highlight the importance – now and in the future – of maintaining the integrity of the whole Highland network and indeed strengthening its management, while also recognising its diversity and introducing appropriate models of ownership and management, such as a distinctly different sub-franchise north of Inverness. This is an important issue which needs further analysis.

## 11. CONCLUSIONS

1. Important enhancements to rural and regional rail corridors in the Highlands – particularly at stations and for some train services – have been secured within the existing franchising environment.

2. The wider structure of the rail industry and its associated cost base – plus constraints on some areas of public spending on transport – are major barriers to progress in key areas such as (a) train service improvements dependent on the provision of extra rolling stock and route infrastructure upgrading, (b) high-quality rolling stock for the tourist market, and (c) adding stations to the network.

3. Division of a future ScotRail franchise into 'economic' and 'social' management units would not offer any Highland-specific focus. The social unit would inevitably encompass a diverse and scattered range of services across Scotland, many with roles and supply and demand circumstances far removed from the Highland situation.

4. The Highland Main Line might be part of an 'economic' unit, but it is not clear how this new arrangement would allow commercial delivery of key route and service enhancements beyond those achievable within the existing franchising environment. Commercial freedom for the train operator in aspects of the Highland Main Line service might lead to loss of connections with North Highland train services at Inverness.

5. The most likely benefit of social rail would be on the revenue side of the equation, with a local focus on local markets – but this is already substantially achieved through HITRANS initiatives within the existing franchising environment. Given that the social rail sub-franchise would encompass a diverse and scattered range of routes across Scotland, it is hard to see how any improved rail industry focus could be delivered without increased management costs.

6. There is insufficient evidence to suggest that the added complexity of a formal dual focus franchising regime would produce significant benefits in either the service on offer, or the cost of these services, both on 'economic' and 'social' routes..

7. There is evidence from around the GB network to suggest that appropriate managerial focus, and flexibility in train service specification, can provide these benefits to both 'commercial' and 'social' train services. However, securing appropriate rolling stock for rural routes remains – and would remain under a dual focus franchise – an unresolved issue.

8. Recommendations of the 2011 McNulty Report and recent analysis by Paul Salveson – pioneer of the 'community rail' concept in England & Wales – point towards the possibility of a pilot 'vertically-integrated sub-franchise' for the rail network north of Inverness, potentially unlocking a wide range of rail cost and revenue benefits as well as generating enhanced economic, social and environmental value from the rail system.

9. As a pilot project with potentially benchmarking value for other self-contained sections of the rural network throughout Britain, this might attract additional funds for pump-priming, research and development – some of which could

come from beyond governmental transport sources, for example if a co-operative and/or social enterprise model was envisaged.

10. New forms of ownership and staff involvement and flexibility could be crucial to creating (a) a better and more sustainable balance between rail costs and revenues, and (b) a business model which encourages investment and enhancement in infrastructure and rolling stock.

11. An important issue which needs further analysis is the need to maintain the integrity of the whole Highland network and indeed strengthen its management, while recognising its diversity through appropriate models of ownership and management, such as a distinctly different sub-franchise north of Inverness.