Public Administration Select Committee Inquiry into Public Procurement

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train drivers' union representing approximately 18,000 members in train operating companies and freight companies as well as London Underground and light rail systems.

2. ASLEF welcomes the opportunity to comment on public procurement and in particular, the procurement of services and goods in relation to rail franchising and rolling stock. Procurement within the rail industry accounts for some of the larger contracts that the Government tenders. The Government subsidises the rail industry by about £4 billion a year. These services are almost entirely undertaken by the private sector. Due to the complicated and fragmented nature of the privatised railway, it is possible for things to go very wrong. This was clearly demonstrated by the Intercity West Coast franchise debacle.

3. Procurement in terms of rolling stock has also been shown to fail the British economy, as demonstrated by the Government's decision to award the Thameslink contract to Siemens rather than Bombardier who would have built the new trains in the UK.

4. ASLEF deeply regrets the manner in which British Rail's rolling stock was virtually given away at the time of privatisation following which very large fortunes were made as rolling stock companies (ROSCOs) changed hands. We would contend that one of the greatest tragedies of rail privatisation is that it has precipitated the terminal decline of the UK's near

200 year old rolling stock manufacturing capability while the value of the ROSCOs themselves has risen so exponentially.

5. ASLEF would also point out that prior to the abolition of the Strategic Rail Authority in 2004, all rolling stock orders were awarded to companies with a UK manufacturing base.

6. Subsequent procurements administered by the Department for Transport (DfT) have seen awards go to a succession of foreign firms including Javelins for HS1 (Hitachi – Japan), the Intercity Express Programme (Hitachi) and now Thameslink (Siemens – Germany). Contrastingly all rolling stock procurements conducted by Transport for London (TfL) for the same period have gone to companies with a UK manufacturing capability.

7. The union recognises that rolling stock is procured within frameworks set by European and international law. Nevertheless, ASLEF's policy is that such regulations can only be seen to work fairly if the UK retains a strong domestic manufacturer to compete with foreign companies. In the case of Thameslink the union also believes that the Department for Transport should have taken into account the impact on the UK economy of which country the trains were built in before it awarded the work.

8. We would contrast the DfT's approach to procurement with TfL's which encompasses the Greater London Authority (GLA)'s Responsible Procurement Policy (RPP) which, among other things, encourages a diverse base of suppliers, the promotion of fair employment practices, the promotion of workplace welfare (which includes working with suppliers who do not discourage trade union membership among employees), meeting strategic labour needs and community benefits. We would point out that Siemens does not recognise trade unions in its UK rail businesses.

9. It’s worth considering that in France Bombardier’s Crespin factory has a long term eight billion euro order for 800 regional trains from SNCF which allows the company to invest heavily in the necessary equipment confident that there will be the work to justify the investment. The very opposite scenario exists in Derby where the incentive is to minimise investment without knowing when the next order is likely to arrive.

10. ASLEF has long argued that a domestic rolling stock manufacturing capability is vital to the integrity of the UK rail industry. That’s why the union supported Bombardier’s bid for the Thameslink rolling stock contract. Our senior representatives visited the factory in December 2009 and were hugely impressed by the quality of design and manufacturing in Derby.

11. The union would also draw attention to the work of a number of organisations who have pointed out that the reduction in tax revenues from the work being done outside the UK is more than the gap between the two suppliers’ bids.

12. We believe history shows that fast track procurement can be conducted efficiently and effectively. For example, the procurement of the new Stansted express rolling stock in 2008 was conducted in seven and a half months while in the same year the tendering process for the new London Overground rolling stock lasted 12 and a half months.

13. ASLEF very much regrets that since the DfT took responsibility for rolling stock procurement in 2004 that no contract has been awarded to a company with a UK manufacturing capability.

14. The union urges the Committee to call on the Government to develop a strategy to encourage high-technology manufacturing, using public procurement sensibly and creatively to ensure that wherever possible UK taxpayers’ money is spent supporting the UK economy.

15. The franchising process in the rail industry in extremely long, expensive and inefficient. This was clearly demonstrated by the West Coast Mainline debacle.

16. Firstly, the contracts that are offered leave all the risk with the taxpayer. Most rail franchises have revenue protection clauses. These mean that if revenue falls below the figure predicted in the franchise bid, the taxpayer tops up most of the shortfall. In effect this means that Train Operating Companies can enjoy the profits they make by providing the service, but very often will not have to suffer losses should they not perform as they had predicted commercially. This means that Companies can be overly optimistic in their bids to assist their likelihood of winning a service but also to ensure a minimum level of protection from reduced revenue from the taxpayer at a higher level.

17. The current franchising system has created a situation where genuine competition is non-existent and profit is guaranteed at the cost of the taxpayer. This is demonstrated by the East Coast Mainline. Two companies have handed the keys in simply due to them making less revenue than expected. GNER returned the keys on 9 December 2007. They did this following a period of financial difficulty for their parent company. This was in part due to GNER's poor profitability, which had been linked to the company's overbidding for the ECML franchise coupled with what proved to be crippling subsidy repayments to the Government.

18. After the tendering process, the national transport operator National Express Group was awarded the franchise on 14 August 2007. In winning the franchise, National Express had agreed to pay the Department of Transport £1.4bn for the right to run the service until 2015. At the time rail analysts had speculated that the Group had paid too much for the franchise. The National Express went on to default on these payments

thus giving up the franchise. The subsequent bail out by the taxpayer cost about £700 million.

19. The Government's policy is to have longer franchise periods. The theory behind this is that the longer the franchise is, the more incentive there is for private investment by the TOCs who may well see returns for their initial outlay. ASLEF are unsure whether this will provide any benefit to the traveling public. Transport Scotland's recent publication "Rail 2014" stated, "there is no conclusive evidence that longer contracts will increase the level of investment from train operating companies."

20. ASLEF notes research on franchises by KPMG which found that 'our comparative analysis of UK train operating companies (TOCs) has provided no conclusive evidence of the impact of contract length on performance across the sample of operators that were studied'. It also suggests that longer term franchises might lead to 'increased financial risk' affecting the agreement because bidders cannot foresee changes in economic circumstances. In the current climate, it is difficult enough to predict the economic situation we will find ourselves in next year. To try and predict circumstances in 10 to 15 years' time is entirely unrealistic.

21. The bidding process is also extremely expensive and leads to huge amounts of money leaving the industry. Virgin clarified that their bid for the West Coast Mainline cost £14 million and it is believed that the total cost for the four bids will have been £50 million. This money is spent on lawyers, accountants and consultants with each company having about 30 people working solely on the bid. This money should be spent on improving services and keeping fares at a reasonable level.
22. It is the complicated, fragmented and the presumptuous nature of the franchising process that lead to the West Coast Mainline fiasco. Whilst the union notes that the Brown Review considered the franchising process,

albeit within an extremely narrow remit. Brown's review called for small amendments to franchising whereas wholesale change is needed.

23. For too long we have had a procurement system in rail, whether for rolling stock or the franchising system, that has focussed on assisting companies make large profits at very little risk. This has been to the detriment of the wider British economy. Therefore both elements of rail procurement need to be examined and completely reconsidered to ensure value for money for both taxpayers and passengers alike.

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