

The Rt. Hon Patrick McLoughlin  
Secretary of State for Transport  
Great Minster House  
33 Horseferry Road  
London  
SW1P 4DR

31 December 2012

Dear Secretary of State,

Following my review into the Department's rail franchising programme, I am pleased to submit the report setting out my findings and recommendations.

As you requested in my Terms of Reference on 15 October 2012, I have sought to consider the implications of the failings seen in the InterCity West Coast ("ICWC") competition and the lessons learned from Sam Laidlaw's Inquiry. I have also addressed what I see as some of the long standing defects in the franchising programme, as well as taking into consideration the National Audit Office's report on the ICWC competition failure.

I hope you will find that the Review has identified practical proposals for the Department to be able to take forward its franchising programme. Specifically, you asked me to look in detail at the programme, whether changes were needed to the way risk is allocated and assessed and to the bidding and evaluation processes. Ultimately, the purpose of the Review was to provide a robust basis for the programme to restart as soon as possible.

I have sought to look at franchising in the round – not just at the procurement phase. Therefore, I make a number of recommendations for improving the way in which franchises are specified, procured and managed by the Department.

The recommendations should be considered as a package, they are mutually reinforcing rather than standalone. Taken together, they will deliver a robust franchising framework with clear objectives, transparent and predictable processes, and a proportionate approach to the balance of risk and reward in these complex, commercial partnerships.

The speed of the review has been such that I did not carry out a formal call for evidence, but instead canvassed the views of a wide range of parties across the industry and the political and administrative spectrum, including passenger groups, trades unions, service providers, shareholders, financial institutions and the devolved administrations and local government. I have been greatly assisted in my task by a small team seconded from your Department and a number of advisors, providing legal, commercial, financial and technical support.

I have come to the conclusion that the franchising system is not broken, but, on the contrary, it has made a major contribution to Britain's increasingly successful rail network. There is no credible case for major structural change.

But confidence in franchising and the rail sector have been severely damaged by the problems that came to light on the ICWC competition. The Department needs to make an early start to get the programme recommenced – but it must do so sustainably. In my view, there are three important steps that the Department needs to take to help restore confidence – an early announcement on how the Department is bolstering its resources from outside, clarification by February 2013 of its plans for the three paused competitions and a fuller announcement by April 2013 on how it is going to take forward the wider refranchising programme.

The Department's most essential next step must be to strengthen its organisation and franchising capability. The Department's response of 6 December to the Report of the Laidlaw Inquiry is a good first step but I recommend that impetus is not lost and that a demanding target of April 2013 is set for the full implementation of Sam Laidlaw's findings as the Department will not be able to progress with issuing tender documentation and restarting its programme until it has all of the necessary governance and assurance processes in place.

This has been a difficult period for the Department and the industry. From my own experience, delivering both my recommendations, as well as those of Sam Laidlaw and the NAO, will need drive and leadership from the most senior levels. I am confident that, with the help of the industry, a stronger and more effective approach to franchising can be put in place to deliver the benefits that passengers and taxpayers deserve.

I am of course happy to meet and discuss my report and its recommendations.

yours sincerely,

A handwritten signature in black ink, appearing to read 'Richard Brown', with a long horizontal flourish extending to the right.

**Richard Brown**