

# a people's railway for scotland



## ScotRail

A People's Railway for Scotland

A report for the Co-operative Party, ASLEF and SERA  
(Socialist Environmental Resources Association)

by **Professor. Paul Salveson**

December 2013

**the co-operative party**  
politics for people





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# Forewords

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**The Co-operative Party is thankful to Professor Paul Salveson for his work in authoring this document. We are pleased to be able to build on the work we started with ASLEF and SERA during the 'Rail Cymru' report in 2012.**

ASLEF provide a vital role in represent their members within the rail industry and promoting positive change to the industry as a whole. SERA, Labour's environment campaign group, conducts critical work in a range of policy areas including energy, the green economy and transport.

The proposals here serve to show how our railways can be run on different principles and motivation. We feel that this short document will help take the debate beyond a 'private good/public bad' debate to look at how a railway suitable for the 21<sup>st</sup> Century, incorporating high quality of service, public accountability, employee involvement and value for money can be achieved for the people of Scotland.

The report that Professor Paul Salveson has produced, starts to outline the ways in-which there can be a bright future for our railways with co-operative and values at its heart.

Whilst in office the SNP government have sought to retender the franchise under 'traditional' routes, the Co-operative Party are pleased that the Scottish Labour Party are looking at new ways of developing this vital service.

**Karin Christiansen**  
Co-operative Party  
December 2013

**ASLEF welcomes the Scottish Labour Party's decision announced in April 2013 to consult on the future direction of its rail policy, not least in the context of the independence debate.**

We must never lose sight of the fact that Scotland's railways are part of a national network with five cross border franchises operating into its major cities.

It is the possible options for the future of the Scotrail franchise with which this report concerns itself and I'm delighted ASLEF, the Co-operative Party, SERA and Professor Paul Salveson have been able to build on the work we undertook in the Rail Cymru paper published in 2012.

As the second most heavily subsidised passenger rail franchise in the UK, First Scotrail has demonstrably not delivered the levels of investment, service and value for money Scottish passengers and taxpayers deserve. Under the terms of devolution, Scotland and, particularly, a future Scottish Labour administration, has the opportunity to rethink this failed model with some bold policy options.

Having returned hundreds of millions of pounds to the UK taxpayer ASLEF believes the model of Directly Operated Railways and the running of the East Coast is one worthy of further examination. I am glad that this report does so and also considers how the one constant of the expensive game of musical chairs which is the franchising process – that is, the staff – can become more engaged with the running and direction of the rail services which they deliver.

**Mick Whelan**  
General Secretary  
ASLEF

# Executive Summary

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**The ways of providing rail passenger services across the UK are under scrutiny following the collapse of the West Coast Main Line bidding process; at no time since rail privatisation in 1993 has the future of Britain's railways been the subject of such debate. It is time to take a fresh and radical look at ways in which rail can make a major contribution to sustainable development for Scotland, in particular.**

- The new ScotRail franchise in 2015 provides the chance to demonstrate that there is an alternative which offers value for money to the Scottish Government, rail passengers and the wider community. However, it is a missed opportunity that the Scottish Government has chosen not to explore more radical options for the delivery of rail services on a not-for-profit (i.e. dividend) basis..
- Franchising, whatever its suitability to some commercial activities, is ill-suited to providing rail passenger services which require long-term stability combined with a high degree of public accountability. The experience of rail franchising in the UK has demonstrated with ever-greater clarity that the current framework is no way to run a railway. The existing arrangements need fundamental change.
- This report argues for a new approach which would, in the longer term (i.e. after the end of the new franchise starting in 2015), see the creation of a not-for-profit enterprise – a People's ScotRail - with strong involvement of the Scottish Government, rail employees and passengers, as well as other key stakeholders in Scotland. Its ethos should fully reflect co-operative principles of social responsibility, democracy, equity and service to the community. In the short term, we want to see the new franchise offering greater social and economic benefits to the people of Scotland.
- The future People's ScotRail would operate as an arms-length enterprise with close and supportive relationships with the Scottish Government (its principal funder) which would specify the core outputs required from the operator, core outputs required from the operator, but allowing a degree of commercial flexibility in developing new, additional services (see below). The train company would be required to work particularly closely with Network Rail as infrastructure manager and with other train and bus companies, public, mutually-owned or private, providing complementary services.
- People's ScotRail would be a new kind of railway company whose primary commitment would be to the people of Scotland, not to a group of shareholders. Its values would reflect this wider social mission and it would aim to set new standards of outstanding customer service and community benefit. It should become a beacon of environmental sustainability, building on best practice to everything it does.
- To succeed in being regarded as an outstanding social enterprise, full involvement of its employees is essential and the paper sets out a practical means by which this can be achieved. Close and positive relationships with local authorities and their regional consortia are equally essential. It would also build on the outstanding work of the Scottish community rail partnerships and station friends groups to ensure that People's ScotRail is strongly focussed on working with the local communities it serves. Much more could be achieved through a new approach to community rail which includes complementary social enterprise activities along rail corridors.
- People's ScotRail should have commercial freedom to develop complementary services to its own core responsibilities; these may include feeder bus services, catering and other products which can be commercially justified. Developing mutually-beneficial commercial partnerships with local suppliers is of crucial importance; People's ScotRail has the potential

to assist a whole new wave of social enterprises in both rural and urban areas of Scotland.

- These proposals will not cost the taxpayer any more than the current franchising arrangements do. On the contrary, they would provide better value for money and revenue generated by ScotRail would go back into improving its services, not shareholder dividends.
- At a more strategic level, People's ScotRail should have a board of management that reflects the diversity of Scotland. Ways of encouraging a real sense of ownership amongst passengers and employees, either through shares or bonds, would also help provide the foundations.
- The process of letting the new franchise for ScotRail, commencing in 2015, has already begun and it would be unrealistic to expect a fully-formed social enterprise be in a position to bid for the contract this time around. However, there are opportunities even at this stage for Transport Scotland to encourage wider social and economic benefits from private

commercial bidders following the publication of the invitation to tender (issued in mid-November).

- Whatever the outcome of the current franchising process, it will be of great importance that Labour and Co-operative MSPs carefully scrutinise the performance of the new franchise and ensure that it delivers on its commitments.
- While ScotRail is the main train operator in Scotland, InterCity operator East Coast, currently managed by state-owned Directly Operated Railways, is an extremely important provider both for internal journeys within Scotland and, particularly, cross-border services. The UK Government's plans to re-privatise East Coast, despite its successful performance as a publicly-owned railway, owes more to ideology than a desire to deliver a better service to passengers. East Coast should remain in public hands with stronger accountability, including board representation for Transport Scotland.

# Introduction

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**The way railways in the UK are run is coming under increasing public scrutiny. The franchising process is being questioned following the fiasco of the West Coast Main Line bidding process and the debate on HS2 and links between England and Scotland are growing in their breadth and intensity.**

There is a need for a radical, fresh approach that offers value for money, public accountability and a stronger voice for both passengers and staff to deliver a top class railway. Scotland could become the standard-bearer for a new approach that delivers these objectives based on co-operative principles. These plans are realistic, radical and deliverable.

Drawing on co-operative principles, mutual businesses and employee involvement, this paper explores the possibility of a new kind of railway to serve Scotland - a model that combines accountability, value for money and an entrepreneurial approach that contributes to economic and social regeneration and sustainable development.

Several key institutions in Scotland have shown considerable interest in not-for-dividend social ownership models. This approach is supported by at least two of the rail unions (ASLEF, TSSA) and the Labour, Co-operative Party and Green Party (see below). The SNP-led Scottish Government has expressed interest in seeing bids from not-for-profit operators for the new franchise, though the barriers to entry into the rail franchising market for social enterprises are immense.

In the 2011 elections to the Scottish Parliament, both the Co-operative Party and the Scottish Labour Party advocated 'not-for-profit' (i.e. not for dividend, where 'profit' – or surplus – is re-invested in the business) solutions for Scotland's railways. The Scottish Co-operative Party said:

“Community ownership of the railways should be supported. The trade union proposal to consider setting up not-for-profit operators is to be commended. The best method of achieving

the objectives of railways working on behalf of the communities they serve is to support a mutual business model.” (A co-operative agenda for Scotland 2011).

The Scottish Labour Party said “We will consider all options for the ScotRail franchise, including public and not-for-profit models.” (Scottish Labour Party Manifesto, 2011).

This paper puts much more detail into these policies and argues for the creation of an arms-length not-for-profit company (keeping the name 'ScotRail', a highly successful and well-established brand) that would operate on a long-term concessionary basis from the Scottish Government. Its governance structure would learn lessons from existing co-operatives and mutuals and be a partnership of public, private and voluntary sectors with a high level of employee involvement. It would form a central part of Scotland's vision of a sustainable, democratic and dynamic business sector.

However, some of the suggested outcomes we would want to see from a socially-owned ScotRail – the People's ScotRail - could be delivered under the existing arrangements if the Scottish Government insisted on a much stronger emphasis on wider social and economic outcomes from the franchise bidders in the current period.

Much will depend on negotiations between Transport Scotland and pre-qualified bidders over the next few months. Scotland's railways have a huge impact on the wider economy of the nation; ways of maximising the benefits of rail in building a modern, inclusive Scotland need to be developed.



# The ScotRail franchise

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**Most rail services in Scotland, with the exception of Intercity services from London (operated by Virgin to Glasgow, East Coast to Edinburgh, Glasgow, Aberdeen and Inverness, and Cross Country to Edinburgh and Glasgow) are operated by First ScotRail.**

The franchise was awarded to First Group in 2004 and in 2008 was extended to 2014. In December 2012 the Scottish Ministers announced that the franchise would be further extended to 2015. The ScotRail franchise is one of the biggest contracts handled by the Scottish Government, worth £2.5 billion. Government support in 2013/4 will be in the region of £511 million.

The current ScotRail franchise is a mix of busy suburban networks, some very rural routes and services that are 'inter-regional' in character, in some cases crossing the national border. The network is basically:

## Suburban

The intense suburban network historically centred around Glasgow is now effectively a 'central belt' network stretching between the Glasgow and Edinburgh conurbations, strengthened by the re-opening of the Bathgate – Airdrie line which provided a further link between the two cities. At the western end of the network there are busy routes into Ayrshire and north of the Clyde; to the east there are well-used routes to North Berwick and north of the Forth to Fife, Perth and Dundee. Around 60% of Scotland's rail journeys (which total 83 million in all) are made on the commuter network in the west of Scotland.

## Rural

The 'Highland' network north of Inverness to Thurso, Wick and Kyle of Lochalsh; West Highland Line from Glasgow to Mallaig

## Regional/Inter-regional

Glasgow/Edinburgh to Inverness and Aberdeen; Glasgow to Carlisle and Stranraer; Inverness – Aberdeen

At present the network is a mix of diesel and electric operation. Transport Scotland is managing the electrification of Edinburgh – Glasgow and associated routes and the balance between forms of traction will tilt strongly towards electric over the next ten years. Scotland's rail network has 350 stations and 2776 kilometres of track, 25% of which is currently electrified.

Several routes in Scotland have re-opened to passenger services in recent years as a result of funding from the Scottish Government, including Bathgate – Airdrie and Stirling to Alloa. The most recent development is the re-opening of the Borders Line from Edinburgh to Tweedbank, south of Galashiels. It is expected to be completed in 2015.

In his Ministerial Statement of 21 June 2012, the Minister for Housing and Transport indicated that Scottish Ministers expect the new franchises to address the following policy objectives:

- Focus on passengers, providing better services and enhancing resilience and operational effectiveness. This includes increasing levels of performance and punctuality over the franchise term;
- In the case of the main ScotRail franchise a 10 year contract, with a potential break point after 5 years, to encourage investment and ensure the franchise

focuses on improving performance, increasing passenger numbers and enhancing rail experience;

- In the case of the Sleeper franchise a contract of up to 15 years to encourage investment and ensure the franchise focuses on transforming the Sleeper into sustainable operation;
- Capture operational efficiencies;
- Be financially incentivised to improve on quality measures (such as SQUIRE) and achieve revenue growth;
- Rail fares will be attractive and affordable, including expanded fares regulation to protect those in rural areas and commuters alike. Allied to this, the franchise will be expected to increase passenger numbers through innovative fares packages;
- In the new ScotRail franchise creation of local community rail partnerships to establish facilities and services that address local needs;
- In the new ScotRail franchise enable effective integration with other modes of transport;
- Encourage bids from a wide range of operators, including not-for-profit operators.

The bidding process for the new franchise began in July 2013, with a notice in the *Official Journal of the European Union* (OJEU). The winning bidder will be notified in Autumn 2014 with a start in April 2015. The Scottish Government has said it wants to prioritise a number of areas in the new franchise:

“The ScotRail Franchise will continue to provide the regional, suburban and inter-city services on the Scottish Rail network. The transformation sought with these services is to drive greater passenger travel in the off-peak in association with an overall uplift in performance over the franchise term particularly with operation of winter services.

There is an aspiration for better passenger accommodation on Scottish inter-regional routes and also for the provision of enhanced tourist trains on scenic routes. The new franchise will also be key in supporting the introduction of network enhancements such as the Border

Railway, Edinburgh Glasgow Improvement Project, Aberdeen to Inverness Line Upgrade and further route electrification, which will require a role in the introduction of new electric rolling stock and cascade management of the displaced diesel trains.”

(Transport Scotland website).

Transport Scotland states that “Our objectives for the franchise will reflect the transport priorities of the Scottish Government:

- Improving journey times and connections
- Reducing emissions from transport
- Improving quality, accessibility and affordability”
- Transport Scotland’s ‘Commercial Proposition’

Transport Scotland’s key commercial requirements of the new franchise (as set out in July 2013) are:

- The new ScotRail franchise will be for a term of up to 10 years with a review and a decision by the end of year 5 to decide whether the franchise will terminate at the end of year 7 or 10
- There will be a detailed minimum service level specification which bidders will be required to meet. Bidders will be required to offer proposals on how they will stimulate and achieve growth of off-peak patronage leading to better overall utilisation of the rail services.
- There will be a regulated fares framework for peak services, with freedom to set fares in the off-peak. Bidders will be expected to carry full revenue and cost risk for delivering the services, subject to a risk sharing arrangement.
- Transport Scotland anticipates a collaborative working relationship in order to achieve maximum mutual benefits with the successful franchisee from capital investment in the Edinburgh Glasgow Improvement Project (EGIP), further extensions of the electrified network and the Borders Railway Project.
- Bidders will be offered quality incentives based on the existing SQUIRE (‘service quality incentive

regime’ – ed.) regime, augmented by incentives based on the National Passenger Satisfaction survey.

- Bidders will be required to achieve a minimum performance of 92% ppm increasing to 92.5% by year 5.
- Bidders will be required to purchase or lease suitable rolling stock for each of the Service Groups, which will deliver the specified levels of passenger environment and facilities. The condition shall be maintained by phased updates and refurbishment. Bidders will also be responsible for procuring the Rolling Stock for the EGIP Electrification Programme.
- Bidders will be required to expand, fully develop and exploit the smart card infrastructure already being installed in Scotland.
- Bidders will be required to provide wi-fi capability on all trains.
- Bidders will be encouraged to engage with Network Rail to consider the benefits of an Alliance or other collaborative working relationships, though this will not be a mandatory requirement.
- Bidders will be required to achieve a minimum specification of transport integration with other modes and play a key role in securing further integration over the term.
- Bidders will be asked to provide financial security of a size that is commensurate with the scale of the franchise and its importance to Scotland.

The re-franchising process has started, as noted above. Pre-qualification bids had to be submitted by late August 2013 and there has been an initial ‘sifting’ of bidders, resulting in a shortlist which includes FirstGroup, Abellio, MTR, National Express and Arriva.. A draft invitation to tender (ITT) to these prequalified bidders was on 19th November, and this will be followed by bidders’ responses to the draft ITT consultation in December 2013.

The draft ITT contains much that is positive and is a step change from traditional franchise requirements

in the rail industry (though changes are taking place in parallel, at the Department for Transport in their approach to franchising – see Appendix 3).

The objectives set by Transport Scotland for bidders include the standard references to value for money and efficiency, but also highlight the need to improve passenger satisfaction, better environmental performance and improved accessibility for people with reduced mobility. There is a welcome emphasis on the importance of community rail partnerships – a new departure for Scotland.

Clearly, the most appropriate type of organisation to deliver these social and environmental aspirations would be a social enterprise, but the bidding field is monopolised by large private-sector groups (some of whom, ironically, being owned by foreign state-owned railways).

The final ITT will be issued in January 2014 with submission of responses by April 2014. That will be followed by detailed evaluation with the winning bid announced in October 2014. An intense period of mobilisation will follow prior to commencement of the new franchise in April 2015.

Transport Scotland’s franchise objectives and commercial proposition are positive and welcome. However, both understate the importance of linking Scotland’s railway more closely with the diverse communities which it serves, and the importance of a motivated and involved workforce.

Transport Scotland and the Scottish Government, have set their sights too low for the franchise – but there is still time in the franchising process to insist on something more and better from the bidders. The possibilities are explored in Chapter 8 of this report.

# The Legislative framework

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**Train services in the UK are provided under the terms of the 1993 Railways Act, which effectively 'privatised' the rail network. Particular networks were created to form franchise 'packages' that were then put out to tender by the Government.**

Initially this was done by the Office of Passenger Rail Franchising, which was then subsumed by the Strategic Rail Authority. Following abolition of the SRA in 2006 franchising has been the direct responsibility of the Department for Transport (DfT).

However, there are notable exceptions. Scotland has responsibility for domestic rail services, through the Scottish Government's executive arm, Transport Scotland. On Merseyside, the passenger transport executive, Merseytravel, has responsibility for the Merseyrail electric network.

Transport for London has responsibility for the London Overground franchise. Northern Ireland Railways remains as a state-owned and vertically-integrated railway with close synergies with bus services in the province which are also publicly-owned.

The Railways Act of 2005 resulted in devolution of substantial railway responsibilities to the Scottish Government ('Scottish Ministers' in legislative terms).

The UK Government agreed that Scottish Ministers would take greater responsibility for rail powers in Scotland including:

- Transfer of the SRA's powers to manage and monitor the performance of ScotRail services
- Sole responsibility for securing future ScotRail franchises
- Power to take long term, strategic decisions about future investment
- Power to fund and specify where resources are targeted by Network Rail on track maintenance and investment in Scotland
- Safety and the licensing of railway operators remained with UK Ministers.
- The executive arm of the government is Transport Scotland, which manages the ScotRail franchise and is also responsible for publishing its own High-Level Output Specification which details the long-term development of the rail network, with accompanying funding arrangements.

The Scottish Government has been urging the Department for Transport to allow a derogation from section 25 of the Railways Act 1993, which only allows private sector operators to bid for franchises.

This has been rejected by the Department for Transport.

Under the Government of Scotland Act, powers are conferred upon the Scottish Ministers. Under the Act the Scottish Government is able to:

- develop and fund infrastructure enhancement schemes
- develop new rail passenger services
- invest in improving the journey experience for rail users
- fund rail freight improvement schemes through Freight Facility Grant (FFG).

The above relates to the operation of passenger services. Freight is run on a different basis, within

what is essentially an 'open access' regime where approved operators can run freight services on a commercial basis, with track access levied by Network Rail. Rail freight is of considerable importance to the Scottish rail network, particularly for oil and petrochemicals (to and from Grangemouth), as well as coal and a growing intermodal traffic.

Network Rail itself is responsible for the overall management and development of the railway infrastructure: track, signalling, stations and associated facilities including depots. Most stations in Scotland are operated by ScotRail under a landlord/tenant arrangement. However, Network Rail directly manages Glasgow Central and Edinburgh (Waverley).

# The Need for Change

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## **The recent controversy over the West Coast Main Line franchise has brought wider issues around rail franchising into the public eye.**

The report by Sir Roy McNulty on the costs of operating the rail network showed that the UK rail network was around 30% more expensive than its counterparts on the continent. Several reasons for the discrepancy are contained in the McNulty report, though it fights shy of suggesting that the franchising system itself is fundamentally flawed, as argued in two major reports outlined below. It has become clear that the UK's rail franchising system itself does not offer the sort of benefits to either passengers or the taxpayer that the original supporters of privatisation suggested.

The report by Transport for Quality of Life – *Rebuilding Rail* (2012) highlighted the substantial additional costs of the privatised railway, suggesting a cumulative figure of around £11.5 billion additional costs since privatisation. These costs include interest payments on Network Rail debt, cost of interfaces between train operators and Network Rail, profit for train operators and rolling stock leasing companies, dividend payments and other factors (*Rebuilding Rail* p.18).

These conclusions were complemented by the work of the Centre for Research on Socio-Cultural Change by the TUC. Their report, published in June 2013 called *The Great Train Robbery*, showed that rail privatisation offers poor value for money, arguing that “train operating companies are entirely reliant upon public subsidies to run services. The top five recipients alone received almost £3 billion in taxpayer support between 2007 and 2011. This allowed them to make operating profits of £504 million – over

90 per cent (£466 million) of which was paid to shareholders.” (press release from TUC, June 5<sup>th</sup> 2013).

There are other factors as well that call into question the wisdom of the franchising model for a railway. Franchising by its nature is short-term. The typical life of a train might be 25-30 years; other assets are much longer. Whilst to some extent, it can be argued, a strong public body in charge of the franchise can take that long-term view, the reality is that the instability of franchised train operations imposes its own, often hidden, costs.

What are these hidden costs? A key factor is employee morale. Seemingly constant change of franchise owner undermines the traditions of loyalty and pride, which were passed on from the old private companies to British Railways in 1948. A particularly glaring example was First Great Western's peremptory surrender of their franchise when higher franchise payments were about to kick in, leaving both employees and passengers confused as to their future fate.

Even allowing for a 'normal' franchise, the reality of franchising is that a company will spend the first two years of the contract getting to understand its market, and then towards the end of the franchise – often three or four years before its termination - will 'take its foot off the pedal' and put little energy into the existing operation.

There are other options within franchising. The typical model on the continent is for a public body (typically a regional authority) having complete responsibility for procuring, funding and managing a rail passenger concession with the operator actually 'invisible'. Branding, ticketing and timetabling are

set by the public body. This is not dissimilar to aspects of the ScotRail franchise where the trains are branded in Transport Scotland's 'saltire' livery.

However, risk is shared with the train operator (First ScotRail) unlike the situation on Merseyside where the PTE takes most of the risk and collects all the ticket revenue. Within the railway industry there is growing consideration of the possibilities of achieving wider socio-economic outputs from the

existing franchising system – using franchising to deliver benefits beyond a narrow financial focus.

Even in the 'gross cost' contract, franchising is not necessarily the optimal solution. If the public body is taking such an overwhelmingly direct role in the franchise, it has to be asked why go to the trouble of franchising a rail service in the first place? The franchise still needs careful management and that requires significant resources. A new approach is needed that guarantees stability and accountability, whilst ensuring value for money.

# Other models of transport provision in Europe

**Other countries in Europe have adopted various models to manage their local and regional services. In Germany, local and regional passenger networks are the responsibility of the länder, which mostly use franchising powers to procure rail services.**

However, some of the länder have historically owned their own local railways. An example is the Hohenzollerische Landesbahn, which is owned by the region. This is a vertically-integrated railway, which has benefitted from substantial investment in recent years. A legal judgement in 2002 compelled regional transport authorities to put their services out to competitive tender, though adherence to this has not been universal.

Switzerland, with a population of just under 8 million, has long enjoyed both a highly reliable and attractive rail system with a high degree of decentralisation, involving nearly 60 different railway companies, mostly vertically-integrated. Most of these are, however, small operations serving particular cantons. By far the biggest operator is Swiss Federal Railways (SBB) with Bern-Lotschberg-Simplon (BLS) being the next largest. As Switzerland is not in the EU there is no requirement to separate infrastructure from operations, and SBB thus covers both spheres, as does BLS for its own network through the Alps.

There is a clear distinction made with Swiss railways between long distance services, and with regional and local passenger services. The local and regional services are typically provided by locally-owned arms-length railway companies with vertical integration between operations and infrastructure. A contract (service level agreement) between the canton and the local railway is normally negotiated every four years with 'net cost' contracts awarded. In other words, the operator is given a baseline of funding and any extra revenue goes to the company, whilst it has to bear any loss.

The picture in Spain is interesting for its lack of uniformity, reflecting the 'asymmetric' pattern of devolution within the country. Following the end of the

highly-centralised Franco regime, a process of devolution began that created 'self-governing regions' in some parts of Spain, notably Catalonia and the Basque Country.

However, the state operator, Renfe, continues to provide the overwhelming number of local and regional passenger services, as well as longer distance and AVE (high speed) services. There is currently a serious threat to several local rail services on the Renfe network as a result of Spain's economic problems. In Catalonia it is the regional government that contracts with Renfe for the provision of regional services.

The situation in the Basque Country is different, partly on account of railway geography and politics. The Basque Government has progressively taken over responsibility for the extensive metre-gauge network, which centres on Bilbao and San Sebastian – the 'Euskotren' network. This is different from the state-owned FEVE network, which also serves Bilbao but extends well beyond the Basque border. Euskotren is a vertically-integrated operation wholly owned by the Basque Government. It has invested heavily in upgrading the decrepit network, with track doubling, new stations and new rolling stock (built by Basque manufacturer, CAF). Euskotren also owns a fleet of buses, which provide connections into the rail network.

Perhaps most interesting from a Scottish perspective is Northern Ireland Railways, which remains a vertically-integrated publicly-owned railway. The size of the rail network is smaller than Scotland's but as another devolved government in the UK, there are clear parallels. NIR is a subsidiary of Translink, which in turn is owned by the Northern Ireland Transport Holding Company, a state body. Rail and bus sides of the operation have a single board of management, which is selected by the



Northern Ireland government. Northern Ireland was excluded from the provisions of the 1993 Railways Act.

## Municipal enterprise on the buses

Several bus companies in the UK are run as 'arms-length' not for profit companies, including Lothian Buses, the UK's largest (see below). Others include Swindon-based Thamesdown Transport, which won the award for 'Britain's best bus operator'. Cardiff Bus is owned by the local authorities. Hackney Community Transport is now running Transport for London (TfL) bus routes and operations are as widespread as Yorkshire and the Channel Islands.

Lothian Buses is 100% publicly owned, with Edinburgh City Council owning 91% of the shares. The remainder are held by the local authorities for Midlothian, West Lothian and East Lothian. It has an employee-nominated director on the board and a strong ethos of social responsibility. Given its pivotal role in the capital's transport system, it is worth dwelling on the company's achievements. It employs around 2000 staff and last year made a post-tax profit of over £8 million – an increase of over 4% on previous year's results. It is one of the biggest transport operators in Scotland with a fleet of 650 vehicles operating around 70 services.

The mission statement of Lothian Buses is:

“to deliver a high quality, integrated, socially inclusive transport service. We will also deliver profit through a strong commercial focus and driving efficiencies in everything that we do.”

Whilst its vision is

“to be an integral part of the future success of Edinburgh and the Lothians, by providing world-class, environmentally friendly and socially inclusive

transport.”

The corporate values of the company are quality, people and community:

“Quality being the best each and every time, while challenging ourselves to be even better and more efficient; People -being friendly, helpful and proud to make a difference to our customers and colleagues; Community - being passionate about playing a positive role in our community and the environment.”

It is strongly committed to community involvement. It states that

“Lothian Buses is a major local employer and supporter of local and national charities. We also run a range of projects through our Community Engagement strategy. These aim to inform, educate and provide new experiences to people from all walks of life. A particular focus is on young people. Our volunteer team works in schools, from our depots and at local events to break down barriers to using public transport. Other projects focus on helping school leavers and those seeking employment to better understand their options – and how to develop the skills to reach their potential. Listening to young people and learning about their needs also helps us to improve our services and make bus travel more appealing”

The company won the award for 'best large green company' in Scotland's 2012 Green Awards.

A new ScotRail has some useful lessons to learn from its Lothian neighbour, which combines enterprise with accountability and gives real value for money to its local government owners.

# The debate in Wales and Scotland

**Although the governments of Wales and Scotland have different political leaderships and differing powers over rail, both nations share an interest in alternative 'not for profit' models in the delivery of rail services.**

The Wales and Borders franchise is currently held by Arriva Trains Wales and runs until 2018. The report commissioned by the Co-operative Party and ASLEF on a Welsh not for profit train operating company (*Rail Cymru – towards a people's railway for Wales, 2012*) excited considerable interest and support.

The report quotes Professor Stuart Cole, a highly-respected Welsh transport academic, who has argued that there are a number of options for a future rail operation in Wales which have relevance to Scotland. The nub of his argument is as follows:

“Apart from running the railways as a franchise operation the Welsh Government could own and run the system itself as a not-for-dividend company, probably operated at arms-length by a National Rail Transport Authority. Some have argued that this would amount to nationalisation by the back door, though others have pointed to the current Network Rail position, responsible for the rail track throughout Britain, as offering a precedent for direct government involvement.

Network Rail has a close relationship with the Department of Transport while remaining a not-for-dividend private sector company. If the Welsh Government wished to continue a franchise arrangement, but not as a co-operative, then it has two choices: Firstly, a conventional franchise from the Welsh Government alone, rather than the present joint arrangement with the Department of Transport. In this scenario the operator would be a listed company, such as Arriva, First, Stagecoach or National Express.

There would be no capital investment risk as all the assets – rolling stock, stations and track from Network Rail – would be leased for the life of the

franchise. The revenue and operating cost risk would lie with the private company franchisee.

Secondly, a not-for-dividend company operated as a franchise from the Welsh Government.

This would require the appearance in the market of new not-for-dividend companies bidding for the franchise in order to achieve/meet European competition rules, unless it could be shown that a single such company was not obtaining competitive advantage. It has been suggested that Glas Cymru (upon which Network Rail was largely based) could be the model for a Welsh Train Operating Company with a guaranteed revenue stream and a highly capitalised registered asset base.

This model only has the revenue stream guaranteed for the subsidy element and a buoyant and expanding market for the fare-paying element. Under this scenario the revenue and cost risk would again lie with the company. To succeed it would have to match a public sector ethos with private sector commercial discipline.”

Professor Cole continues:

“Against these options a franchised co-operative company would be owned by the employees (as with the John Lewis Partnership) or the passengers (as with the Co-operative Group) or, more likely some combination of the two – as is the case, for example with the Mondragon Eroski supermarket chain that operates through much of Spain.

In this scenario the revenue and cost risk would lie with the employees and passengers. If the company mirrors the present retail companies the extent of the risk would be on the same basis.” (IWA, August 2012).

A spokesman for former transport minister Carl Sargeant AM said:

“In May 2011, Welsh Labour pledged the people of Wales in our manifesto that we would examine the feasibility of the Wales and Borders rail franchise being run on a not-for-dividend basis, which includes the potential for cooperative or social enterprise models. This policy is now precisely what we are actively pursuing in government. We are keeping our promise. This will form part of a widespread review of the prospects for the next franchise and the future of Welsh rail in general later this year, ahead of the process to let the next franchise.”

The debate has been broadened to include transport campaigners who have backed the idea of a non-private model to run railways in Wales. The picture that emerges is of a considerable degree of political consensus within Wales, at least between the Labour Party and Plaid Cymru, that the current arrangements are not sustainable and new approaches are necessary. This is backed up by substantial support amongst transport campaigners and transport academics within Wales.

The situation in Scotland mirrors that in Wales, with the Scottish Labour, Co-operative and Green Parties broadly favouring social ownership models for Scotland's railways. Whilst initially expressing interest in social enterprise models, the SNP Government appears to have gone lukewarm to the idea (see below). As noted in the Introduction to this report, both the Scottish Labour and Co-operative Parties highlighted the need to consider not-for-profit solutions for ScotRail in their 2011 manifestoes. This was shared by the Scottish Green Party which proposed to work with unions and the community to create a not-for-profit body to bid for the ScotRail franchise.

A key debate took place in the Scottish Parliament on May 30<sup>th</sup> 2013, on 'Transforming Scotland's Railways'. Several Labour MSPs, and a Green, Patrick Harvie, argued strongly for a more positive approach towards not-for-profit solutions (see Appendix 1 to this report for a more detailed account of the debate).

This was a robust exchange of views which revealed a large degree of unanimity over the importance of railways to Scotland's economy and the dissatisfaction with the current privatised structure. In the debate

the minister, Keith Brown, indicated his support for 'not for profit' approaches whilst being unable to offer any special favours to not-for-profit bids. He suggested the SNP Scottish Government was an unwilling player in the current system:

“I reiterate that I cannot encourage one bid over another bid. That is how the process goes and that is what is laid down in law.....I am happy to discuss....issues related to public ownership of railways. However, I repeat what I said last week: from when the previous Labour Government took office in 1997 right through to 2010, it did not change the Railways Act 1993, which leaves us in the position in which we can accept public sector bids, but only from foreign countries: we cannot allow one of our public bodies to bid. I do not know why the Labour Party supported that position. I do not support it, but that is where we are. We have asked the UK Government to change the act, but it has said that it will not.”

Later in the debate Mr Brown said

“I have said a number of times that I have approached the Secretary of State for Transport about changing the terms of the 1993 act to allow us to open up the bidding process. I have said that we will, of course, consider a not-for-profit bid.... The issue is simply that we could not encourage one bid over the other. I have also said why we are prevented from having a publicly-funded railway bid”

The Labour/Green amendments were lost. However, the fact that such a debate was held, questioning the fundamental basis of rail franchising, is welcome and reflected a broad consensus in support of the principle of not for profit approaches. However, the SNP could have worked harder to push the boundaries.

Whilst it is clear that a fully 'publicly owned' bidder from the UK (e.g. Directly Operated Railways – see Chapter 7) would be disbarred, there could have been opportunities to assist social enterprise bids through the franchising process, e.g. by requiring bidders to deliver broader social and economic outcomes rather than the very narrow focus on service delivery which Transport Scotland has opted for, or by seeking to challenge some of the provisions of the 1993 Act, as considered in the following chapter.

# Beyond franchising

## Obstacles, options and opportunities

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### **Achieving a publicly-owned, mutually controlled and accountable railway for Scotland will involve political legislative change, which will take strong political will.**

Based on statements by the Westminster Government, it would seem unlikely that either Wales or Scotland – under current constitutional arrangements and with the current parties in power at Westminster – would be allowed to pursue either non-franchised or ‘non-private’ approaches to running their railways.

For the Scottish Government to go beyond the current franchise arrangements it needs to negotiate some significant changes in its relationship with the Department for Transport that would, almost certainly, require a change of government at Westminster. However, it may not need primary legislation. The 1993 Railways Act, which does of course apply to Scotland, presents obstacles to going for a non-franchised approach, but these may not be insuperable if the political will is there.

A concession approach, where a not-for-profit train company is given a long concession, with regular reviews, is clearly an option. Whilst more detailed legal consideration is necessary, it would seem that trying to achieve the objective of a publicly-owned and accountable railway for Scotland would be difficult but not impossible if there was a sympathetic government in Westminster that could provide derogations from the Act.

There is a possibility of using Wales and /or Scotland as a test-bed for future re-structuring in the UK that might ultimately involve new legislation.

A further potential obstacle are the proposals, currently being debated at EU level for the Fourth Railways Package which, if agreed in its current form, would require all transport authorities (be they national, regional or local) to put public transport services out to competitive tender. The package is still under discussion and it is expected that a final version will be agreed during 2013.

### **Legal issues**

The train drivers’ union ASLEF took legal advice on possible approaches by the Scottish Government to achieving a not-for-profit franchisee to operate the ScotRail franchise. The response, from Thompson’s, is summarised below:

“The starting point is to realise that the Scottish Parliament could not do anything to legislate in relation to this area. Doing anything would rely upon pure political will on the part of the Scottish Government to act in certain way and it would also require them to ‘play games’ with the legislation and the franchise process. The Railways Act 1993 places a Statutory Obligation on ‘the appropriate designating authority’(which is to say the Scottish Ministers/Scottish Government) to put railway services out to franchise; The Scottish Ministers cannot bid in the process or ‘win’ a franchise.

The Scottish Ministers do, however, set the criteria (and, by definition, can make the franchise criteria difficult to meet); despite the Scottish Government having powers under the 1993 Act, the Scottish

Parliament has no power to legislate in relation to railway services or related matters as it is clearly Reserved to Westminster; and The Scottish Government therefore can act in certain ways under the powers given to them under the 1993 Act but the Scottish Parliament cannot force them or encourage them to act in any such way, either by an Act or Statutory Instrument. The key to doing anything is the powers under Section 26(z)(a).

This section applies where either: The Scottish Ministers receive no tenders; or "It receives a tender but considers that the services would be provided more economically and efficiently if they are provided otherwise under a franchise agreement entered into in response to the tender." In those circumstances the Scottish Government can enter into a franchise agreement with someone else (by definition if the alternative agreement is more economic and efficient) or, under Section 30, the Scottish Government will be under a duty to run the franchise themselves as an operator of last resort.

It really therefore depends on what the Scottish Government view as the 'adequate tender' and whether the service can be 'provided more economically and efficiently' other than by tenders received. You could see that if there was sufficient political will, the Scottish Government could simply take the view that any tender which involves a 'for profit element' to be inadequate and to either hand the franchise to someone else (whether they tendered or not) to run the franchise on a 'not for profit' basis or to run the franchise themselves as an operator of last resort.

In other words, if there was political will, the Scottish Government could use the current legislation to ensure that the Scottish railways are always run on a not for profit basis. That would not require any expansion of the devolution settlement powers. It would however require the Scottish Government to stick to their word and be prepared to stand up to the civil service.....That takes me on to the final point. While everything that I have said about what can be done if the political will is correct, we do have to bear in mind that the primary obligation under the 1993 Act is to put services out to tender.

There is therefore a danger that if there was seen to be a clear course of conduct or intention on the part of the Scottish Government to deliberately circumnavigate this primary obligation, it might open their decision to judicial review proceedings. I am sure that point will not be lost on the civil servants and they will be nervous about it.

There is no complete answer. It will require the Scottish Government to be brave but I can see nothing objectionable about the Scottish Government following a policy that only a not for profit service will be considered by them to be sufficiently 'economic and efficient' in terms of Section 26 (z)(a) and that anything less than that will not do. In those circumstances, they will not be following a course of always looking to run the franchise themselves (such an obvious course of action would, I think, be clearly open to judicial review) but would instead be making it clear that nothing less than a not for profit tender will be accepted. The proof of the pudding would be in the tasting, of course, and it would rely upon them accepting a not for profit tender if one was received (and I am sure that you would have no objection to such a tender in any event)".

## Commentary on the legal advice

This is sound advice and clearly whilst there are avenues which a Scottish Government could pursue to ensure a not-for-profit operator runs ScotRail, the political realities are that the Government is very unlikely to take the political risks necessary to do this. And there is the objective fact that the franchising process is underway and the scope for doing anything radically different for now, is limited. However, there are some short-term options - as well as the longer-term option when the new franchise comes up for renewal - to build in wider social and economic outcomes which reflect a more co-operative approach.

## Practical Options

There are several options to consider, but this will be driven by the short timescales available and the fact that the Scottish Government is proceeding with a franchise competition based on a largely conventional approach based on acceptance of the

'status quo' (which in all fairness it has little option with, given retained powers by the UK Government).

For the 2015 re-franchising, companies have already submitted pre-qualification bids (see above). The reality is that the 2015 franchise will almost certainly be let to one of the existing established groups who have both experience and resources behind them to mount a winning bid. While the Scottish Government has said that it welcomes bids from 'not-for-profit' organisations, it has also indicated that it would not show any favouritism towards such bids.

Given that the accepted cost of a serious bid for a franchise is in the region of £10-12 million, it is difficult to imagine any 'not-for-profit' bidder on its own being able to mount a serious challenge.

In the run-up to pre-qualification there was an opportunity for not-for-profit interests to mount a bid. One option would have been to get sufficient funding to mount a credible bid which would require at least £5 million backing, with no guarantee of getting that money back. A second option would have been to mount a modest bid which uses available skills and modest resources, essentially raising the profile of the social enterprise sector and putting in what is essentially a propagandist bid to highlight 'what might be' if there were fewer barriers to entry by smaller social enterprises. In reality, neither of these approaches developed sufficient traction to succeed.

However, a further option remains for an existing (or new) social enterprise or mutual which could go into partnership with a pre-qualified commercial bidder which shares, to some degree, the ethos of the mutual. This could be based on a simple employee-owned business, or a joint mutual which has passenger and employee involvement.

This approach may be attractive to a private commercial bidder because it would bring what money cannot buy – genuine employee and community involvement. Finally, there is the option of a commercial bidder building in a commitment to going beyond the rather limited requirements published so far and building in a significant degree of passenger and employee involvement in their proposals for ScotRail. Given that

time is very limited, these latter two options are the only practical ways forward for the 2015 franchise.

However, seven years is a short time in railway terms and preparing for the future franchise (along with other potential social enterprise initiatives in Scotland) is important. It should also be pointed out that the history of rail franchising in the UK is highly uneven and some franchises (notably East Coast but others have come near) have had to be prematurely curtailed. If that does happen, an alternative model based on the legal advice given above which ensures best value to the tax payer, should be an option.

## Costs of setting up a new operator

The current subsidy given by the Scottish Government to ScotRail is £511m for the period 2013/4, which has risen substantially in recent years. In addition, substantial investment is being made in infrastructure through the Scottish Government.

The proposed not-for-profit train operating company does not impact massively on this current arrangement, though the assumption is that funding the future franchise (or whatever it may become) will be via the Scottish Government. An additional advantage of moving away from a franchising model is that the costs of managing a franchise – which are considerable – will be reduced.

There would be some up-front costs in setting up a suitable not-for-dividend, non-franchised train operating company, and further costs in monitoring and liaison, but these are likely to be lower than the current costs of franchise management. In the short-term, it would be useful for the Co-operative movement in Scotland and the UK as a whole to consider how future co-operative transport companies could be funded, including start-up costs and help with business planning.

It should be stressed that although a People's ScotRail would continue to receive a considerable financial subsidy from the Scottish Government, it would be encouraged to make a surplus from extending and improving its commercial performance, and this surplus would be re-invested into the business through improvements such

as station facilities, improved information and on-train services rather than to shareholders.

Neither should there be a culture of excessive executive bonuses.

## Directly Operated Railways (DOR)

It is important to recognise that there is already a publicly-owned train operator which plays an important role in Scotland's transport network – East Coast. The franchise was surrendered by National Express in 2009 and has been operated by the UK Government's 'Directly Operated Railways' (DOR) for the last three years. However, the Government is progressing plans to re-privatise the operation with a planned completion date of October 2014. DOR was set up under the terms of the 1993 Railways Act as an:

“...operator of the last resort’ (sic) if a franchise, for whatever reason, is unable to continue operating.”

Its values, which are brief and to the point, are given in Appendix 2 to this report.

DOR's website says:

“Directly Operated Railways was established by the UK Government's Department of Transport in July 2009. It fulfils the Secretary of State's requirements under Section 30 of the Railways Act to secure the continued provision of passenger railway services should an existing franchise not be able to complete its full term. National Express East Coast was awarded the operation of the East Coast Main Line rail franchise in December 2007 and this was scheduled to run until 31 March 2015, subject to its achievement of performance targets.

However, in July 2009, the parent company, National Express Group, stated that it was limiting its financial support to the franchisee in view of the poor trading conditions that the Group was experiencing. This led to termination of the National Express East Coast franchise on 13 November 2009.”

DOR's stewardship of the East Coast franchise has proven highly successful. Last year

the business returned increased profits. A report in *The Independent* said:

“Directly Operated Railways (DOR), which took over the running of the East Coast line from National Express, said its operating profit increased by 7% in the year to March to £7.1 million. Turnover for the year amounted to £665.8 million, an increase of £20 million, leaving a profit before tax and service payments to the Department for Transport of £195.7 million, an increase of £13 million.” (September 27th 2012).

DOR has returned £800 million to the Treasury since it was formed in 2009 to run East Coast.

East Coast itself is an InterCity operator running trains from London to Yorkshire, the North-East and Scotland, principally serving Edinburgh with some services continuing to Glasgow, Dundee, Aberdeen and Inverness (via Perth). Privatisation of East Coast is proving highly unpopular, with a union-led campaign, backed by the Labour Party, to keep it in the public sector in order to provide a benchmark against which private operators can be judged.

Some industry commentators and the rail unions have argued that DOR should form the basis of a future publicly-owned UK-wide InterCity train company which would ultimately bring together East and West Coast operations with Great Western's inter-city services, Midland Main Line, Cross Country and possibly the Anglian main line. This would make a great deal of sense, providing the UK with a comprehensive, unified InterCity network under public control. Furthermore, such a long-term gradualist approach, based on re-integrating franchises into DOR as they come up for renewal, would be very low cost. This would clearly require legislation by an incoming Labour Government but would be immensely popular judging by a number of opinion polls.

There would be a number of options facing a future UK Labour Government in this process. DOR as it stands is ultimately accountable via the Department for Transport to the Secretary of State for Transport.

There is little if any direct involvement of the Scottish Government in its supervision and this should change. One option would be for a UK-wide 'InterCity UK' operation which is state-owned, with both

Scottish and Welsh governments having a stake in its management, with representation on a board which included passenger and employee representation.

An alternative approach would be to create InterCity UK along similar lines as Network Rail – or even as part of Network Rail – but with stronger democratic governance.

The most radical option would be for InterCity UK to be formed as a full co-operative, with devolved business units covering East Coast, West Coast, Cross Country, Great Western, Midland Main Line and Anglia. There could be close involvement of devolved governments in each relevant business unit, e.g. Transport Scotland in east Coast and the Welsh Government with Great Western.

Could DOR operate ScotRail? In theory yes, and if a future ScotRail franchise ran into difficulty DOR would be the appropriate organisation to take over control. However, Scotland's domestic rail network should be owned by and accountable to the people of Scotland, and not by what is largely a creature, at least currently, of the UK Government in London.

Its current governance is fit for purpose for the sort of operation it is – effectively an interim body which intervenes in crisis situations. To become a long-term player in the industry it needs a more accountable structure which recognises the new devolved landscape within the UK and ensures representation of passenger and employee interests.



# Towards a People's ScotRail

## A co-operative approach

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**It is very clear that, if the above legal obstacles were surmounted, a People's ScotRail would be eminently practicable and would deliver substantial benefits to Scotland and the English borders (see below).**

A suitable legal structure requires detailed work but the example of Glas Cymru (Wales Water) is relevant for a number of reasons. Perhaps above all, Glas Cymru shows that a not-for-profit model is possible, even for a business that has substantial liabilities and risks.

Several options were considered for a People's ScotRail, including a full co-operative structure. The fundamentals of the co-operative approach are contained in its international statement of principles. A co-operative is defined as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise"

Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity** and **solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others. The co-operative principles are guidelines by which co-operatives put their values into practice. These include

### 1) Voluntary and Open Membership.

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### 2) Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in

setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

### 3) Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### 4) Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### 5) Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the

development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

## 6) Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

## 7) Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

These are all extremely worthwhile objectives that need to form a central part of the governance of a new Scottish railway company. This is the approach argued for by Professor Stuart Cole who outlines the benefits of a co-operative structure:

“The successful existence of the Co-operative shops suggests that any business with a large number of customers could be a mutual. This certainly includes a train operating company. Other advantages with the co-operative approach might include:

A co-operative business could be expected to give a greater sense of collective ethos, which would help the industry through difficult times.

Staff absences could be expected to be lower than other forms of business structures, as is claimed by the John Lewis Partnership.

Many of the complaints about rail companies might disappear if the passenger felt a direct ownership. Of course, the last time the railways were in public ownership that didn't happen though that might have been because, in effect, the British Rail model was no different from a conventional private company.

Persuading travellers that the railway really was being run for their benefit might remove the 'them and us' perception.”

(Prof. Stuart Cole, IWA Agenda, August 2nd 2012)

Professor Cole's comments about developing a strong 'collective ethos', improved staff morale, passenger satisfaction and a sense that the railway is run 'for us' and not 'them' (shareholders) should be reflected in how a future rail company is not only structured but how it works in practice. As Stuart observes, 'British Rail' was a state-owned company but there was little involvement of either passengers or staff.

Getting the right balance between employee and passenger needs, local government and other stakeholder interests and those of the Scottish Government - which, irrespective of the model adopted, will be the main funder of ScotRail - is critical.

Given the large amount of public subsidy that will go into ScotRail, a model that enshrines a significant degree of control by the Scottish Government has advantages over a full 'co-operative' in which the risk is largely taken by the owners (who could, as Stuart observes, be a combination of staff and passengers).

A business that is reliant on a substantial level of public subsidy must have a significant degree of government control, though an arms-length approach is possible. A totally state-owned and controlled train company may not have the scope for enterprise and, with that, a degree of risk-taking that any dynamic business needs to have. It is very much about striking a balance.

The challenge is to ensure that the fundamental values and approach of the co-operative model can be tailored to fit the needs of a railway company dependent on a high degree of government support. We believe that the above benefits could be delivered by a not-for-dividend company limited by guarantee, providing the fundamental ethos is established at the start.

A simple, easily-understood company limited by guarantee offers the simplest legal model to deliver a not-for-profit train company. This is the model adopted by Network Rail, though its actual governance remains far from ideal – similar criticisms could also be made of Glas Cymru.

A People's ScotRail could take the legal structure of either a Community Interest Company (limited by guarantee) or a co-operative in the form of an Industrial and Provident Society (society for the benefit of the community). The key issue is to ensure

that the company structure is designed from the start to ensure high levels of public accountability (particularly to the Scottish Government) with strong involvement of passengers and employees. Starting with a clear statement of the company's mission and values provides the foundation.

## Mission and Values of People's ScotRail

The following mission and values are based on those of Euskotren, the highly successful regionally-owned train and bus operator in the Basque Country, and Lothian Buses:

### Mission

To deliver a high quality, integrated, socially inclusive transport service which meets the mobility needs of communities and businesses within Scotland and the UK, which respects the environment and promotes sustainable development.

### Vision

To be an integral part of a successful Scottish economy by providing a world-class, environmentally friendly and socially inclusive transport service to customers, value for money to the taxpayer, high levels of employee and community engagement and a rewarding career for our workforce.

### Values (see below)

- Socially responsible
- Responsive to customer needs
- Modern and innovative - learning from best practice world-wide
- Committed to teamwork and partnership, with internal and external partners
- Playing an active role in Scotland's business community

### Values

The above values need to go beyond traditional private sector hype and be meaningful, with regular

independent audits. The Business in the Community (BiTC) process by which companies can achieve varying levels of recognition for their commitment to social responsibility are highly relevant.

The four pillars of social responsibility outlined by BiTC in Scotland are:

- Community- working with schools and young people, improving the employability of hard-to-reach groups, developing enterprise across Scotland
- Environmental Sustainability - tackling climate change, resource depletion and improving the efficiency of Scottish businesses
- Workplace - developing a skilled healthy workforce, tackling skills gaps and encouraging companies across Scotland to volunteer
- Marketplace - improving commercial operations, developing the supply chain

Each of these are highly relevant to the operations of a socially-responsible train company. The 'community' dimension can be taken considerably further, and this is explored in greater detail below. A high profile in the community is not only 'the right thing to do' it would also strengthen People's ScotRail's commercial profile.

Environmental sustainability should be fundamental to the social goals of a People's ScotRail, reinforced by best practice in all aspects of its operations - in particular energy and fuel use, which bring down operating costs.

People's ScotRail would be a major employer and many of its staff would have both safety-critical and sensitive customer-facing roles. High levels of training would therefore be essential, combined with an inclusive approach towards recruitment (including above - employing 'hard to reach' sections of the community). Developing high-quality apprenticeship, training and employee development programmes would be essential to a successful business.

People's ScotRail should also operate with a high level of responsibility to its passengers, as well as its suppliers.. It should aim to score consistently high

in Passenger Focus's passenger satisfaction surveys and undertake its own research on passenger needs.

Ethical procurement policies should include a presumption of buying local, encouraging positive and fair commercial relationships, supporting small businesses and in particular social enterprises. The buying power of a large business such as ScotRail could be used to help small social enterprises and community

organisations, in both more remote parts of Scotland where there is an obvious benefit in 'buying local' to reduce mileage costs, but also in the urban central belt.

ScotRail is one of the nation's major employers. People's ScotRail could play a leading role in Scotland's business community as a dynamic and creative enterprise which sets an example for others to follow, and plays a leading role in wider debates on economic development.

# Creating a real People's Railway

## Community and nationality

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**The privatised railway in the UK has to a degree recognised the importance of community involvement in its operations, at least for local and regional services.**

However, there has been a sense that these are marginal, particularly for some of the InterCity operators. And the reality of running a complex, long-distance network means that any consultation process, or community involvement, has inevitable limits. So what could People's ScotRail do that would really make a difference and give a sense of ownership and involvement?

There is a complex relationship between physical size, identity and sense of ownership. British Railways was technically 'owned' by the people of Great Britain but the size was so great – coupled with a fairly top-down approach – that a sense of ownership was impossible to develop. Amongst employees there was a degree of identity with 'BR' but it was more about a sociological 'industry' identity, which has persisted, despite the efforts of many companies, after privatisation.

A good comparator is Merseyrail, a franchise owned by Serco and Abellio and specified by the PTE, Merseytravel. The size is ideal for developing a strong sense of identity. Trains and stations are strongly branded and relate strongly to a sense of local identity.

Another example, going back many years, was the very local 'Killin Railway', which operated in the Scottish Highlands. The company was funded and owned by the local community, which included not just the inevitable laird but local businesspeople and farmers. It was 'their' railway in every sense!

A People's ScotRail would be in a similarly strong position to take advantage of its national identity as 'Scotland's Railway'. Building up a strong identity not only as a Scottish enterprise, but as one that is the

property of the people of Scotland, offers the sort of advantages that PR people can only dream of.

Getting the fundamentals right is the rock on which everything else should be built, and if ScotRail can offer the sort of quality and reliability that companies like Merseyrail can offer, they will be in a strong position to develop further. Nobody wants to be associated with a poorly-performing operator, however nice the branding is.

But this section will dwell on the more cultural aspects that are important if the People's ScotRail was to win the hearts of the people of Scotland and those parts of England that it would serve. The rail network does not respect national boundaries and it will be important to ensure that neighbouring authorities in England, such as Cumbria and Northumberland (part of a North East association of transport groups) are involved too.

The 'branding' of the People's ScotRail should be unequivocally Scottish, building on the strong national identity that has been developed with Transport Scotland and use of the saltire livery. This identity is socially inclusive and multi-ethnic.

The public image of People's ScotRail should be designed to reflect a modern take on Scotland, promoting a sense of community as well as heritage.

The direct 'offer' of the People's ScotRail should symbolise that this is a very different railway company. Stations should be part of the community, building on the success of the 'adopt a station' approach but going much further, with station buildings used for community activities.

Where station buildings have been destroyed, there should be a programme to re-build stations with facilities

that are more than ‘fit for purpose’ and incorporate retail and community facilities where appropriate.

The People’s ScotRail should have a ‘High Street’ retail presence at larger towns and cities (including London, Newcastle, Manchester and Birmingham as well as within Scotland), not only selling travel products but tourist goods, either from staffed stations (e.g. Oban, Mallaig, Fort William, Thurso, Dingwall, Wick) but also ‘beyond’ the station. Station staff should be empowered to try out different commercial initiatives and get some direct financial benefit from them.

In addition, the People’s ScotRail should develop a ‘special trains unit’ to provide, on a fully commercial basis, additional services for either special occasions (e.g. major sporting events) or private special excursions.

## Extending the community rail partnership/station adoption model

Scotland is developing its own approach towards ‘community rail’. Transport Scotland is funding the UK Association of Community-Rail Partnerships (ACoRP) to employ two officers whose job will be to develop new partnerships across Scotland.

This builds on the good work already done in promoting group adoption of stations, the work of HITRANS on the Highland rail network and other groups.

There have been suggestions that some lines could become ‘microfranchises’ operated independently of a Scottish TOC. While there may be merit in doing that within a privatised structure, the proposed not-for-profit ScotRail should have the flexibility to provide a comfortable home for the rural as well as urban and longer distance lines, with greater responsibilities given to the Community Rail Partnerships along their routes.

Taking on the operation of train services is hugely complex and could leave rural lines exposed economically and in the event of a catastrophic incident. Staying within the protection of a publicly-supported, all-Scotland body is a safer and more practicable option.

In the case of some lines, e.g. West Highland, Kyle or Far North Lines, a route-based co-operative/social enterprise could be formed to promote and develop peripheral services that capitalise on the lines’ tourist potential, and possibly bring retail staff back to stations. It is noteworthy that several stations in Scotland are already run in partnership with community groups, e.g. Glenfinnan, Girvan, Pitlochry, Kinghorn and many more.

Other possible retail activities include feeder bus services, cycle hire, tourism packages etc. This approach could incorporate the principles of the ‘sustainable branch line’ (see Paul Salvesson ‘Next Steps for Community Rail’ in *View from Zollerblick – Regional Perspectives in Europe: a Festschrift for Christopher Harvie* (2013). The central thrust is linking the railway with wider development:

“It should integrate with wider local development and act as a motor for growth. The sustainable branch line is an integrated vision of a railway forming the core of a transport network fully

integrated with the local economy and society – an energising spine based along the *rail corridor*, providing high quality, community-focused transport services which are safe, environmentally benign and socially responsible - supporting a diverse and complementary range of economic activities”.

*(View from Zollernblick, above p. 251)*

In outline, the sustainable branch line should feature:

## People

A sustainable branch line should be founded on its staff and be an outstanding employer, offering salaries and conditions with high levels of employee involvement and direct participation in how the business is run. A demoralised workforce leads directly to a failing railway deserted by its customers. Train operator and Network Rail employees need to be brought into the partnership.

## Service

A train service which is run to meet the needs of the local communities along its route, as well as serving the needs of visitors – including evening services and year-round Sunday operation. It should be accessible and affordable, with feeder buses and taxis, and easy access for walkers and cyclists.

## Stations

Station buildings which are built and operated on sustainable principles, are welcoming and full of life with good passenger facilities at stations, including staff

## Trains

Modern, technically standardised rolling stock which is high quality, lightweight with low (or nil) emissions and plenty of space for luggage and cycles, which are serviced and maintained locally and internally / externally reflect the culture of the area.

## Information

Good quality information on transport facilities and all other local facilities and activities/attractions for visitors arriving at stations; similar information available on line, and by phone and the rail service linked to a wide range of local business and tourism websites.

## Management

A railway which is managed locally and based locally, and supports the local economy by providing employment and supporting other local businesses through local purchasing, with a high level of community governance, operated at least in part by a locally-based social enterprise which is an active player in the local economy.

## Local economy

Locally-produced goods for sale at stations and on trains, e.g. local food and drink, local crafts, guides, etc. Partnerships with local businesses e.g. hotels and B&Bs, cycle hire, holiday packages and use of station buildings for small business development.

## Community

Active involvement of the local community through an enhanced 'community rail partnership' and individual 'station friends'; a railway at the heart of social and cultural life, playing an active part in festivals and events, from 'Britain in Bloom' to cultural events, schools projects and celebrations, food fairs and music.

## Local planning

A railway which is linked into local planning strategies and provides suitable locations for sustainable development, be it housing or employment-related. Station areas should be hubs of social and industrial activity, as they originally were. Communities should be encouraged to develop around station hubs, avoiding sprawl which encourages car use and promote walking and cycling access. (*View from Zollernblick* pp 253-4).

This approach could be implemented now, using one of the Highland lines as a test bed. Such proposals could be incorporated in Transport Scotland's invitation to tender for pre-qualified bidders, providing a framework within which bidders can put forward innovative proposals which go beyond the conventional requirements but provide value for money.

## Value for money

A railway operation which offers good value to the community for the financial support it receives, including development of innovative low-cost forms of operation, from staffing to signalling, making the most of community-rail status. There should be discounted fares to socially-excluded groups.

## Environment

A railway operation committed to sustainable principles, including energy use, recycling of materials, and making best use of its existing resources.



# How a not-for-profit operation might work:

## Relationships with Government and Railway Industry

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**The proposal in this paper, for the longer term, is for a not-for-profit company – *People’s ScotRail* – to operate the ScotRail network.**

The Scottish Government will be the main funder and specifier of the services provided by ScotRail, though the company may add to the core specification if it can identify commercial opportunities. A future not-for-profit operation will have to work closely with the Scottish Government through Transport Scotland. Getting that relationship right is crucial, avoiding ScotRail being a government department and ensuring it has the right level of commercial freedom and an ability to take measured risks. At the same time, overall accountability to the people of Scotland, via Transport Scotland and the Scottish Government, is fundamental.

The UK Department for Transport (DfT) is likely to retain prime responsibility for the InterCity operations that serve Scotland (West Coast and Great Western) and Scotland should work hard to make sure it can influence those franchises now and in the future.

The proposal from Transport Scotland for the post-2015 is a ‘deep alliance’ between the train operator and Network Rail, and this is to be welcomed and developed.

There is already a good relationship between ScotRail and Network Rail, and this should be encouraged to develop further, with shared facilities and in some locations joint management (e.g. Highlands).

A People’s ScotRail should be established through a participatory approach supported by the Scottish Government but involving other stakeholders in creating the company. As stressed above, it would not be a branch of the Scottish Government but the relationship should be close and friendly, with strong working relationships at senior levels of the Scottish Government, Network Rail and ScotRail.

This is the key to making the project work and a good example, again, is Merseyrail where the senior managers of the train company have close and positive relationships with Merseytravel and also Network Rail. London Overground Ltd (LOROL) has a similar close relationship with Transport for London, with services operated on a similar concessionary arrangement.

Another positive example is Lothian Buses, owned by the local authorities but operating as a semi-autonomous enterprise while the owners have ultimate responsibility for setting strategy.

The Scottish Government will be responsible for the current and future concession to operate the services and the contract will include key requirements relating to service levels, fares and ticketing, connectivity and accessibility. The Scottish Government will be

responsible for funding larger capital projects, possibly with support from the local authority partnerships.

The concession agreement will include sanctions for poor performance with the ultimate power to end the concession and take such action as it deems necessary (e.g. taking the operation in house as with the DfT's current arrangements with East Coast) or giving the concession to a different organisation.

There should be a periodic review – probably every three years – where the whole operation is put under detailed scrutiny and a report published by the Scottish Government on ScotRail's performance.

## Relationship with the Railway Industry

The relationship between a not-for-profit train operator and other parts of the railway industry should not present any significant risk. As detailed below, a not-for-profit train operator will have to demonstrate high standards of competence in its dealings with industry partners, including Network Rail and other train operators. It should be a full member of the Association of Train Operating Companies (ATOC).

Network Rail is already structured as a 'not-for-dividend' company and has the long-term investment horizons that, it is argued, a train company should have. There are very strong arguments for an extremely close relationship between ScotRail and Network Rail, and these are reflected in Transport Scotland's desire for the post-2015 franchise to have a 'deep alliance' between train operator and Network Rail.

Network Rail has already created a strong Scottish organisation with a Route Director, Scotland. Proposals in this paper argue for a significant Network Rail presence on the board of People's ScotRail and close working arrangements at all

levels, including train control and planning, route development and station management.

If the train company continues to manage the stations on the Scottish rail network, it will need to have a positive relationship with other train operators, notably West Coast, Cross Country and East Coast but also TransPennine Express (or a future merged Northern franchise). However, as manager of the stations, it would be in a strong position to ensure the other train operators using its stations provide a good service.

There will also be scope for commercial partnerships with other operators wishing to invest in station improvements, involving not just TOCs but Network Rail and the Scottish Government.

The most contentious relationship could be with the rolling stock leasing companies (ROSCOs). The cost of leasing trains is one of the main factors in driving up costs of the railway. One option, explored below, is for the Scottish Government to buy the rolling stock outright and lease to People's ScotRail. Another option may be for Scotland to form a consortium with English regions/PTEs to create a larger non-profit ROSCO which could have substantial benefits of scale and access to capital (see below).

Several heritage railways are major players on the Scottish tourist scene and a close and positive relationship with all of them, but especially those with a 'main line' connection, is very important (Strathspey, Bo'ness and Kinneil). Joint marketing, sharing of expertise (technical, marketing, community development) would work to the benefit of everyone.

There will be opportunities for People's ScotRail to assist in the development of supplier companies structured as co-operatives for provision of certain services, e.g. catering, specialist engineering functions and other services.

# What would stay the same? What would change?

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**If the new People's ScotRail just felt like another train operator it would have failed. It needs to excite people and give a sense, as soon as they get to a station or join a train, that they are in a part of Scotland.**

However, some things in the short term would not change dramatically. A major change such as this will be seen by some employees as a risk to their security. There should be assurances that current conditions and pay will be, at a minimum, no worse than the current arrangements, with significant potential for improvement. The existing staff would still be working the trains and managing the operation; the same rolling stock would be operating the services and the station fabric would not change overnight. Many of the technical aspects of running a train company would remain unchanged, with depot facilities at Glasgow, Edinburgh and Inverness continuing to provide the main engineering functions.

The broader safety environment would not change. ScotRail would be as much a part of the UK rail network as any other train company and would be subject to Health and Safety Executive control. On a commercial level, ScotRail would remain a part of the national Ticketing and Settlement Agreement and the basic fares structure would not change. However, there would be considerable scope for flexibility in local fares, including commuter tickets and multi-modal fares.

Rail is operating in a competitive environment and the main competition is the car. ScotRail will need to be commercially savvy and exploit marketing opportunities and go into areas which may be

unfamiliar to many existing TOCs, e.g. retail other than rail tickets, catering etc. This is explored below.

## What would change?

It is important, as argued above, that a People's ScotRail positions itself as a very different kind of enterprise, charting 'clear red water' between the private, franchised world of rail operations since 1994 and what it wants to achieve as a social enterprise serving the people of Scotland.

People's ScotRail would develop as an integrated network but with business units focused on distinct interconnected markets. The core of the network is the highly successful inter-regional routes which should form a ScotRail Express network covering Edinburgh – Glasgow and north to Inverness and Aberdeen.

The intensive commuter networks stretching from Glasgow and the west to Edinburgh and Fife form a distinct ScotRail Commuter network. The more rural network centred on Inverness but including the West Highland Lines should form a distinct Highland Railway. Each of these sectors would have its own director who covers both operations and infrastructure (i.e. Network Rail, as part of proposed deep alliance).

Creating a culture which is based firmly on its values is critical. This should be translated into very tangible activities including:

## Stations

Stations have massive untapped potential. In Scotland itself there are some good examples of where station buildings have been brought back into use for wider

commercial and community activities. Outstanding examples are Pitlochry, where a community group now runs a popular book shop on the station, Glenfinnan which is home to a museum of the West Highland Line and several stations on the Highland network which are used for bunk house accommodation.

Gobowen (Shropshire) is another excellent example where a not-for-profit company runs the ticket office and provides travel agency services. This approach could be applied to many other stations within the ScotRail network.

Existing staffed stations should continue to be staffed by railway employees, but the Merseyrail model ('M to Go') of having combined booking offices and ticket sales in one shop should be explored, possibly with a retail co-operative as a partner. This approach would work at medium-sized stations e.g. Dumfries, Inverkeithing, Kirkcaldy, Helensburgh Central, Lockerbie, Ayr and Dumbarton Central.

At smaller stations there may be scope for independent local co-operatives to develop retail activities at stations, along the Gobowen model. These efforts should be given every encouragement, with rent-free accommodation and initial investment in building refurbishment.

Staff at smaller stations which have a major tourist throughput should be encouraged to come up with ideas for complementary retail activities e.g. sale of souvenir and other tourist goods – and benefit from sales.

## Trains

People's ScotRail would inherit a fleet that is mostly diesel, though with the imminent arrival of more electric trains following completion of Edinburgh-Glasgow electrification. The diesel fleet will be required to enhance non-electrified services elsewhere

in Scotland, and certain common features should be adopted for all trains, new or refurbished:

- Improved facilities for passengers with disabilities (beyond basic requirement)
- Strong People's ScotRail branding with every train named, either after an outstanding person (living or dead) or a feature of the Scottish landscape.
- Trains would be adopted by the relevant local organisation with which the train has an association
- Additional space for luggage and buggies; space for at least four bikes per train
- On-train literature aimed at the tourist market especially on the Highland network.

## Staff

Staff should be encouraged to play an active part in the running of People's ScotRail but also in local community life. Where staff are involved in community activities they would be able to apply for small grants to help their community group. Ensuring high levels of customer service should be an integral part of the training received by all staff. Ways of actively involving staff in the running of People's ScotRail are outlined below. Every employee should have an agreed personal development plan including training and opportunities for participation in wider company activities.

## Service development

The existing pattern of services which ScotRail inherits will provide the bedrock for future development of the network. Nobody would suggest that the existing network is perfect and a People's ScotRail would work closely with the Scottish Government, Network Rail and the wider community to develop a network which is a major improvement of the current one.

Most services already have a reasonable frequency but there are some routes, particularly in more rural areas, where frequencies are poor. A medium-term objective (2023-2028) should be to achieve a bedrock minimum frequency of at least an hourly service on most routes, whilst recognising that services on the Highland network would be unlikely to justify this in the

foreseeable future. Nonetheless, doubling of existing frequencies (as done recently with Oban) is realistic.

On busy commuter routes a 15 minute frequency should be aimed for, with strong integration with bus services.

Some of ScotRail's existing services continue beyond the Scottish border and nothing in this report should be taken to suggest that services would be pared back to the borders of Scotland. Whilst the existing service to Carlisle and Newcastle via Dumfries should continue, there may be a case for a semi-fast ScotRail electric service between Edinburgh and Newcastle.

## An integrated and developing network

A People's ScotRail would inherit a dynamic Scottish rail network, with improved frequencies, re-opened lines and an on-going programme of electrification. Over the next few years there will be some logic in extending electrification, not least for freight, further north to Aberdeen in particular but in future to Inverness.

For re-openings, re-opening of the 'Glenfarg' route between Glasgow and Perth would give improved journey times and extra capacity. Extension of the Borders Line to Hawick and ultimately Carlisle makes sense on many levels: to open up the borders and major centres such as Hawick with better links to the Scottish capital and England, but also to provide extra capacity for north-south services. Extending the Stirling to Alloa service through to Dunfermline could be achieved relatively quickly.

A key issue in the short term is developing an integrated coach and rail network. Closer integration with rail services, including through ticketing, booked connections and shared branding with People's ScotRail would offer a truly pan-Scotland service. Key routes could include:

- Dumfries – Stranraer
- Dingwall – Ullapool
- Aberdeen – Fraserburgh/Peterhead

## A sustainable and socially inclusive railway

Railways have well-documented environmental advantages but more should be done to maximise

their 'green' advantages. Any new stations should be designed to incorporate best practice in sustainable design and operation, based on good practice in the UK and beyond. Electrification will bring environmental as well as operational benefits, but remaining diesel operations should include measures to reduce wastage through modern driving techniques, reduction of engine idling time and use of modern low-emission engines if replacements are possible.

People's ScotRail should play a key role in the wider debate on a sustainable Scotland, working with other businesses and environmental organisations in a collaborative and creative way.

Many areas of Scotland experience severe social disadvantage: this is primarily but by no means an exclusively urban problem. A People's ScotRail would apply the experience of the 'community ambassadors' schemes in England and look at ways of engaging with socially excluded groups and identifying ways of making rail more affordable and accessible. Specific projects involving young people should be developed, learning from the programmes currently operated by Lothian Buses and other companies. The proposals in the previous chapter for the 'sustainable branch line' could be applied to routes other than the rural Highland network.

## A Freight Operation?

Scotland has unmet potential for rail freight, given the relatively large distances involved in moving certain materials and commodities, whether manufactured goods (ranging from white goods to whisky) to timber and petrochemicals. An unshackled railway company should be able to use its operational synergies to provide freight as well as passenger services.

# Governance and management of the new ScotRail

## Governance

Ensuring the right governance structure of a People's ScotRail will be vital to its success and would be a responsibility of the Scottish Government as part of its role in creating the arms-length company.

There are many important stakeholders in a railway operation which would need to be represented. They include employees, passengers, local and national government (including the regional transport partnerships), and other rail industry partners including Network Rail. People's ScotRail would strive to include all of these interests in its governance but bring in specific expertise where necessary.

The proposal is for a two-tier structure that ensures balanced representation across Scotland and ensures a tight management structure at the top. This would be:

- ScotRail Board
- Area Stakeholder Boards

The local end of the structure would be based on Area Stakeholder Boards (ASBs), which include employees, local managers, local authorities, passenger groups, community rail partnerships, Network Rail and other relevant rail industry bodies and align broadly with the existing regional transport partnerships.

A typical membership, for example Highlands would include – in addition to employee representatives of the local authority transport partnership HITRANS, Network Rail's senior manager for the area, other transport operators, and two or three business representatives possibly with a tourist emphasis. It may also be appropriate to have MSPs as well.

The ASB would have considerable influencing power. It would have a strong say in service delivery in its area but also look at opportunities for widening the profile of the People's ScotRail in the

local community. It would ensure that it delivers on its obligations and that as much procurement of goods and services is as local as possible.

The national People's ScotRail board would cover the entire Scottish network and include representation (via the employees' area fora) for staff. There might also be representation from:

- regional transport partnerships
- Passengers
- Community rail partnerships
- Business community
- Individual experts nominated by the Scottish Government

The Board would have overall responsibility for the strategic direction of the business and be led by a chair nominated by the Scottish Government

## Executive management

The proposed executive management structure of People's ScotRail would, to a certain extent, reflect that of other train operating companies. However, the Managing Director should be appointed by a recruitment panel from the board. Key sectors, including express services, central belt commuter network and rural services should have their own director.

The business should have a focus on the distinct markets it serves and would include area managers accountable to the relevant director. As part of the proposed 'deep alliance' with Network Rail, each area manager should cover both ScotRail and Network Rail operations.

Managers would be primarily recruited from within the railway industry, with most being TUPE'd across from the previous franchise or from Network

Rail. However, it would be important that the new management team was encouraged to develop a firm commitment to the public service and co-operative ethos of the People's ScotRail. Every manager should be encouraged to combine operational excellence with business acumen and social responsibility.

However, it will need to bring in new areas of expertise which reflect the company's co-operative ethos in areas such as procurement, sustainability and community engagement.

Remuneration of managers should be based on current rates within the industry but the company should set its face against excessive bonuses for senior managers and directors, which do little other than create resentment amongst staff and customers.

## ScotRail and its employees

The new People's ScotRail would inherit most of its employees from the previous franchise, under TUPE rules. Many jobs within the railway industry, including drivers, require many years of training and that generates a high degree of commitment and dedication to the job. The People's ScotRail will aim to encourage that dedication amongst both the employees it inherits and new entrants.

The proposed new structure would give employees a much stronger stake in their company. Unlike a private 'for profit' company there would not be shareholders whose prime interest was the return on their investment; they would be part of an owning community which included the Scottish Government, passengers and employees.

Having staff on company boards is not new. Many large companies have board members but often this does not go beyond tokenism. What it should address are ways where staff at all levels will feel they are actively involved in their company.

The suggestion is for an area-based 'all-grades' structure that would recognise the co-operative nature of the People's ScotRail network and ensure that staff are actively involved.

Each area would have an area forum, which was open to all employees and meets every three months. The

area forum would elect a representative number of staff to sit on an Area Stakeholder Board with senior managers and community/passenger representatives to discuss issues relevant to the area, but not including HR issues. This would continue to be the preserve of the existing machinery of negotiation.

Each area forum would also elect one person to sit on the People's ScotRail board. The area fora would discuss anything and everything related to ScotRail - other than HR - and feed its views in to the relevant Area Stakeholder Board.

In addition to the above formal channels of involvement, employees should be encouraged to develop deliverable ideas and projects at a very local level: each depot should have its own employee forum where service quality and delivery are discussed collectively. Some smaller train-crew depots in particular could be developed as pilots for new and radical ways of workers' self-management.

At stations, as suggested earlier, staff should be empowered to try new retail initiatives and get some financial benefit from them. They should be given power to involve local community groups in how their station looks and feels.

The proposed 'deep alliance' between a future People's ScotRail and Network Rail needs to be reflected at a local level with Network Rail staff and ScotRail employees encouraged to work together and share ideas.

Railway employees are involved in a wide range of social and cultural activities, mostly out with their employment but not in all cases. The People's ScotRail would encourage its employees (including funding and paid time off) to take part in cultural activities which promote new ScotRail in the wider community and encourage a strong sense of ownership and belonging among staff.

## ScotRail and its passengers

Finding effective ways of involving passengers would possibly be the most difficult challenge of the new company. There are 'rail user' groups on routes in various parts of Scotland but the network is not as dense as in parts of England. Community rail partnerships are not 'passenger' bodies as such,

though they do involve them. Passenger Focus is an important statutory body and has a board member nominated by the Scottish Government.

Based on the suggested 'Area' structure, an appropriate model, which is bound to require flexibility, might include:

- Area Stakeholder Board
- Representatives from regional transport partnerships
- One or more representatives from community rail partnerships
- One or more representative from rail user groups in the area
- Up to five passenger representatives nominated by passengers themselves

In the latter case, the suggestion is that advertisements are posted for passenger representatives for the ASBs and people are invited to submit nominations (which could include themselves). Criteria should include:

- Evidence of reasonably regular use of rail
- An understanding of the objectives and co-operative ethos of People's ScotRail
- A willingness to engage with fellow passengers to identify their views on the service

The selection should be done centrally with the recruitment panel selecting passenger representatives that give the ASB a good balance of age, gender, ethnicity and social class. The composition of the recruitment panel itself should reflect the diversity which it will be charged with ensuring in the stakeholder boards.

## ScotRail and the wider community

The Scottish local authorities have their joint transport partnerships, e.g. HITRANS, which bring a strategic focus to transport in their respective areas. They are the obvious bodies to involve in the area stakeholder boards but it is also important to ensure that economic

development and tourism is represented. So in some cases with the Area Stakeholder Boards, a specific place would need to be reserved for economic development and tourism from one or more of the districts.

Community groups are another very important, and by their nature dispersed, constituency. In most parts of Scotland there are federations of voluntary groups. These would be the obvious bodies to be represented on the ASBs.

However, it is important to stress that a new People's ScotRail should itself reach out into the community and be involved in community initiatives, sponsor community events and have a very high visibility. To this end, a ScotRail Community Unit would be established, part of whose role is to support the work of the community rail partnerships, but also to have a direct community presence, for example in areas where a CRP does not exist. It should also have a very high internal profile encouraging employees to get involved in community activities, including managing a company-wide 'day off for your community'.

The highly-successful 'community ambassador' scheme run by Northern and Serco Docklands should be creatively applied to specific circumstances in Scotland, with an emphasis on more urban areas with high levels of social exclusion. The ambassador's role should be to work with targeted groups (e.g. disadvantaged young people; ethnic minorities) to encourage use and understand of the rail network.

The Community Unit would work closely with other parts of the business to identify suitable premises for community use and suitable community tenants. In some cases (as at present) leases should be on a 'peppercorn rent' basis if the proposed use is beneficial to the railway.

There should be a strong commercial element to the external activities of a People's ScotRail. Procurement policies should encourage the company to buy goods and services as locally as possible, with particular encouragement towards using social enterprises operating broadly within the area of ScotRail's own operations.



# Rail Freight: a potential challenge

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There should be nothing to prevent a railway company providing both passenger and freight services. That it does not happen at present is partly down to the structure of the privatised railway, where the business models for freight, as opposed to franchised passenger services, are very different. It could be argued that ultimately German Rail (DB) provides both freight (DB Schenker) and passenger services (Arriva's Cross Country, Wales and open access Grand Central) although there are few, if any operational links.

In the case of Scotland, particularly the more remote parts of the network, there are strong arguments for having a single operator providing

both passenger and freight. This partly relates to staffing. Having a tiny freight-only depot at locations such as Fort William would be difficult to justify commercially. If freight was part of a larger depot where staff also operated passenger services there would be some economies of scale. Using locomotive-trained drivers for both passenger and freight operations would again make sense.

There has been considerable speculation over the years in a revival of the traditional 'mixed train' with both passenger and freight vehicles. This could become a possibility in the future for some less bulky, higher value commodities including parcels services.

# Conclusion

“The aim of any railway industry must be to place the railway at the centre of a transport system that helps to drive economic growth. That is easy to say, but the challenges of providing the capacity to drive that economic growth while at the same time improving safety, reducing carbon emissions, delivering better value for money for the passenger and cutting the level of public subsidy in a very complex industry should not be underestimated. The challenge means all those involved in the rail industry in Scotland: the Government, Transport Scotland, Network Rail and contractors in exploring new ways in which to deliver greater efficiencies and generate more revenue”

Bruce Crawford MSP (SNP, Stirling – debate on Transforming Scotland’s Railways, May 30th 2013)

There is much in this report which could be implemented as part of the new post-2015 ScotRail franchise. Even accepting that the post-2015 franchise will be let on the conventional basis (effectively excluding all but established major players) there is still an opportunity to influence bidders’ approaches towards wider social and economic benefits.

There is still time to incorporate some imaginative - but not over-prescriptive - framework requirements in the invitation to tender for pre-qualified bidders. Much more could be got from the new ScotRail franchise, even under the current rules.

The Department for Transport in its prospectus for the East Coast franchise has included some innovative measures in its ‘expectations from bidders’ which include demonstrable commitment to social responsibility and environmental sustainability; investment in the workforce; investment in new technologies; and putting passengers at the centre of all aspects of planning and operations (see Appendix 3 of this report).

Whilst this may be viewed as an attempt to ‘sugar the pill’ of re-privatising a successful publicly-run operation, the DfT’s expectations are a welcome

improvement from the previous narrowly focused approach and should form the basis for future franchises. It would not be unreasonable for Transport Scotland to expect, as a minimum, similar outcomes from bidders for the 2015 ScotRail franchise.

For the longer term, if our vision of an arms-length, ‘not-for-dividend’ company is seen by the Scottish Government as the appropriate way forward to run rail services in Scotland in the future, it will require public investment by the Scottish Government including legal advice and a wide range of assistance on aspects of building the company over the next five years. There should be a debate within Scotland about what ScotRail should be, its functions and its role in the community.

Much will also depend on political factors – above all, the outcome of the next General Election and the willingness of a Westminster Government to cede not only powers and funding to the Scottish Government but also a willingness to make significant amendments to the 1993 Railways Act to allow Scotland to choose whether or not it goes for a franchising approach or the course outlined here. If Scotland does vote for independence, clearly there will be an opportunity to introduce new legislation that would allow Scotland to pursue its own course in many areas, transport being one of them. Amending the 1993 Railways Act might be easier than new primary legislation. The proposed new train company may or may not be seen as a ‘publicly-owned’ company; the simplest approach in legal terms would be to remove S.25 of the Railways Act altogether so UK-based publicly-owned (or part-owned) companies can operate commercial rail services.

There is no doubt that a People’s ScotRail would be a politically radical move, but one that would command strong support within Scotland and beyond. It would most certainly offer insights and opportunities to other parts of the UK – most obviously Scotland but also to the North of England. Scotland’s politicians, with their partners in the trade unions and community organisations, have an opportunity to put themselves at the forefront of a debate which stretches far beyond Scotland, or even the UK.

# Appendix 1

## The debate on Scottish Parliament, Holyrood, May 30<sup>th</sup> 2013

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**S4M-06766 Keith Brown: Transforming Scotland's Railways**—“That the Parliament notes record passenger numbers of 83.3 million on Scotland's railways, high levels of passenger satisfaction and improved performance; recognises the benefits of a collaborative approach by the Scottish Government and industry in achieving value for money for passengers and the taxpayer; commends the Scottish Government's action to make fares fairer by reducing anomalies; welcomes the measures to reduce pressures on hard-pressed household budgets while still investing to enhance services, improve stations and build new stations; acknowledges the measured approach taken by the Scottish Government to refranchising and welcomes franchise specifications that will better meet the needs of the people of Scotland, and acknowledges that, although further improvements will always be necessary, significant investment has been made by the Scottish Government in rail to support communities, improve connectivity, reduce car use and encourage sustainable economic growth”

**S4M-06766.2 Elaine Murray: Transforming Scotland's Railways**—As an amendment to motion S4M-06766 in the name of Keith Brown (Transforming Scotland's Railways), leave out from 'high levels' to end and insert ; believes that this is due to the importance attached to improving rail services by successive administrations since May 1999; is disappointed however that the first phase of the Edinburgh Glasgow Improvement Programme has been scaled back, that projects such as the Borders Railway have experienced significant delays and that others, including the Glasgow Airport Rail Link, have been cancelled altogether; notes that the level of public subsidy for Scotland's railways in 2013-14 will be £511.5 million; further notes the publication of *Rail Cymru - A People's Railway for Wales* and *Rebuilding Rail* in 2012, and believes that the renewal of the rail franchises in 2015 should be an opportunity

for discussion of the future development of rail services in Scotland, including the option of a not-for-profit or mutual company running Scotland's railways.

**S4M-06766.1 Alex Johnstone: Transforming Scotland's Railways**—As an amendment to motion S4M-06766 in the name of Keith Brown (Transforming Scotland's Railways), leave out from 'high levels' to end and insert; 'congratulates First ScotRail and other franchise holders on their high levels of passenger satisfaction and improved performance; believes that this demonstrates the benefits of the existing industry structure; supports the collaborative approach by the Scottish Government and industry in achieving value for money but acknowledges the need for greater public understanding of the balance of contribution between the passenger and the taxpayer; recognises action taken by the Scottish Government to improve the fares structure; welcomes the efforts made by Scotland's rail operators to introduce innovative new services; notes with interest the success of recently opened new stations on the network, but urges the Scottish Government to address public concern over some recent investment decisions, including the reduced scope of the Edinburgh Glasgow Improvement Programme.'

**S4M-06766.4 Patrick Harvie: Transforming Scotland's Railways**—As an amendment to motion S4M-06766 in the name of Keith Brown (Transforming Scotland's Railways), leave out from first “acknowledges” to end and insert “recognises the constraints under which the ScotRail franchise must operate as a result of UK legislation, but considers that the Scottish Government could ensure greater transparency in its franchise decisions; believes that, when Scotland is able to remove the constraints of UK legislation, renationalisation of the railways or the use of a non-profit franchise holder would deliver better value for the public investment in Scotland's railways;

condemns the UK Government's plans to re-privatise the profitable East Coast line, a decision that it understands was announced without reference to the Scottish Government; expresses concern that the Scottish Government's road-building priorities risk making rail uncompetitive on price and journey times for routes north of the central belt, and believes that the public money currently committed to upgrading the A9 would be better spent on rail infrastructure, including the comparatively modest upgrades required to improve the Highland main line."

## The debate in outline

Transport minister Keith Brown introduced the debate, noting the successes of Scotland's railways: "An example is that passenger figures today are higher than they were in the last golden age of rail in the 1920s and 1930s. Last year, there were a staggering 83 million passenger journeys in Scotland, which was a 33 per cent increase since the start of the current franchise. That figure undermines the Beeching assumption that rail would lose out to the car and rail passenger numbers would wither. This Government has been instrumental in reversing some of the Beeching cuts and creating for Scotland the possibility of a new golden age of rail".

Bruce Crawford (Stirling) (SNP): "The aim of any railway industry must be to place the railway at the centre of a transport system that helps to drive economic growth. That is easy to say, but the challenges of providing the capacity to drive that economic growth while at the same time improving safety, reducing carbon emissions, delivering better value for money for the passenger and cutting the level of public subsidy in a very complex industry should not be underestimated. The challenge means all those involved in the rail industry in Scotland: the Government, Transport Scotland, Network Rail and contractors in exploring new ways in which to deliver greater efficiencies and generate more revenue.

Elaine Murray (Lab. Dumfries-shire) regretted that "the opportunity that was not taken...to discuss more fully what we expect of our railways and to examine whether a different model of delivery could be developed that would recycle profits back into real service improvements rather than into shareholders' pockets. She continued by saying that "the renewal of the rail franchises in 2015 should be an opportunity for discussion of the future development of rail services

in Scotland, including the option of a not-for-profit or mutual company running Scotland's railways."

Ken Macintosh MSP said: "At the moment, rail services in Scotland enjoy around £800 million of public investment. The rail franchise accounts for the lion's share of that, with last year's £447 million rising to more than £511 million in the future.... Tackling the issue of the ownership of businesses and services goes to the heart of how we rebuild a successful, sustainable and progressive economy in Scotland. I have talked recently about how we should pursue a community ownership model for wind farms, and I believe that a co-operative rail franchise would be a similar step. The minister would enjoy not only Labour's political support in this Parliament but the partnership of the Welsh Government in Cardiff. The Welsh franchise is not up until 2018, but the Welsh Government has already indicated in its consultation that it wishes to pursue such a model. We could offer a similar proposal to that put to the people of Wales. Our proposal offers value for money not just to the devolved Government but to rail passengers and the wider community. The ethos of the new organisation that ran the service could reflect co-operative principles of social responsibility, accountability and equity."

Patrick Harvie (Green Party) commented "There is a need for the travelling public to be much more fully involved in future decisions about franchising. Current train operating companies may be private-sector profit-seeking businesses, but Scotland's railways are public services, and the public should be centrally involved in setting the priorities. I want all the options to be open for Scotland in restoring a public service ethos to our rail business. We on the Green side of the chamber hope that Scotland will soon take on the powers to change UK legislation and open up new possibilities, which would include Labour's option of a mutual or not-for-profit franchisee. Such a bid could be made at the moment, but realistically it will not materialise out of thin air. That option needs Government support, which would at present be inhibited. Private-sector bidders would be able to oppose such Government support for a not-for-profit operator, but we could in future remove that barrier.

Patrick Harvie proposed that the Government "recognises the constraints under which the ScotRail franchise must operate as a result of UK legislation, but considers that the Scottish Government could ensure greater transparency in its franchise decisions;

believes that, when Scotland is able to remove the constraints of UK legislation, renationalisation of the railways or the use of a non-profit franchise holder would deliver better value for the public investment in Scotland's railways; condemns the UK Government's plans to re-privatise the profitable East Coast line, a decision that it understands was announced without reference to the Scottish Government; expresses concern that the Scottish Government's road-building priorities risk making rail uncompetitive on price and journey times for routes north of the central belt, and believes that the public money currently committed to upgrading the A9 would be better spent on rail infrastructure, including the comparatively modest upgrades required to improve the Highland main line."

Claudia Beamish MSP said "I understand what the minister says, but my point is that, if the priority of people connectivity is not in the CP5 review, there is cause for concern. The work of the Co-operative Party, SERA—Labour's environment campaign and the Associated Society of Locomotive Engineers and Firemen in Wales for a people's railway for Wales—I commend the document "Rail Cymru: A People's Railway for Wales" to everyone in the chamber—is really significant. Although I have listened to the arguments and concerns about the new franchising process, I hope that the minister will press forward with that approach as a consideration. The approach could lead to what is described in the document as "a new kind of railway company, whose main commitment would be to the people ... not to a group of shareholders. Its values would reflect this wider social mission and it would aim to set new standards of outstanding customer service and community benefit. To succeed in being regarded as an outstanding social enterprise, full involvement of its employees would be essential ... Close and positive relationships with local authorities and their regional consortia are equally essential."

In concluding the debate from the Labour side, Ken MacIntosh said: "A more contentious issue is whether we need to become an independent country to pursue progressive policies. I believe that the debate on transforming Scotland's railways can shed some light on that question. We could bemoan the political settlement and blame the constitution for our inability to reform the way in which we run our railways, or we could set about using the powers that we already have to make a difference now. I understand that the minister

and his colleagues were initially quite sympathetic to the idea of establishing a not-for-dividend operation to run the Scottish rail passenger franchise. I am not entirely sure why that sympathy has, so far, not been translated into action. I appeal to the minister and the SNP to join us in a new approach to rail in Scotland. There is quite strong public support for reform of the overcomplicated, expensive and downright inefficient rail system that we currently have. The recent collapse of the bidding process for the west coast main line franchise, which the minister mentioned, has highlighted just how farcical the franchise structure has become. The Scottish Government's motion mentions some of the improvements that we have made in recent years, including a welcome increase in passenger numbers through prioritising this form of public transport, but I believe that we could do more.

The previous Labour UK Government commissioned a review of rail from Sir Roy McNulty to establish value for money. His report found that the cost of operating the rail network throughout the UK was around 30 per cent more than the operating costs of its counterparts on the continent. He identified a number of additional costs that account for the discrepancy, such as interest payments on Network Rail debt and the expense of managing the relationship between the train operators and Network Rail. What also emerged were the extra costs of the profit taken by train operators and the dividend payments to shareholders. We can address that issue when the minister puts the current Scottish passenger franchise out to tender by insisting that the successful franchisee operate on a not-for-dividend basis.

The Labour Party has secured legal advice that has confirmed that the legal powers to do that exist. If the minister and his SNP colleagues wished to do so—he would have our political backing—the Scottish Government could insist not just that any tender include various community benefit clauses, which I hope that he is already doing, but that the service be run on a not-for-dividend basis. Section 26ZA of the 1993 act allows ministers to stipulate that only a not-for-dividend service will be considered by them to be sufficiently economic and efficient. That would not

require any expansion of the devolution settlement and the franchise would still go out to tender”

Keith Brown responded with a statement which suggested the SNP-led Scottish Government was an unwilling player in the current system:

“I reiterate that I cannot encourage one bid over another bid. That is how the process goes and that is what is laid down in law. If the Labour Party would encourage one bid over another, it would be useful for it to confirm that today, because its doing so would be in breach of the procurement regulations.....I am happy to discuss as, I am sure, we will as we go through the debate the issues related to public ownership of railways. However, I repeat what I said last week: from when the previous Labour Government took office

in 1997 right through to 2010, it did not change the Railways Act 1993, which leaves us in the position in which we can accept public sector bids, but only from foreign countries: we cannot allow one of our public bodies to bid. I do not know why the Labour Party supported that position. I do not support it, but that is where we are. We have asked the UK Government to change the act, but it has said that it will not.....I have said a number of times that I have approached the Secretary of State for Transport about changing the terms of the 1993 act to allow us to open up the bidding process. I have said that we will, of course, consider a not-for-profit bid I said that to Kenneth Macintosh last week. The issue is simply that we could not encourage one bid over the other. I have also said why we are prevented from having a publicly-funded railway bid”

# Appendix 2

## Values of Directly Operated Railways

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### **Directly Operated Railways – Values**

#### **Our values are important to us.**

These are set out below, and they describe the principles of how we operate as a business – indicating how we behave towards each other – and our wider stakeholders. And demonstrated through our day-to-day behaviours with everyone in the rail community, the staff of Directly Operated railways are expected to "live" the values in everything they do.

#### **We are human**

A Company that puts people at the centre, ensuring we are approachable, open and reassuring during all stages of the transitions.

#### **We are trustworthy**

A Company that works closely with all aspects of the rail industry ensuring we deliver what we promise.

#### **We are straightforward**

A Company that does exactly what it says. We will ensure that we are easily understood, easy to deal with, open and honest.

#### **We are flexible**

A Company that is adaptable, agile, and embraces change and the opportunity it brings, ensuring risk is minimised.

# Appendix 3

## East Coast franchise prospectus

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### In its introduction to the prospectus document the Department for Transport says

“**To achieve our objectives, bidders will be expected to focus on:**

Placing passenger interests at the centre of all aspects of their business planning and operations

Real investment in innovation and technology – we aim to give the franchisee freedom to respond to passenger and industry challenges with new and innovative solutions, embracing existing and emerging technologies

Service quality – particularly around operational performance, train and station presentation, passenger information and ticketing

Partnering and collaborating with key stakeholders, particularly with Network Rail and Agility. We are seeking a franchisee who can form effective and powerful partnerships with relevant organisations and stakeholders

An investment in the workforce, building skills and capability, improving employee engagement and demonstrating a genuine pride in developing staff over the long term

Social responsibility and environmental sustainability – DfT is committed to driving improvements in both these areas and is seeking a franchisee who shares these ambitions – reducing carbon emissions, minimising waste, using resources efficiently and engaging with the wider community

Stable, profitable franchise – the new franchisee should develop the current business, run the franchise for its full term and, while meeting our objectives, should also aim to maximise returns to the Government to the benefit of taxpayers

(Department for Transport, October 2013)





# politics for people

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