

GOODBYE TO ABELLIO SCOTRAIL [ PIC 1 ref: image737000.png logo]

Transport Secretary Michael Matheson announced on 18 December that the Abellio ScotRail contract will come to an end early. The current franchise agreement requires Scottish Ministers and Abellio to revisit the level of government subsidy provided for the remaining five years of the contract and to determine whether additional subsidy should be paid. This is a process known as rebasing.

Following considerable analysis and careful consideration of the information provided by Abellio - an offshoot of Dutch State Railways - Ministers decided that the significant increase in Government subsidy proposed would not secure delivery of commensurate benefits to passengers, communities and the economy.

Ministers therefore served a No Rebasing Notice on Abellio ScotRail. As a result of this decision, existing Government subsidy levels remain in place and the franchise will come to an end in March 2022.

Mr Matheson said: "Our rail network is of significant social, economic and environmental value to the people of Scotland, and Ministers must ensure that the services we secure are high performing, financially sustainable and offer value for money.

We currently provide around two thirds of the running costs for our railway and it is essential that this is sustainable going forward. Our record investment in rail is already delivering more seats, more trains and more stations.

Any changes to the level of subsidy paid by the government must deliver new benefits for passengers and taxpayers and whilst there have been improvements in recent years, the proposed changes were not sufficient to justify additional subsidy.

Of course, the Scottish Government must plan for the future of our rail services, beyond 2022 and work is already underway to examine the options open to us in this regard."

The franchise contract, which was let in 2015 for 10 years, included a provision which required the Scottish Government and the franchisee, Abellio ScotRail, to revisit the cost and revenue assumptions which provided the basis for Government subsidy levels to date and consider whether these should be revised for the remainder of the contract. Alternatively, either party can decide to serve a No Rebasing Notice, meaning existing subsidy levels remain in place and the contract comes to an end early.

As specified in the ScotRail Franchise Contract, the Scottish Government and Abellio ScotRail entered into rebasing discussions from the start of October 2019.

It is understood that Abellio ScotRail had bigger issues with its finances than performance. The business has lost tens of millions of pounds and it would be unsustainable for both Abellio and Transport Scotland to see it through its full ten-year term.

Dean for the Institute for Advanced Studies, University of Stirling, Prof. Iain Docherty commented: "The early termination of the franchise means the Scottish Government is obliged to run a full franchise competition over the next two years. This is because, although the letting and financing of the franchise itself is devolved, the structure of the industry is not. The Scottish Government's commitment to allowing a public sector bid might sound good on paper – and

indeed be the best they can do in the current situation – but with each franchise bid costing £10 million to put together and £10 million to appraise, the decision is not without cost.”

When the new franchise is advertised, under the current UK franchising system, Abellio will be able to bid for a further franchise period.