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LTW421

London TravelWatch submission to Richard Brown review of the DfT rail franchising programme

November 2012

London TravelWatch is the official body set up by Parliament to provide a voice for London's travelling public.

Our role is to:

- Speak up for transport users in discussions with policy-makers and the media
- Consult with the transport industry, its regulators and funders on matters affecting users
- Investigate complaints users have been unable to resolve with service providers, and
- Monitor trends in service quality.

Our aim is to press in all that we do for a better travel experience all those living, working or visiting London and its surrounding region.

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Executive Summary

London TravelWatch believes that the current DfT franchise mechanism and model does not function in the best interests of passengers, and that in London the passenger interest would be better served and protected by devolving responsibility for specifying, securing and monitoring franchises involving local 'Metro' style services to Transport for London (TfL) / The Mayor of London.

Longer distance commuter services should continue to be specified by the DfT but with significant involvement from local bodies such as TfL and Integrated Transport Authorities (ITAs) in specifying and monitoring such franchises.

Intercity services could have much less specification to reflect the fact that commercial input is more appropriate for this type of operation. However, the specification should be focused on the best outcomes for passengers.

In all types of franchise, risk needs to be spread out by a process of compartmentalisation and clear specification of what the franchisee is required to achieve.

Some types of railway investment, particularly where there is a public policy or passenger objective involved, should be taken out of the franchise process altogether so as to recognise the wider benefits to the rail industry and passengers.

The 'cap and collar' revenue guarantee mechanism works against the long term interests of passengers and taxpayers by effectively immunising train operators from the effects of poor performance, poor marketing, and poor customer service. It gives no incentive to innovate or invest in schemes that would produce revenue growth.

1 Introduction

London TravelWatch welcomes the opportunity to make a submission to this enquiry. Our observations are based on what we believe is in the best interests of passengers in London.

When considering the interests of passengers in rail franchising, the structuring of financial and operating risks between the different activities of the rail industry is fundamental to the successful operation of the rail network. In this respect we believe that the Department for Transport (DfT) current franchise model does not protect the interests of passengers, taxpayers or operators.

Essentially this is because the evolution of the franchising model has meant that franchises have accumulated a significant number of elements that are not necessarily appropriate to be included in a franchise. These should instead be separately costed and compartmentalised parts of the franchise, ensuring that cross contamination of risk is minimised, or procured through other means outside of the franchise process.

London TravelWatch has consistently argued in the past that franchise length is not the most important factor in what makes a franchise successful in terms of passenger benefit and cost effectiveness to the taxpayer. Instead it is the content and quality of the original franchise specification that it is likely to be the biggest determinant of success in these fields.

2 Discussion

London TravelWatch has experience of seeing the impact on passengers of both franchises specified by the DfT, and the London Overground concession operated on behalf of TfL on the rail network: but also of franchising and concession making of the bus network, Docklands Light Railway and the Tramlink system in Croydon.

In the rail industry the TfL approach to procuring and operating the concession has a number of fundamental differences to that of the DfT franchises. To date, we believe that the approach taken by TfL has been instrumental in growing patronage on the rail network and improving passenger satisfaction. This is against the background of taking on parts of a former franchise which had extremely poor levels of service and passenger satisfaction.

London TravelWatch acknowledges that this improvement has been made possible only by substantial public investment and subsidy. However, that investment and subsidy has been justified by both the wider economic and social benefits of this expenditure and that the fact that with the volumes of passengers now being carried that the cost per passenger journey has been relatively modest. With passenger numbers continuing to increase on this concession the cost per passenger journey will continue to fall. London Overground is now the fourth largest train operating company in the United Kingdom in terms of passenger numbers.

The success that TfL has achieved with this concession results from a process of clear specification, accountability and incentives for the operator to deliver the required service level to the agreed budget. This has in effect compartmentalised and reduced overall financial and operating risk to them as a public body and to the private operator that runs the service. TfL also took on the responsibility for some parts of the operation which in a DfT franchise would have been done by the franchisee, because it felt that its direct involvement would result in a better outcome for passengers and lower costs to the public purse. In other cases they have directly dealt with other parties such as Network Rail where these organisations are the provider / delivery mechanism for improvements to facilities and services which would under the DfT model be managed by the franchisee.

TfL also has the advantage of being a locally accountable body through the Mayor of London, and so is able to respond more readily to changes in the local travel market and stakeholder aspirations than a nationally organised franchise.

In the London area TfL takes responsibility for :-

- The service specification
- Fares and ticketing policy
- Timetabling of train services
- Marketing and branding
- Planning and Development
- Project Delivery
- Relationship management with stakeholders

In addition TfL has dealt directly with Network Rail on issues such as :-

- Station enhancements
- The North London Route Improvement Project

The responsibility that the operator can therefore be much more clearly focused on delivering train service performance, quality and customer satisfaction: all of which have improved enormously since the commencement of the concession in 2007.

The compartmentalisation of risk has had clear benefits to passengers, as management energies are focused into particular tasks, projects or service delivery. The operator is not distracted from service delivery by the need to :-

- project manage major projects delivered by Network Rail
- establish and maintain a commercial fares and ticketing policy which might not be in alignment with public policy requirements, and the results of which are not within the control of the operator
- maintain a separate stakeholder or customer relationship where the responsibility for policy lies with the public sector procurer rather than the commercial operator.

In comparison, DfT franchises have experienced or encountered problems which in many cases have worked against the interests of both passengers and taxpayers. This arises from the franchisee being expected to manage activities which are either contradictory in outcome or where risk can be imported from one area to another.

A case in point is the application of the 'Cap and Collar' revenue guarantee mechanism within DfT franchises. London TravelWatch has long argued that this system has not only allowed operators to immunise themselves against the effects of poor performance, marketing and customer service, but also given them no incentive to market their way out of a downturn in expected revenues or to invest in schemes that would produce revenue growth. This is because effectively it increases the required investment return to a minimum 1 to 5 ratio to their particular operation.

London TravelWatch knows of examples of where it has not been in the best interests of to recruit their full establishment of staff as a means to reduce costs in the full knowledge that there will be no penalty for doing so. Similarly, we know of gating schemes which collectively benefit the industry overall (because the station might be served by a multiple operators) as a result of reduced fare evasion and increasing passenger security, but which are not progressed because the projected investment yield for the station facility owner is too low.

3 Practical application to DfT franchises

The importance of getting a specification of a franchise right in the first instance becomes more important the longer the franchise is. This is because public transport, like any other industry, is subject to factors that are completely outwith the industry's control and which cannot be predicted with any certainty – “unknown unknowns”. Indeed, passenger needs can change within the lifetime of a franchise, but if there is no effective mechanism to deal with these changes then these changing passenger needs will not be reflected in the services operated.

Different markets require different types of franchise or concession arrangements. Applying the lessons learned from the experience of the London Overground concession would suggest to us that the process for specifying franchises should separate out different elements of the franchise proposition.

This would mean making direct investment in projects which have wider industry and public benefit, rather than through the franchise process. Examples of this might be refurbishment or enhancement of stations, provision of gating at stations served by a number of operators (and therefore likely to raise revenue at all of these).

Metro services are much more suited to local control, as the majority of journeys are local in nature, and dominated by commuting. Their financial performance is closely related to the performance of local economies, and if they are to respond to the market in a timely way, should be managed within their area of operation. It should be noted that operating profit for such services is often low or non-existent due to the low yield per passenger journey that this type of service generates, on account of the relatively low fares that this type of service commands. Investment therefore, is less likely to come from an operator, and so the franchiser of such services is the most likely source of any investment that is required.

Longer distance / regional services have a mixed use, but again are primarily used by commuting passengers. These sorts of services, covering larger geographic areas are probably more suitable for letting as franchises by a national body such as the DfT. However, the arrangements for these must be prescribed in such a way as to ensure that routes are not cut back or cherry picked to the higher yielding but lower societal value services. Given their value to local economies and interaction with Metro services and local bus networks, the specification for this type of franchise should have significant input from local bodies such as TfL or ITAs outside of London.

In both of the above, the length of the franchise is not necessarily important, although longer arrangements should have a point at which the franchise could be renegotiated or re-specified to ensure that they reflect changes in the

travel market that may not have been foreseen at the time the franchise was originally specified.

Intercity services are much more appropriate for less prescriptive franchises and more commercial freedom to reflect the discretionary spending profile of the leisure market. Investments by a private operator are more plausible, and so franchise length is relevant to lever this investment into the network. However, there is a clear need for identified passenger outputs even in a simplified specification. This would suggest making this type of franchise closer in form to an 'open access' type of operation.

4 Conclusions

London TravelWatch believes that a move towards more ‘concession’ type models of rail franchising for ‘Metro’ and long distance commuter type rail operations offers the best practical way of ensuring that the interests of passengers and taxpayers are protected and promoted in the franchising process.

In addition this model lends itself more easily to devolution of responsibility to local transport bodies such as TfL and ITAs, which then allows a greater degree of public accountability and transparency in the decision making and operating process.