
Secretariat memorandum

Author : Robert Nichols

Agenda item: 8
LTW484
Drafted 01.12.14

Franchising in London

1 Purpose of report

- 1.1 To advise the Board on the current status of the rail franchising process, and the impact on passengers in the London & South East area.

2 Information

- 2.1 In 2012, the rail franchising timetable was suspended, following the collapse of the West Coast franchise award. Two government reviews took place, one specifically into the collapse of the West Coast franchise award, and one into the franchising process as a whole. This latter review, the Brown review, published in January 2013, and resulted in a largely unchanged franchising methodology, albeit with a new timetable. The current timetable for when each franchise competition will take place can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/363173/oct-2014-rail-franchise-schedule.pdf and the Department for Transport (DfT) have a comprehensive website detailing the commitments on each franchise awarded since the Brown review at <https://www.gov.uk/government/collections/rail-franchising>
- 2.2 Each franchise contains the obligation to run at least the minimum specified service level for a geographically prescribed portion of the network. The DfT will award each franchise to a winning bidder, based on their assessment of the best value offer.
- 2.3 Each franchise process follows the same pattern. The DfT will issue a consultation paper designed to gain information from stakeholders about key issues that should be reflected in the franchise. This consultation is written with input from Passenger Focus, but not to date from London TravelWatch, although this appears to be changing. In parallel with the consultation, a notice is placed in the Official Journal of the European Union, inviting bidders to register their interest to operate the franchise, along with the Pre-Qualification Process (PQP). As a result of the consultation process, the DfT then issues an Invitation to Tender (ITT) to those bidders that passed the PQP. The ITT contains the detailed specification of what the DfT wish to contract the winning bidder to operate. It includes minimum levels of service including the services to operate along with minimum standards of customer service, staffing levels and all other aspects of the franchise operation. The bidders then make a formal bid

to the DfT for how they intend to operate every aspect of the franchise and how much money they would either pay or receive from DfT in each year of the franchise. The DfT then analyse each bid and declare a winning bidder for a specified amount of time. The length of each franchise can vary, and each will include a “break clause” where either party may be able to terminate the contract early, either due to performance or DfT opinion, and also the contract will include the possibility of an extension to the franchise for a limited period of time, again either specified due to performance, or according to DfT policy.

- 2.4 In addition to the extension of an existing franchise as described above, the DfT are using “Direct Award” franchises to award franchises to incumbent operators. Often wrongly called extensions (extensions are contractual obligations to run the service under agreed conditions), these Direct Awards are new franchises with an entirely new contract, but the DfT only negotiates with a single bidder for the new franchise. Direct Awards have already been awarded to Abellio Greater Anglia, First Great Western, Southeastern and Virgin West Coast, and further Direct Awards are currently being negotiated with First Great Western (again), London Midland, East Midlands Trains and South West Trains. The purpose of the Direct Awards is to ensure that there are always a manageable number of franchises in competition at any one time, to avoid placing too large a burden on both the bidders and on the DfT to analyse these bids. For this reason, the Direct Awards are designed to smooth the profile of the franchise expiry dates, which had become bunched close together after the suspension of the franchise process. Direct Awards also contain potential extensions contracted into the agreement.
- 2.5 As well as franchise competitions, extensions and direct awards, some passenger services are operated by concession. In the London TravelWatch area these are the services operated by LOROL on behalf of Transport for London (TfL). The awarding of the London Overground network to an operator is similar in process to a franchise competition. The different bidders will bid against a specification from TfL (rather than DfT) to operate the service for a defined length of time, and to specified requirements. The main difference between a franchise and a concession is that in a franchise the operator will take the “revenue risk” and be responsible for all aspects of the franchise. In the London Overground concession TfL take the revenue risk, as well as retaining control over marketing, timetabling and branding. TfL has recently announced that MTR have won the concession to operate the Crossrail services from next year. The West Anglia metro services that are being devolved from the Greater Anglia franchise to the London Overground concession will be operated by LOROL. The London Overground 2 concession is currently being developed by TfL and will be the competition by which the expanded London Overground concession is awarded. This concession is due to commence in November 2016.
- 2.6 In addition to franchised operations, passenger services can also be operated by open access operators. There are currently Heathrow Express, First Hull Trains and Grand Central operating as open access operators in the London TravelWatch area.
- 2.7 As part of the Brown review, it was decided that the DfT would place a higher value on service quality in their analysis of bids, rather than near solely on cost. To this end, the DfT will include passenger representative bodies in their bid

review process, with Passenger Focus and London TravelWatch analysing the customer service section of each bid. We do not get to analyse other sections of each bid, and we do not see any financial information whatsoever as this is redacted. To date, we have not yet inputted directly into the bid review process for any bid, as we fed into Passenger Focus's response to the Essex Thameside and Thameslink, Southern, Great Northern franchises, and we were not invited to input into the East Coast review despite the importance of King's Cross (and Stevenage also in our area). We are working hard to ensure that we are able to represent passengers from our area in future franchise reviews, with East Anglia (Abellio Greater Anglia) and West Coast (Virgin West Coast) franchises likely to be reviewed in 2015, with both East Midlands (East Midlands Trains) and West Midlands (London Midland) franchises closely behind. We have met with DfT to try and get the views of London passengers into the consultation process for East Anglia and East Midlands, but have not yet been able to arrange these meetings for the West Coast and West Midlands franchise processes.

- 2.8 TfL have agreed that London TravelWatch will provide a report in advance of the concession being developed, covering all aspects of the concession for their consideration. This will be a more detailed version of the input Passenger Focus provides to the DfT for other franchises. We are currently in discussion with TfL about the scope of our involvement with the bid review process, but they are comfortable in principle for our involvement with the reviews.

3 Recommendation

- 3.1 That the board note the report.

4 Impact on passengers

- 4.1 It is important that London & South East passengers are represented at all stages of the franchise process, as traditionally this has not been the case. Before the Brown review, London TravelWatch was treated as a stakeholder for consultation in the same manner as user groups or business groups, rather than as the statutory body representing passengers. Even after the Brown review, we have not yet been given an independent voice on behalf of passengers, instead we have fed our comments to Passenger Focus who are under no obligation to pass these on to the DfT. For the recent East Coast franchise competition review, we were excluded by the DfT as they did not consider that King's Cross and Stevenage represented enough of a catchment area for representation, despite the importance of King's Cross in particular to the passenger experience of the whole route. We have pressed DfT hard on these matters, and believe that we will be properly represented going forward on all franchises that affect the London TravelWatch area, but as we have been told this before to no avail, we will need to continue monitoring and lobbying closely.
- 4.2 With specific regard to the Southeastern Direct Award, there are a number of improvements that we have previously called for, including:
- Later evening and weekend services between Dartford and Victoria;
 - Additional staffing at stations, with longer operating hours for gatelines;

- Extension of Oyster PAYG/Contactless payments to Dartford and Swanley; and
- The deep clean of all stations.

4.3 We do however consider that there were missed opportunities that we would have expected to see in a four-year direct award. These include:

- No improvement in off-peak service on the Catford loop, which remains London's busiest route with only two trains per hour, and no improvement to weekend services such as Sundays to Bromley North;
- No additional gating of busy London stations to improve security and reduce fare evasion;
- £4.8million on station improvements is not much for 4.5 years, and on an extensive network such as Southeastern's, and there is no fund committed to improve accessibility or reducing step gaps specifically;
- The deep clean of stations is a one-off, but needs an incentivised monitoring regime to ensure that cleanliness is maintained; and
- No commitment to enhance the functionality of Ticket Vending Machines e.g. selling tickets from other stations.

5 Equalities and inclusion implications

5.1 There are no equalities and inclusion implications arising from this paper.

6 London TravelWatch priority

6.1 This issue falls within the core remit of London TravelWatch.

7 Legal powers

7.1 Section 248 of the Greater London Authority Act 1999 places upon London TravelWatch (as the London Transport Users Committee) a duty to consider - and where it appears to the Committee to be desirable, to make recommendations with respect to - any matter affecting the functions of the Greater London Authority or Transport for London which relate to transport (other than of freight). Section 252A of the same Act (as amended by Schedule 6 of the Railways Act 2005) places a similar duty upon the Committee to keep under review matters affecting the interests of the public in relation to railway passenger and station services provided wholly or partly within the London railway area, and to make representations about them to such persons as it thinks appropriate.

8 Financial implications

8.1 There are no initial financial implications for London TravelWatch, although depending on the amount of research and input into both the London Overground 2 concession and other franchise reviews there may be both some financial implications and considerable staff time implications if we are to fully represent London & South East passengers.