Informal Consultation

The Future of Rail Franchising

pteg Response

April 2010

Matt Brunt
Assistant Director

pteg Support Unit
Wellington House
40-50 Wellington Street
Leeds – LS1 2DE
0113 251 7445
info@pteg.net
Content

1. Introduction ................................................................. 1
2. Context – City Region Rail Networks .......................... 1
3. Devolving Responsibilities .......................................... 2
4. Chapter Two – Franchise Length ................................. 5
5. Chapter Three – Specification and Delivery .................. 6
6. Chapter Four – Encouraging Innovation and Investment .. 6
7. Chapter Five – Changes during the life of a franchise ...... 7
9. Conclusions .................................................................... 7
1. Introduction

1.1. *pteg* represents the six English Passenger Transport Executives (PTEs) in England which between them serve more than eleven million people in Tyne and Wear (‘Nexus’), West Yorkshire (‘Metro’), South Yorkshire, Greater Manchester, Merseyside (‘Merseytravel’) and the West Midlands (‘Centro’). Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of *pteg*, although this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain’s largest city regions, with the aim of providing integrated public transport networks accessible to all.

1.2. The PTEs have serious ambitions with regard to the rail networks in their respective city regions and we believe that the opportunities for devolution of rail powers, responsibilities and funding ought to be a much stronger feature of the national government’s approach to future rail franchising. This response sets out our arguments why the ‘devolutionary option’ for rail franchises needs to be taken seriously.

2. Context – City Region Rail Networks

2.1. PTEs want their local rail networks to be a key part in wider, high quality integrated public transport networks. Networks that provide the city regions with the green, efficient and inclusive public transport services they need.

2.2. In practice this means:

- modern, efficient and primarily electric commuter rail services with adequate capacity to cope with the demands of the rush-hour
- stations that are safe and welcoming places to be and which act as wider hubs for local communities and their local transport networks (including for park and ride)
- stations that are easy to access on foot and by bike
- simple fares and smartcard ticketing
- rail services that are branded and marketed as part of a wider public transport offer for the city regions

2.3. Local rail is a crucial part of how our cities’ economies function and plays a vital role in their road to economic recovery and future growth, and our cities are the economic engines of wider regional economies. For our cities to continue to grow in a smart and green way they need modern efficient rail networks which enable people to access work, retail and other opportunities; and which give our cities the wider connectivity they need by providing good links both between our cities and to London. Passengers regard rail as an integral part of their local transport network and rightly demand a service that is specified and managed with their needs in mind.

2.4. Since their inception, the PTEs have invested heavily in their local rail networks – funding new trains, routes, stations (69 to date), park and ride facilities, and higher service standards. As a result rail patronage has increased over the last twelve years in every PTE area, and now exceeds 130 million journeys a year, an increase of 41% since 1995/96. The rise in rail commuting has supported the growth in our city centre economies over the last decade. However there are problems with significant overcrowding on peak hour trains – with over 60% of peak hour arrivals into Leeds carrying standing passengers, and 50% of peak hour...
arrivals carrying standing passengers into Manchester and Birmingham. Even in a recession, the Northern Rail franchise (the franchise serving all five of the northern PTEs) is still reporting passenger growth of 8% within the last year and PTEs are acutely aware of unmet demand for increased capacity on many routes. Public subsidy for the railways in PTE areas is in excess of £300m per annum.

2.5. Rail services are provided through the franchising of networks of services by the Department for Transport. When franchising first came in PTEs had automatic rights to be a co-signatory to their local franchise. That has given PTEs a seat at the table on franchises – ensuring that there is local input on services and fares, as well as in the management of the local rail network - and allowed PTEs to be able to use their local knowledge to help optimise timetables and deal with problems as they arise.

2.6. However, the 2005 Railways Act took away PTEs automatic co-signatory rights and made it dependent on the Secretary of State’s consent. It is DfT policy to systematically remove PTE co-signatory status as each franchise is renewed. The exception to this rule is the self-contained Merseyrail Electrics where Merseytravel is now the franchising authority with the quality of the local rail network transformed as a result.

2.7. PTE are, as a result of these changes, less able to provide adequate train and network capacity to meet the growth in demand, improve the quality of passenger service, and integrate rail effectively with wider economic, social and environmental policy goals. This is at odds with the general thrust of government policy which seeks to devolve power and responsibilities to local authorities and city regions; and whilst rail responsibilities have been transferred and devolved in Wales, Scotland and London, the direction of travel for PTE networks has largely been in the opposite direction.

3. Devolving Responsibilities

3.1. Government has been successively devolving powers and responsibilities through local authorities, including creating Integrated Transport Authorities (ITAs) as part of the Local Transport Act 2008, and legislation to empower city regions in the Local Democracy Economic Development and Construction Act 2009. ITAs were created to enable a more integrated approach to transport in the city regions, but the current administration of rail (and in particular, local rail) work against this.

3.2. We believe that devolution to the city regions can improve local rail services significantly, offer genuine value of money for government and realise efficiencies that in a way that cannot be delivered from a more centralised approach. Soon to be completed and published research commissioned by pteg has confirmed that where rail powers are devolved, there are significant benefits in terms of increased levels of investment, more targeted action on local priorities, and improvements to the quality of service and customer satisfaction levels. Table One sets out the key benefits.
### Table 1 – Summary of Benefits and Evidence for Devolution of Rail Powers and Responsibilities

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Justification and Evidence</th>
</tr>
</thead>
</table>
| **Increased Investment** | Where rail powers have been devolved, local and regional agencies either invest in enhanced infrastructure and services themselves, or create the conditions for the private sector to do so:  
  - new train fleets on order in for London Overground and ScotRail which will have greater reliability, operational efficiency and passenger comfort than the trains they replace. In the Netherlands, the introduction of new lighter passenger trains has reduced operating costs and wear and tear on the track;  
  - the long-term Merseyrail franchise has provided for investment in train modernisation and enhanced methods of maintenance has dramatically improved rolling stock reliability;  
  - new or improved stations have been delivered, such as Liverpool South and Brunswick on Merseyrail, a deep clean, staffing, branding and modernisation of all stations on London Overground, and Transport Scotland’s Station Regeneration Fund;  
  - line have been reopened or upgraded, including the Airdrie to Bathgate Rail Link in Scotland, the East London Line Extension and the Ebbw Valley Railway in Wales; and  
  - in France and Germany, regional administrations can invest in enhanced rail infrastructure and services from taxes, such as the Versement Transport, which are raised locally. |
| **Focus, Drive & Incentivisation of the Industry** | Where rail powers have been devolved, infrastructure and service operators are more closely incentivised to improve or maintain their performance and customer service by direct support, scrutiny and challenge by local politicians and officers who are closer to passengers, understand the daily travel experience and know where improvements are required:  
  - ScotRail’s franchising relationship is with Transport Scotland which working directly on behalf of “locally” elected Scottish Ministers, with a franchise extension agreed to 2014 in return for strong performance and an additional £73 million of investment for passengers;  
  - Merseytravel is able to develop a close partnership and hold Serco-NedRailways directly to account for the performance of its services, with political pressure for high investment, service quality, responsiveness & customer focus from the company;  
  - TfL takes revenue risk on the London Overground concession, but backed by the Mayor, monitors LORAL’s performance, and makes incentive or penalty payments;  
  - the five Northern PTEs believe strongly that franchise co-signature gives them a “seat at the table”, more regular contact, a stronger |
degree of influence, and easier capacity to secure changes to the operations of Northern Rail on a day-to-day basis than would otherwise be feasible, with benefits for passengers; and

- passenger service tendering arrangements in the Netherlands means provincial bodies can re-incentivise or replace operators periodically within an increasingly competitive market.

**Responsiveness and Flexibility to Local Priorities**

Devolution enables local and regional aspirations, needs and challenges to be addressed at least as much as overarching national goals:

- long-standing evidence, for example from the Core Cities Group, Centre for Cities and Northern Way, shows that there is a close relationship between local and regional economic competitiveness and the extent to which economic and social powers, responsibilities and resources are devolved, with investment in urban transport generating economic multipliers of up to 25-30% on top of "traditional" transport benefits;

- the Government’s own Sub-National Review, Local Transport Act, and Local Democracy, Economic Development and Construction Bill, and City Region Pilots set out an ambitious agenda for city and sub-regions, rather than Central Government Departments, taking or influencing key decisions on investment in infrastructure and services;

- PTEs contend that proposing and making changes to franchises when they are at least a co-signatory is easier, quicker and more efficient than where they are not. Centro’s experience of London Midland, with co-signature removed, appears to support this view; and

- in Europe, regions and city regions specifying, funding and awarding or franchising rail infrastructure and services for sub-national networks is the rule rather than the exception.

**Stronger Performance**

The evidence suggests that devolved rail networks show strong operational performance, increases in patronage and rising customer satisfaction:

- Merseyrail has been transformed from a failing railway to one of the best performing on the national network. Around 96% of trains now arrive on time, compared to around 80% prior to franchising by Merseytravel. Some 91% of passengers are satisfied with the service which has shown year on year patronage growth since 2002;

- ScotRail – Since the current franchise was let and transferred to Scottish Ministers, service delays have reduced by 50% and passenger volumes have risen by 20%. Around 90% of services now arrive on time and 89% of passengers are satisfied with the service;

- TfL investment in London Overground through replacing track and points and upgrading signals is expected to improve reliability and allow for increased frequency with signs that on completion of engineering
works and introduction of new trains, customer satisfaction levels will rise, with 75% satisfied in Spring 2009 already up 10% on a year earlier; and

- whilst directly comparable data from Europe is not available, there is evidence that investment in new regional infrastructure, rolling stock and services in many areas has been accompanied by increasing level of service, patronage and levels of customer satisfaction. Public transport use in and around Lille, for example, increased 47% in a decade and the introduction of tram-train in Karlsruhe has transformed patronage levels in and around the urban area.

### Integration

Devolved specification, funding and management of rail allows closer integration with other public transport modes, policies and wider transport interventions:

- Transport Scotland’s Strategic Transport Projects Review (STPR) allowed evaluation of the case for rail alongside investment in roads, local public transport and maintenance;
- Merseytravel has been able to plan and deliver interchange enhancements across Merseyside has improved physical interchange with buses, and invested in walking, including Merseyrail winning funding as a Cycling Demonstration TOC and obtaining Secure Station status for all 66 stations across its network. 75% of station car parks are also Secure;
- Transport for London implemented Oyster PAYG on all London Overground stations soon after taking over responsibility for the franchise, allowing equal access to all other public transport modes in London within a single ticketing and fare arrangement;
- the Scottish Government, Welsh Assembly Government & Northern Ireland Assembly have introduced or are developing integrated bus and rail ticketing products across bus and rail;
- passenger service franchising arrangements in the Netherlands allow for combined franchising, management and branding of rail and bus services within a single area; and
- Merseytravel, Transport for London and Transport Scotland have introduced common branding for railway stations, trains, and information and promotion alongside other public transport modes and initiatives, providing a consistent image and identity to the passenger and reducing costs of rebranding, if and when franchise operators are replaced.

### Efficiencies and Cost Reductions

There is evidence that devolution can provide for efficiencies and cost savings which can be re-invested back into benefits for passengers:

- in London and Scotland, direct purchase or procurement of new rolling
stock from manufacturers may be cheaper than reliance on one of the existing private sector ROSCOs;

- in London and Scotland, focused project specification, procurement and management is enabling Airdrie-Bathgate and the East London Line to be delivered on time and on budget;

- in Merseytravel, economies of scale in bringing rail planning, business case development and franchise management alongside other functions into a single organisation;

- in London, Scotland, and Merseyside, there are cost savings from maintaining a single rail brand which does not change with the replacement of a franchise operator;

- Merseytravel estimate that implementing vertical integration on the Merseyrail network would create cost savings of £33 million over the life of the existing franchise and provide a cost comparator to Network Rail. Separate evidence from Northern Ireland suggests lower capital and operating costs of the vertically integrated NIR network compared to Great Britain;

- direct franchising responsibilities in Transport Scotland, TfL and Merseytravel removes duplication of focus – and therefore cost – with franchise managers within DfT;

- potential for bespoke local standards and specifications (e.g. on rolling stock specification, asset management regimes, station design standards) to reduce costs; and

- combined bus-rail franchises in the Netherlands reduces management costs for the franchise operator with the potential for savings passed onto the franchising authority.

3.3. In addition, we believe that a more localised approach to the specification and management of urban railways can have wider policy benefits. One clear example which illustrates the importance of joining up transport provision to wider economic, social and environmental objectives is where much needed new housing development is planned near to rail links: at present there is no obvious mechanism by which developer contributions (via Section 106 agreements) can be pooled to enable extra capacity, such as rolling stock, to be provided. This misses out on the opportunity to boost more sustainable travel options and increases the likelihood that congestion will increase as new residents are forced to commute by road. A stronger role for PTEs on rail services would allow them to use their role in integrating transport to provide a suitable mechanism for pooling developer contributions across their areas to use to fund extra rail capacity.

3.4. The devolutionary options going forward range from PTEs taking on the role of franchising authority to a lesser or greater degree over defined sets of local rail services through to the retention of co-signatory powers, or greater partnership arrangements with the Department for Transport, such as the Memorandums of Understanding being developed as part of the Leeds and Manchester city region pilots. The approaches to devolution will vary according
to local circumstances, but in all circumstances will improve the accountability of rail services to the passengers they serve.

3.5. In seeking greater involvement, we want to be more integral to the planning and development of heavy rail in our areas, but that does not mean we want to specify without being held accountable for the fair and reasonably allocated costs, nor do we seek to break up the rail network or add unnecessary costs. We want the appropriate degree of devolution recognising that the rail network in our areas often carries freight and long distance passenger traffic that is also important to our cities. We know how important inter city links between our areas and to London are, and would not want to jeopardise those solely for the sake of local services.

3.6. However, we do feel that greater clarity between national and local/ regional frameworks, following the lines of the Dutch model of franchising, and building on the devolution in the UK of rail responsibilities to Scotland, Wales and London, is required. The Dutch approach, advocates the division of the rail network into a set of core “national routes” and a second tier of networks of local and regional importance. Such an approach would see Ministers retain primary responsibility for strategic decisions and funding relating to the core national network, with a presumption in favour of devolving adequate powers and resources to appropriate sub-national levels. Checks and balances could be developed to ensure that conflicts between the two are avoided and minimum standards for transparency, efficiency and good governance are met.

3.7. Devolution may also offer benefits to national government. Such a trajectory delivers on commitments made, or implied, through the Local Transport Act, Local Democracy Economic Development and Construction Act, and support city region pilot proposals in Leeds and Greater Manchester. Devolution also offers a mechanism for transferring responsibility – and therefore technical, financial and political risk – for regional and local rail networks to bodies potentially better placed – and with an appetite and ambition – to focus time and resources on them. This would leave Ministers and civil servants relieved and better able focus on national rail infrastructure and services which are rightly the concern of central government. At a time when key questions remain over the cost base and structure of the industry overall, this would be a major advance.

3.8. We would want to see the government’s policy of rail franchising framed in such a way that allows for the devolutionary approach to be recognised and the opportunity created for PTEs to come forward with detailed proposals of how devolution might work in their areas. We would welcome a clear statement of support in this regard. There are clear opportunities coming up with the Northern Rail and Trans Pennine franchise renewal processes; and for PTEs to take on an enhanced role as a result of the Better Stations report to test how devolution can work.

4. Chapter Two – Franchise Length

4.1. pteg’s view is that longer franchise lengths will not necessarily improve the levels of investment in the railways or provide better services for passengers. Our reasoning is based on our fundamental belief that each franchise should be assessed against a range of criteria and circumstances to best determine its length and structure, recognising that each franchise will be different. The Department’s own research by KPMG support this approach.
4.2. The analysis by KPMG highlights that there was ‘no conclusive evidence of the impact of contract length on performance across the sample of operators’ studied. Furthermore, it highlighted that the levels of investment secured were largely dependent on a range of factors other than franchise length – including quality of management, macro-economic trends, alterations to the operating environment and so forth. The research also highlighted the role that franchising authorities and third party investors (such as PTEs) have played in driving up performance on the railways – i.e. in Wales and on the Merseyrail system. The findings indicate that on regional railways, investment has been driven by local stakeholders rather than the TOC. This correlates strongly with our research that shows that where devolved responsibilities on rail are granted, greater investment levels follow. Overall the KPMG research highlighted ‘that there is no single “correct” answer to the optimal form of franchise contract’ – which serves, in our opinion, to reinforce the need for franchises to reflect local circumstances and have strong local input.

4.3. Where bidders have proposed a longer term there should be clear criteria for assessing the case for extending contract lengths and clear benefits to the railway and the passenger. We believe that there is a critical role for local stakeholders, such as PTEs, to be involved in establishing these criteria for longer than 10 year franchises, and that this further reinforces the need for PTEs to be adequately involved in franchise specification.

4.4. There appear to be a range of models for performance breaks in contracts and we would advise the Department to consider those that are most appropriate for the type of franchise being awarded. For example, in heavily subsidised rail networks such as in PTE areas we would expect a clear performance framework that allows intervention against a range of locally determined targets set out in the franchise specification.

5. Chapter Three – Specification and Delivery

5.1. We support the general approach and the increased emphasis on quality as set out in this chapter. However the government needs to recognise more explicitly the role that PTEs wish to play in setting franchise specifications (para 3.5) on local rail services.

5.2. The list in para 3.8 is a good example of the types of issues that can best be determined at local level and with the input of transport authorities who are charged with integrating modes.

5.3. Whilst we welcome the potential for greater flexibility in bids, as set out in paras 3.15-3.16, to encourage innovation, we would add that such flexibility is likely to be strengthened by the involvement of PTEs, who can bring local knowledge to the process.

5.4. With regard to ensuring delivery, we believe that directly involving PTEs in the management of the local rail franchises in their areas will strengthen the monitoring of delivery. For example, PTEs regularly carry out market research into passenger satisfaction and are well-placed to provide other information on the performance of franchisees.

6. Chapter Four – Encouraging Innovation and Investment

6.1. pteg supports the proposal to compare bids on the basis of a single specification, rather than comparing bids with different outputs. We are uncertain as to whether the proposals to allow additional elements will work to deliver value for money, as these may not be subject to the same competitive processes as the core specification.

6.2. We believe that for all but the largest stations in PTE areas, there is a good case for the relevant PTE to become responsible for the management of these stations. By moving to
such a model, which gives PTEs a much stronger role in the provision of stations, there are a number of benefits around better integration of local stations within the urban transport network, opportunities for consistent branding and marketing, links to passenger information services and generally improving the quality of the offer to passengers.

7. Chapter Five – Changes during the life of a franchise

7.1. Changes made during the life of franchise may be more expensive to make than by including at the specification phase and the longer the franchise term, the less flexibility there will be to make such changes. This is a further reason not to offer a blanket increase in franchise lengths.

7.2. Section 5.14 suggests that operators are offered incentives to change service levels to reduce costs. We think that this has the potential to offer operators a way out of providing socially necessary but commercially unattractive services, such as off-peak trains (especially evening and Sunday services). We believe that this option needs much greater clarity over the criteria by which such proposals will be addressed (i.e. that they take account of wider economic and social benefits, rather than cost alone) and would need to be subject to adequate consultation with local stakeholders, such as PTEs. We would not support an option that does not address these concerns.

7.3. Additionally we believe that part of the cost savings should be returned to the franchising authority, be that the Department or other body, to reinvest in the railway, or alternative transport provision. Operators may well decide to extract savings made without reinvesting in the railway, which would be a disbenefit to passengers.

8. Chapter Six – Better Managing Risk and Incentivising Operators

8.1. The consultation document proposes a new approach under which franchises are insulated from some of the macro-economic factors at play. This will be difficult to implement in practice as there is a significant time lag in the production of these statistics and they are often subject to revision.

8.2. *pteg* would like to see a system that offers a greater number of options for sharing of revenue risk not just between the operator and the Department, but also with local partners such as PTEs. In the right circumstances PTEs are willing to take on a greater role in sharing risks and reward as part of their desire for greater input on local rail and this option needs to be recognised explicitly. Any such model would need to be determined on the basis of a PTE’s involvement, but the key benefit from a local partner being involved in sharing risk and reward is that the returns are likely to re-invested locally or that the hard decisions over priorities can be managed locally for the best outcome for the passenger.

9. Conclusions

9.1. The context and framework for devolution has been established more broadly by government in terms of legislation (Local Transport Act 2008; Local Democracy, Economic Development and Construction Act 2009) and through the emerging city region pilots. On rail, there has already been a move by government to devolve significant responsibilities on regional rail in other parts of the country – i.e. Wales, Scotland and London – which are broadly similar to those operations serving the PTE areas and their hinterlands. There is a clear message that where devolution of rail responsibilities has taken place, there are significant benefits to rail
services and passengers. PTE areas, however, are still constrained by a centralised approach to rail.

9.2. Our aspirations to deliver more integrated transport and to promote wider economic, social and environmental goals for our city regions mean we want to take more responsibility for local rail networks. Therefore this needs to be an explicit option within franchising policy, and one that is supported, with appropriate caveats, by government. We think there is a strong case for reviewing the rail networks to make clearer distinctions between local and regional networks and a core set of national networks. By doing so, the options for devolution will become clearer.

9.3. We recognise that we will have to develop a convincing set of propositions around how devolution works in our areas, how it will be delivered and how our approaches can balance local and national needs.

9.4. We feel that decision-making on services is often remote from the needs of passengers in our areas, does not deliver their aspirations to travel by rail, nor seize the opportunity to integrate rail more effectively into achieving wider economic and social objectives. In its current state, the policy document will only serve to reinforce the distance in minds and in reality between delivery for passengers and decision-making on franchises. The policy document, as written, appears to preclude devolutionary options and, therefore, in our view, is flawed. Taking our arguments a step further:

- we do not support a universal extension of franchise length as there compelling arguments that a one size fits all approach is not appropriate, and that each franchise needs to be judged on its merits; and
- we strongly support the need for greater local input into both the specification and management of franchises as we believe that this strengthens the franchising process and will produce better quality outcomes for the passengers as well as greater efficiencies.

9.5. We have a number of concerns about the relatively loose wording within the policy document that if carried forward into contract documents may encourage operators to exploit opportunities meant for improvement and innovation to reduce costs at the expense of the passenger. In addition, we would like to see a more formal consultation process for the policy proposals so that they can be tested more widely.

9.6. Overall, we believe that the strength of the franchising process is that it can allow partners to be involved in shaping the detail of proposals and in their delivery. As we have argued we believe that in our areas PTEs are fundamental to making the franchise process work effectively and efficiently.

9.7. The options for devolution will create a stronger linkage between investment and management of rail infrastructure and services and local and regional priorities, both for transport and wider economic and social goals. We also believe these changes are achievable within the current industry structure and present the potential for efficiencies and cost savings on current arrangements.

9.8. We would want to see the government’s policy of rail franchising framed in such a way that allows for the devolutionary approach to be recognised and creates opportunities for PTEs to come forward with detailed proposals of how devolution might work in their areas. We would welcome a statement of support in this regard. There are clear opportunities coming up with
the Northern Rail and Trans Pennine franchise renewal processes; and for PTEs to take on an enhanced role as result of the Better Stations report to test how devolution can work.