

## Memorandum to the Transport Committee

### *Passenger Rail Franchising*

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#### Summary

- 1.1. Passenger Focus welcomes the opportunity to submit evidence to the Transport Committee's investigation into franchising. Each new stage of the franchising process represents an important opportunity to spread best practice and procure better terms for passengers.
- 1.2. One of the main aims of franchising is to set out the minimum level of service a passenger can expect over the life of a franchise. It is equally important that the franchise sets out a clear and transparent way of monitoring performance against specified targets and the steps that will be taken to ensure compliance. It is right and proper that passengers be given a clear set of targets and expectations against which they can hold the train company to account.
- 1.3. One of the difficulties in reviewing franchising is the fact that there are several different franchise 'models' in existence. These differ in terms of how tightly services are specified, the volume of targets and measures and the approach of the franchising authority. One of the criticisms of the original round of franchises was that they were let on a least-cost basis. The current trend is a move towards franchises paying increased premiums back to DfT. Under both models there is a real danger that passengers will suffer as operators strive to cut costs or meet premium payments.
- 1.4. The franchising process must take more notice of what passengers actually want. The voice of the passenger has hitherto seemed to carry little weight in the franchising process but, with the transition from SRA to DfT, there seems to be a more open attitude. Passenger Focus is currently carrying out research on route-by-route passenger priorities for the new Midlands and Central franchises and sharing the results with DfT.

#### Responses to the Committee's questions

##### *What should be the purpose of passenger rail franchising?*

- 2.1. The purpose of franchising is to provide a level of service that meets the needs of passengers both now and in the future. The key passenger priorities have remained consistent over time:
  - *Performance*  
Passengers want trains to run on time. Notwithstanding recent improvements in performance, this is still the top priority<sup>1</sup>. Passengers also want to know how well

their services are performing rather than be given the average performance of the entire train company<sup>2</sup>. It is important that the franchising process ensures that challenging targets are set and that passengers have access to information relevant to their journey.

- *Value for money*

Passengers simply do not feel that they receive value for money at present<sup>3</sup>. Satisfaction levels lag significantly behind those for punctuality and most other service attributes.

- *Information*

Passengers want accurate and timely information, especially in times of disruption<sup>4</sup>. Franchising provides a mechanism not only for investment in new equipment but also for better monitoring of the quality of information provided.

- *Travelling environment*

In addition some passengers are concerned at the travelling environment provided on board trains and at stations. Franchising can again help to deliver greater accountability and transparency for passengers through such things as:

- reducing overcrowding by specifying longer trains/more frequent services
- requiring more frequent and accurate passenger counts<sup>5</sup>
- improving perceptions of security through the provision of CCTV, increased staffing or the compulsory use of the Secure Station and Secure Car Park initiatives
- monitoring the level and quality of services at stations<sup>6</sup>.

### ***Is the current system achieving that purpose?***

2.4 The acid test is whether passengers are receiving the level of service they expect. Overall passenger satisfaction levels are improving: 80% passengers are satisfied with their overall journey and 79% (the highest proportion of passengers ever recorded) satisfied with the punctuality/reliability of their trains. However, only 41% think that they are getting value for money for the price of their ticket – which equals the lowest ever rating for value for money. Car parking facilities at stations scored just 46% and only 35% of passengers are satisfied with the way train companies deal with delays<sup>7</sup>.

2.5 It is difficult, however, to make a precise assessment of the impact of franchising on satisfaction levels. Differing starting dates and franchise lengths as well as the respective state of the railway at the point of franchising, makes like-for-like comparison between franchisees difficult and potentially misleading. The National Audit Office<sup>8</sup> also acknowledged that value for money from the franchising process as a whole was dependent upon wider matters, such as the degree to which the restructured industry could secure improved efficiency and higher quality of service in the longer term.

2.6 Nonetheless Passenger Focus believes, from experience, that there have been some drawbacks to the franchising process:

- the emphasis placed on awarding contracts on a least-cost or, more recently, on ensuring a large premium payment to government creates risks for passengers. There is the danger that operators will cut costs to the bone or look to increase

revenue streams by raising those charges which are left to their discretion. For example:

- increasing cost of car parking. GNER has just announced significant rises in car-park costs [e.g. at Doncaster the cost has doubled from £4.50 to £9]
  - other methods include realigning reduced-rate ticket validities into narrower timebands to effectively price passengers off particular services, reducing demand at certain times of day. For example, First Capital Connect's imposition of evening peak-hour restrictions on some cut-price fares. [Thus a same-day return from Cambridge to London, for passengers wanting to leave London between 16.30 and 19.00 has increased from £17.60 to £26.90].
- basing service levels on timetables that were in existence in the mid 1990s does not reflect changing commercial and social activity on Sundays and the increasing incidence of the 24-hour 7-day-a-week society.
  - while franchise contracts have always specified targets there is not always clear evidence that these are being monitored and independently audited to ensure compliance, nor that there are incremental increases in targets from one franchise to the next. There has, for instance, been no step-change from one generation of franchises to the next in terms of minimum station standards, nor any consistent attempt to monitor performance at stations. The latter was something recognised by the NAO in its report *Maintaining and improving Britain's Railway Stations*<sup>9</sup>.
  - the sense that targets contained within the franchise become seen as a maximum to be achieved rather than a minimum to be exceeded.

### ***How well does the process for awarding franchises work?***

- 3.1. The voice of the passenger has hitherto carried little weight in the franchising process. Passenger Focus and its predecessor organisations have been consulted on each new franchise. Independent of this, we have over the last decade undertaken research and consulted other stakeholders on the key elements of franchise structure to best represent passengers' interests. The reluctance of successive franchising authorities to take greater notice of the passenger representation viewpoint has been disappointing, especially given that far more than mere cost needs to be considered in the process.
- 3.2. We believe that the transition from SRA to DfT has been relatively seamless. We also note a new and more open attitude, with DfT generally making a greater effort to take account of passenger views. Research which Passenger Focus has undertaken on route-by-route passenger priorities for the new Midlands/Central franchises has been well received.
- 3.3. It is unclear why until recently a franchisee's previous performance has not been taken into account in the rebidding process. A good record in areas such as performance and passenger service quality should count as cogent factors in assessing any re-award of franchise.
- 3.4. Passengers need franchises which are sufficiently flexible to take account of changes in demand, especially to cope with growth. Service level commitments, for instance, need

to reflect demand and as passenger representatives we need to be consulted on any proposals to amend them. There is the danger that once let, franchises can freeze service and quality levels. Targets must be seen as minimums to be exceeded rather than ceilings to be reached.

### ***Are franchise contracts the right size, type and length?***

- 4.1. There was a consensus view among passengers in research commissioned by the RPC<sup>10</sup> that fewer, but bigger, franchises would make for a more streamlined and responsive structure. It could also be argued that there is a need for longer franchises - currently many train companies have businesses 'on loan' for only seven years, which hampers a longer-term view and innovation. However, any move towards longer franchises must be accompanied by an effective programme of franchise reviews in order to guard against the potential complacency inherent in any long-term contract; and ensure that there is continuing improvement throughout the entire life of the franchise, not just at the beginning.
- 4.2 Larger franchises also offer opportunities for economics of scale and of co-ordinating services within a wider area – e.g. in terms of connections policy and service disruption. This is co-operation rather than competition, but in such instances works in passengers' interests. It also fosters best practice and a degree of standardisation.

### ***Do we need more competition and vertical integration?***

- 5.1. Train companies cannot function in isolation; they do not own the trains which they operate, the stations they stop at or the rails on which they run. In such a complex system, a high degree of integration from the top to the bottom of the industry is vital. We have continually advocated the need for a "joined-up" railway delivered through integrated control and partnerships. Passengers' concern is less about railway ownership and more on ensuring that control is in capable hands<sup>11</sup>. We should, however, have concern were lead TOCs entrusted with infrastructure assets whose lifespan far exceeded the likely period of tenure of the rail franchise; this aspect would be further complicated where a number of different TOCs, operating different types of rolling stock – and perhaps freight operators - had interest in the same stretches of track.
- 5.2 The creation of Network Rail has generally brought an improvement in integration at the wheel/track interface. Integrated Network Rail/train company control centres are a step in the right direction, as is the long-term decision to bring maintenance in-house. There are also signs that relationships are moving away from the earlier adversarial stance towards more collaborative and mutually-beneficial working. This will contribute to passenger benefit but it is crucial that the decisions are focused on what is best for passengers rather than what is best for the industry - a customer focus rather than an engineering focus.
- 5.3 A key element in the joined-up railway is the rolling stock market. The thinking behind the current structure was based on a market-led model of rolling stock provision that would lead to tight cost control and greater efficiency. We have consistently argued that this has not been the case in practice and have criticised the second-hand rolling stock

market in terms of its efficiency, competitiveness and value for money, all of which have serious implications for passengers.

- 5.4 The existing structure of franchising means that rail's competition is largely with other travel modes, principally the car, rather than between operators. There are some routes where competition does exist and in these areas passengers have the benefit of choosing between elements such as price, journey length or comfort levels. It is crucial, however, that competition does not undermine the concept of network benefits and the principles of inter-operability and inter-availability; for instance, the ability to make a through journey on one ticket, valid on any company's trains rather than be limited to a single train company. In such cases it is collaboration and co-operation that is important. The importance of this is reflected in the way that the Office of Fair Trading has granted an exemption to anti-competitiveness legislation that permits train/bus operators to offer joint tickets, such as Travelcard and rail-bus add-ons.

### ***Is franchising compatible with open access operations?***

- 6.1 We understand that hitherto potential franchisees have bid on the assumption of exclusivity of operation on the route (except for those other known franchisees operating on common sections of routes and which will be factored in to bid proposals). Open-access operators, however, offer an element of choice – perhaps by offering more attractive fares and/or through services. Hull Trains has proven the success which open-access services can provide.
- 6.2 Passenger Focus generally welcomes extra services for passengers, but the recent case of an additional operator seeking access on the East Coast Main Line ECML raised serious issues for passengers. In this case, the interests of one group of passengers is potentially being played off against another. Sufficient capacity is required to meet all communities' reasonable expectations. This event has accelerated the need for the capacity study on the East Coast Main Line to be undertaken without delay.
- 6.3 Part of the agreement for an open-access operator to enter the market should include a review of the incumbent franchisee's business. Cherry-picking profitable elements of existing franchises is financially damaging to the incumbent train operator, which is not only responsible for the lion's share of track access costs, but stands to lose farebox revenue through ORCATS<sup>12</sup> allocation. The cost base arrangements favour the open-access operator at the expense of the franchisee. Open-access operators should be required to bear a fair share of the operating costs.
- 6.4 In the new round of franchises, where some franchisees are required to make major premium payments to government, any threat to the revenue stream will doubtless lead to reduced premiums, higher unregulated fares or in extreme cases, the franchisee surrendering the franchise. If open access is to continue, bidders need to consider the possibility of an open-access operator seeking to use that route when franchises are let – though this could make bids dearer as a result. We welcome the reference in DfT's White Paper of the need to close this loophole<sup>13</sup>.

## References

1. Passenger Focus: *Passenger Priorities for Specific Routes*, 2006
2. Rail Passengers Council: *Research into rail passengers' perceptions of rail performance information*, 2004
3. Passenger Focus: *National Passenger Survey*, Spring 2006 Wave.
4. Rail Passengers Council: *Passenger Information: what, when, where and how?* September 2004.
5. House of Commons Transport Committee: *Overcrowding on Public Transport 2002-3*. This acknowledged concerns with the existing Passengers in Excess of Capacity (PIXC) measure of overcrowding.
6. National Audit Office: *Maintaining and improving Britain's Railway Stations*, July 2005. This called on DfT to encourage greater involvement of passenger representatives in monitoring TOCs' performance at franchised stations and their compliance with the Code of Practice on access for people with disabilities, and publicise summaries of the results.
7. Passenger Focus: *National Passenger Survey*. Spring 2006 Wave.
8. National Audit Office: *Office of Passenger Rail Franchising: Award of the first three passenger rail franchises*, 1996.
9. National Audit Office: *Maintaining and improving Britain's Railway Stations*, July 2005
10. Rail Passengers Council: *Putting passengers at the heart of rail services*, March 2004
11. Rail Passengers Council: *Putting passengers at the heart of rail services*, March 2004
12. ORCATS, the ticket revenue allocation system, distributes income between operators on a particular route according to the number of services which they provide rather than by the number of passengers carried. All revenue derived from inter-available tickets is allocated through this method. Some companies had therefore been incentivised to run trains on some routes simply to qualify for a portion of this revenue, whether or not there was a commercial need for an extra operator.
13. Department for Transport: *The Future of Rail*, July 2004, para 1.4.7

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