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**Secretariat memorandum**

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LTW426  
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**Rail franchising**

**1 Purpose of report**

- 1.1 To advise members of developments in relation to rail franchising.
- 1.2 The contents of this report are correct as at the day of dispatch. However, a further Ministerial statement is expected. If this is prior to the date of the board meeting an oral update will be made at the meeting.

**2 Information**

- 2.1 Members will be aware that following the failure to award the West Coast Main Line rail franchise, two inquiries were set up by the Secretary of State to investigate the issues arising from this situation.
- 2.2 The first inquiry (by Sam Laidlaw, a Department for Transport (DfT) Director) was set up with the remit of looking at the specific events that related to the award of the West Coast Main Line franchise to First Group followed by the subsequent legal challenge by Virgin Rail. The report of this inquiry can be found at: <https://www.gov.uk/government/publications/report-of-the-laidlaw-inquiry>
- 2.3 The other inquiry (by Richard Brown, Chairman of Eurostar) was set up to consider the wider implications of the position reached on the Inter City West Coast competition. This looked at issues such as how to structure risk transfer between the DfT and rail franchises, in order to create optimum incentives in the long term interests of passengers and taxpayers, and the ability to adapt to changing circumstances; how to structure bidding and evaluation processes to ensure a robust and fair competition, including evaluation of the risks presented by different bids; and the timing of the remainder of the franchising programme.
- 2.4 Richard Brown's report can be found at: <https://www.gov.uk/government/publications/the-brown-review-of-the-rail-franchising-programme>

### 3 London TravelWatch response

- 3.1 London TravelWatch submitted a response to the Brown inquiry. This can be found at: <http://www.londontravelwatch.org.uk/document/14252> . In addition, the Chief Executive and the Director of Policy and Investigation met with Richard Brown's team on 21 November 2012.
- 3.2 It is pleasing to note that the Brown review has recommended a number of changes to franchising policy that are in line with London TravelWatch's aspirations. These include:
- Further devolution of services within London to Transport for London (TfL)
  - Franchise terms should be determined by the circumstances and size of each franchise
  - Bids should be explicitly scored on their proposals for improving service quality for passengers and their approach to management.
  - Where major projects are being undertaken, to manage and specify franchises under a 'concession' type of contract as used for London Overground.
  - Improved flexibility and change mechanisms should be built into each Invitation to Tender and Franchise Agreement
  - Franchises should be in two parts – an initial term of between seven and ten years, with a continuation clause if agreed financial, performance and quality criteria are met for up to a further three to five years. Reform of the 'Cap and Collar' mechanism for revenue risk.
  - Reform of contracts where the DfT is initiating change such that operators are no better or no worse off as a result.
- 3.3 If accepted by the DfT the recommendations of the Brown review would bring significant benefits to passengers in the London area. Devolution to TfL would allow the Mayor to have greater control over the level of services provided and the fares charged. There would also be potential for cost savings through more efficient use of resources.
- 3.4 As an example TfL has identified that it would want to improve a number of services and routes if it was given control of the Southeastern and Greater Anglia franchises. These would include increased frequencies on routes such as Bromley South – Catford – Peckham Rye – London Victoria: Dartford – Lewisham – Peckham Rye – Victoria and Stratford – Tottenham Hale – Brimsdown.
- 3.5 Fares and ticketing arrangements could also be simplified and made more consistent across London by adopting standard TfL fares. This would mean that some fares might reduce where a journey currently is charged as a train plus tube fare. However, some thought would need to be given as to how to implement a change from National Rail point to point season tickets to the TfL

practice of only offering Travelcards as season tickets, as this could potentially increase the fares paid by a significant number of passengers.

- 3.6 The greater emphasis on passenger outcomes and satisfaction should in itself incentivise train operators to focus more effort in these areas. The suggested increase in sample sizes for the National Passenger Survey (NPS) is welcome and could potentially enable the 25% of London stations that have never been surveyed in this programme to be covered, so that there is a more accurate and comprehensive understanding of the needs and perceptions of passengers at these stations.
- 3.7 However, a greater emphasis on NPS could potentially, if not balanced by other initiatives, lead to operators concentrating resources at the busiest stations. In order to ensure that users of smaller stations do not lose out as a result of this, it is suggested that the Service Quality Incentive Regime (SQUIRE) that is in place on London Overground and Scotrail franchises is applied as part of the passenger satisfaction regime alongside NPS. SQUIRE is based on inspections with a quantifiable set of agreed standards and outputs.
- 3.8 The use of concession type franchises is a welcome recommendation. In particular, the suggestion that the Thameslink Southern Great Northern franchise should be let on this basis, as a result of the large changes and construction work that will affect the franchise over the next few years. This type of contract is essentially a management arrangement with specified outputs and the majority of the risk covered by the procuring body. London TravelWatch's response to the previous consultation on this franchise would give a substantive base for such a tender invitation or bid.
- 3.9 An improvement in flexibility and change mechanisms within franchises is also welcome. On many occasions requests for changes in services and facilities by London TravelWatch have been met with the response 'this is not in franchise agreement'. Enabling such greater flexibility and a move to no net gain / no net loss arrangements should enable franchisees to respond more positively to requests for change.
- 3.10 It is intended to restart the process of letting franchises whose competitions are currently "paused". In the London TravelWatch this affects the current franchises operated by c2c, First Great Western, First Capital Connect, East Coast, Southeastern, Southern and Greater Anglia. Initially, it is envisaged that some or all of these would be extended beyond their current expiry dates until new franchises can be agreed. Virgin Trains has entered into a 'management contract' with the DfT to operate their franchise until 2014.

## **4 Discussion**

- 4.1 The recommendations of the Richard Brown review represent a significant opportunity to focus the railway industry and the franchising process on the interests of passengers.
- 4.2 It will also give London TravelWatch more opportunities to influence, inform and shape London's rail network for the benefit of passengers in London. The move to more output focused franchises for commuter type train operations lends itself

to the detailed franchises responses that we have developed over recent years particularly with the added local knowledge and market intelligence. This would be relevant both to TfL and DfT led franchises or concessions.

- 4.3 In recent years, DfT has asked Passenger Focus to provide it with advice on what should be included in franchise specifications. London TravelWatch has contributed to this process. Initial discussions with TfL have indicated that they would welcome similar input to any future concessions from London TravelWatch. This would obviously be subject to TfL being given further devolved franchises, and subject to discussion with TfL regarding the cost of providing such advice.

## **5 Equalities and inclusion implications**

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

## **6 Legal powers**

- 6.1 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.

## **7 Financial implications**

- 7.1 There are no initial financial implications for London TravelWatch.

## **8 Recommendation**

- 8.1 Members are recommended to note this report.
- 8.2 Members are asked to agree that discussions should continue with Transport for London regarding the production of a report recommending what should be included in franchises or concessions let by the Mayor for the benefit of passengers.