

Core standards to raise the performance of rail passenger franchises

Background

Franchises are the way in which most passenger train services are provided in Britain. The Department for Transport lets most franchises in England and cross-border franchises, with the Welsh Government involved jointly in the Wales franchise. The Scottish Government lets the Scotrail franchise itself. Northern Ireland's railways are in public ownership as part of Translink.

The Government is currently going through a process of retendering for rail franchises. As part of this, they have a new approach which aims to give more flexibility for the train companies alongside longer franchise terms, an emphasis on passenger satisfaction and encouraging train companies to distinguish themselves more from competitors in the franchise process.

Greater flexibility might sound good but it should not come at the expense of reductions in services that make less money for the train operating companies (TOCs). Rail franchises must be about improving the service on offer and attracting more people to take the train.

This paper sets out Campaign for Better Transport's initial thinking about franchises for discussion with policy makers, the rail industry and, most importantly, passengers and passenger groups. It will be used to inform our responses to consultations on individual franchises. We will also publish a guide for rail user groups and other community groups on influencing the franchise process.

Vision for rail

The new approach to rail franchising from government sometimes seems to lack an answer as to what rail is there for. The main objective set in franchises is often ensuring value for money but defining the "value" part of this is less thought through as officials and ministers focus on the "money" by maximising payments from bidders, or minimising subsidy paid to them. This exclusive focus on the short-term bottom line has not helped passengers but it also has not worked in its own terms, with two successive franchisees on the East Coast line overbidding and then having to hand the franchise back.

Instead franchising should be part of a larger strategy. The vision for rail should be one of growth through a shift from cars, lorries and aviation rather than simply additional new journeys by rail. The value that this offers is improving connectivity and access to services, employment and amenities, while delivering cuts in carbon emissions, reductions in traffic noise and pollution and reduced congestion. This will support the economy and improve quality of life and the environment.

To achieve this requires

- A good quality service that offers value for money for passengers, not just cost reductions that aim to return more money to the Government
- Recognition that rail is a public service, and that there is a strong role for central and local government to ensure that people are able to afford and access services. This may mean financial support for some services that would not otherwise be provided and Government regulation, for example to protect and enhance network benefits such as through tickets and connections.
- The drive for ensuring efficiency through the competitive tender process to be in the context of growth in rail usage, not cutting costs at any cost, which could undermine growth in demand

What objectives should be covered in franchises

This vision needs to be translated into individual franchises. Franchise bidders should be assessed on their plans to deliver on these objectives.

Growing the business and value for money

For franchises where the revenue risk¹ is placed with the train operating companies, we want to see those bidding for franchises judged on how they will grow the business and attract usage away from private cars and, on routes where they compete, aviation.

Franchise bidders should therefore be judged on their plans to be more **pro-active in marketing, innovation and pricing to attract new passengers**. Plans to grow off-peak travel or travel on routes that are less busy and where there are opportunities to compete with driving or flying should be especially rewarded in the franchise assessment process.

For some franchises, particularly those with high levels of commuting, it may be more appropriate for the DfT or the franchising authority to take some of the revenue risk, as usage is dependent on outside factors such as the state of the economy or new housing or business developments. This is the approach already adopted by Transport for London with London Overground. If the franchising authority takes the risk over revenue levels, it can avoid franchisees pricing risk into their bids and instead allow for investment in stations, information and integration and allow the operating company to focus on operating performance.

Tickets

Tickets are the contract between the passenger and the TOC and are at the heart of the relationship between the two. Getting fares and ticketing right is key to getting the franchise right. It is essential that franchises are used to ensure:

- Availability of **through tickets** to anywhere on the network
- **Consistency** between operators, for instance in the types of tickets and peak hours, and to remove anomalies
- **Affordability** of tickets to prevent exploitation of many operators near monopoly positions as providers of rail services
- **Simplification** of basic ticket types

¹ In most franchises, the bidder is supposed to take the risks over the revenue from fare payers, which largely depends on overall demand for rail travel in the franchise area. Previously, “cap and collar” measures were included which meant that where revenue was much lower than expected, the franchisee would pay less premium back to the Government or would receive more subsidy. Where revenue was much higher, they would pay more premium back of get less revenue.

- Clear **information** about what tickets are on offer
- **Smart and integrated ticketing**, using new technology to offer smoother and integrated journeys across different transport modes

Our Fair Fares Charter sets out in more detail the measures we would like to see happen, either through franchises or the wider system of regulating fares. This includes things like season tickets tailored for part-time workers, allowing advance tickets to be bought up to the time of departure from the originating station and being able to pay the difference between an advance fare and a new fare if you need to travel on a different train.

Timetabling / service levels

The Government wants to see more flexibility given to operators to set timetables and minimum service frequency. The DfT would set first and last train times for each day of the week and the off-peak level of service, with some additional requirements on overcrowding for commuter services in the peak or a very high-level requirement for non-commuter peak journeys.

Our view is that franchises should specify that broadly the **current levels of service should be maintained** as a minimum standard. Greater flexibility carries the risk that operators will decrease services at times and stations where demand and income are lower, including services at evenings or at weekends. However, these trains are vital for many passengers, for example for tourists and people who work non-standard hours.

Minimum service frequency should take account of latent demand and the possibilities for modal shift. Adequate frequency and first and last train times for evening and weekend services should be specified.

The Government has also said that they may, on some franchises, consider options to protect non-profitable service enhancements (for instance those linked to local authorities' local transport plans). We do not think this goes far enough and we would want to see bidders challenged on how they would **use timetabling and service levels to grow demand**, particularly in terms of rail's model share. This could be through **clockface timetabling²**, **integration of services with other public transport and providing good services at shoulder peak³** to encourage people to shift away from the more crowded peak services.

Stations and ticket offices

Alongside longer franchises, the Government is proposing a "residual value mechanism" that would reward train companies for investing in things like stations, where the return on their investment would be beyond the period of the franchise. In theory this makes sense, but improving stations shouldn't just depend on train companies deciding that there is an overwhelming case that they will make a profit on them. Instead, franchises should specify that bidders should set out their **station improvement plans** as part of the franchise bidding process and they should be monitored for their performance and on passenger satisfaction with stations.

When managed and developed well, stations of all sizes can become an asset to a local community and economy as well as delivering an important service to passengers. The Government says that it would like the management of stations to be under clear ownership by a single party. If there is to be clear

² Clockface timetables are where services run at consistent intervals, normally at the same number of minutes past the hour.

³ Shoulder peak times are the time periods immediately before and after the core peak time periods.

management, this could allow for leadership to enable ideas like **transit oriented development**, which aims to intensify mixed-use development with housing, shops and services around stations⁴.

Station partnerships (for instance with local authorities or as part of a community rail partnership) can not only help with aesthetic issues, like planting or repainting, but they can also help engage local people and businesses in station improvements. Cafes, shops, internet services, cycle hire, sandwich stalls are just some of the retail and business opportunities. It is important that these openings are open to businesses small and large. Smaller stations in particular can establish a strong local sense of identity, creating local pride in the station, and making using the station and the railways more attractive. Revenue from commercial rents should be re-invested in station upkeep and improvements, making sure that essential basic services like public toilets are maintained well.

Requirement in franchises on **ticket offices** and their opening hours are important both in terms of being the only requirements on staffing but also in terms of providing help and reassurance for passengers about the complex ticket system. If people arrive at a station with questions, or if a ticket machine has a technical fault or if they buy the wrong ticket by mistake, they need to be able to remedy the situation with a member of staff there and then. Modal shift is encouraged if rail is seen as an efficient, simple and affordable option, and staff help in this respect.

More broadly station staff are essential for conveying information about delays, platforms, timetables and for signposting station services, as evidence from Passenger Focus shows. A person trying the train for the first time could find their experience hinges on the help and attitude of station staff. The importance of station staff is particularly acute for elderly and disabled passengers, who may need additional help to use the train.

Integration of transport modes and end to end journeys

In line with good practice from station travel plans, franchises should specify more strongly provision of the means for end to end journeys. Our research on this identified four aspects: connections, interchanges, ticketing and information.⁵ Although some of these are covered, we would like to see improvements in all these areas sought within the franchise. In particular, provision of improved **interchanges with other modes** for onward travel should be sought.

Some franchise consultations have referred to **station travel plans** and (as the originator of this concept) we support this. Station travel plans have also been shown to help enable access to stations by other forms of public transport, walking and cycling. However, lessons from the pilot plans include the need to avoid overprovision of car parking, especially where this creates surrounding road congestion.

Those bidding for franchises should be asked to show how they will improve access by public transport, walking and cycling, and reduce road congestion caused by cars accessing stations. While station travel plans are not necessarily the right approach for all stations, successful franchisees should be required to set out a **detailed station access strategy** for the stations in the franchise to ensure accessibility for those arriving on foot, by bike or by other forms of public transport.

⁴ See <http://reconnectingamerica.org/what-we-do/what-is-tod/> for examples of transit oriented development from the USA. Campaign for Better Transport's Masterplanning Checklist also discusses this in the context of the United Kingdom. http://www.bettertransport.org.uk/system/files/Masterplanning_Checklist_2008.pdf

⁵ Seamless Journeys, Campaign for Better Transport June 2011
http://www.bettertransport.org.uk/files/11.06.15.door-to-door_0.pdf

Franchise bids assessment should include testing the commitment to improving information (both before and during journeys), which should also ensuring information on connections and interchanges with different modes is considered.

Staffing and security

A priority for passengers is improving perceptions (and reality) of safety and security at stations and on trains. Although improved CCTV and working with the British Transport Policy is important, **staffing at stations and good maintenance and design** are more important in making people feel safe. Making stations more a part of the community and creating development and retail around stations will also help ensure that people are seen to be nearby and create the “eyes on the street” that are part of effective strategies to prevent crime or anti-social behaviour.

The McNulty study on rail value for money should not be used as justification for cuts in staffing or to station maintenance which could threaten work to improve security. Those bidding for franchises should have to set out their plans for staffing at stations and for improving the design of stations to improve perceptions of safety, not just plans for CCTV coverage.

Performance levels and passenger satisfaction

Franchise bidders should be required to set targets for:

- Cancellations
- Late running
- Rolling stock capacity
- Rolling stock and station cleanliness

We support moves to judge franchisees performance on **passenger satisfaction levels** but we would also like to see performance judged on key indicators, such as those outlined above (see below for more discussion of this).

Rolling stock and capacity

Our vision for rail is one of growing usage relative to driving and flying. As such, we do not want to see pricing being used to curb overall demand. We are also opposed to the use of “super-peak” fares as a way to price off demand within the peak period. Encouraging commuters to travel on less busy trains could be done through improved **information and publicity**. We do not support higher fares within the peak which would penalise those unable to change their working hours (for instance because of the need to fit with childcare or school times) which could mean that the proposal would discriminate against some groups. The proposal would also be very unpopular at a time when regulated fares are proposes to rise at 3% above the RPI rate of inflation, on top of already steep rises in recent years.

There needs to be continued **investment in rolling stock**. Moves to give train companies more control over rolling stock ordering and delivery should not result in a famine and feast process. Many areas need to see new rolling stock to enable continued growth. Capacity is not just an issue affecting rail lines around London but affects lines in the Northern franchise and elsewhere.

Franchise bidders should therefore set out plans for increasing capacity to meet demand. This could include better use of existing rolling stock, for instance through reconditioning carriages or better allocation of Standard Class seating compared to First Class.

Infrastructure and capacity (including the effect of any electrification or signalling improvements)

Although rail infrastructure is the responsibility of Network Rail, the Government is looking for train companies to play an increasing role alongside Network Rail, for instance through “deep alliances” with joint management teams. The franchise process should be an opportunity for the DfT and Network Rail to set out plans for improving the rail infrastructure in the area to increase capacity and service frequency and reliability, for instance through electrification and improvements to signalling.

Those bidding for franchises should set out how they plan to work with Network Rail to maximise the outcomes from any investment in infrastructure.

Freight

Wider rail restructuring plans, including devolution, could pose a threat to rail freight so it is important for rail freight that Network Rail retains its role as system operator. Rail freight needs a national network to be able to compete with road, which by and large has access to the national network and does not face complicated structures which will make it more difficult for rail to compete.

The franchise process should be used to guarantee that freight operators do not lose out in moves towards joint management structures between train operating companies and Network Rail.

Environmental considerations

We believe that reducing the environmental impact of railway activities is secondary in terms of overall environmental benefit to encouraging passenger and freight modal shift. However, we welcome the plans to require environmental impact reduction strategies that are suggested in the consultation document, and encourage these to be contractualised. We want to see:

- **Monitoring of the overall environmental performance** of the franchise and publication of performance
- **Targets for improving the environmental performance** of the franchise, including traction and non-traction CO2 emissions, waste generation, recycling, water consumption and other environmental impacts
- **Reductions in non-traction electricity consumption** within the life of the franchise

Working with stakeholders to improve services

A key aspect of delivering good services is the importance of good relationships with other stakeholders to maximise the potential for growing rail usage. As we have discussed above, relationships with Network Rail are key and franchise bidders should be assessed on their plans to work with the company.

But other relationships are also key and franchise bidders should be asked about how they have worked with **local authorities, community rail partnerships, rail user groups and Passenger Focus** in drawing up their franchise and in other franchises they may have run. In addition, they should commit to continued work to maintain relationships.

As well as the traditional relationships outlined above, we would like to see franchise bidders assessed on how they plan to work with the **private sector**, for instance in terms of attracting private sector investment in stations or in capacity enhancements.

How should the Government approach the type of franchises it offers

The proposal for **longer franchises** could allow for more investment but increased length of franchise will not automatically lead to this. KPMG in a report on this stated that “our comparative analysis of UK TOCs has provided no conclusive evidence of the impact of contract length on performance across the sample of operators that were studied”.⁶ It also suggests that longer term franchises might lead to “increased financial risk”. The Government suggests that longer franchises could help to incentivise investment and cut costs associated with preparing bids and managing franchises. However, in order to ensure that TOCs are meeting their obligations, any move to longer franchises would need to be accompanied by adequate break points, at which time service commitments and levels of subsidy/premium would need to be re-considered. Such a process would have significant associated costs.

In addition, there must be provisions in place to **sanction or remove poorly performing operators** altogether, as happens now (see following section).

Competition through the bidding process is an important way of ensuring that franchises provide good value for money – it could be damaging to reduce this competition when there is no strong evidence to show that longer franchises are better. Longer franchises are also not a precondition to greater private investment – incentives and specifications are important as well, and the key issue here, whatever the length of the franchise, is the treatment of residual value for any investment made. If the Government can guarantee the value of investment beyond the end of the franchise period, this will open the way to private finance but within a controlled framework.

There is also a key question about the **transfer of risk**. In some cases, long term franchises with large scale revenue risk transferred to operators may be poor value for money, since pricing in risks such as shifting transport policy and general changes in the economy, which are not in operators’ control, will drive up franchise costs.

As the Government looks to let longer-term franchises, there must be a need for comprehensive consideration of the way in which franchises are let. As such, the Government should allow for more **variation in franchises** to suit their particular characteristics (a “horses for courses” approach) with recognition of the different nature of inter-city, regional and London services. As stated above, gross-cost contracts should be considered for those services where passenger numbers are more influenced by outside factors.

In terms of **value for money**, franchise processes need to ensure that proposals for cutting costs do not result in outcomes that would go against this. In particular, well maintained, accessible and staffed stations with good levels of service frequency are essential.

How should Government monitor and manage performance by franchisees

The consultations on franchises so far have proposed a base specification for requirements such as first and last train times, frequency and services seen as non-commercially viable, overlaid by a set of required outcomes on factors such as crowding and cleanliness that bidders could then propose how to achieve. We

⁶ Rail Franchising Policy: Analysis of historical data, KPMG for the Department for Transport
<http://assets.dft.gov.uk/publications/pgr-rail-passenger-franchises-historicaldata-pdf/report.pdf>

broadly accept this has merits, provided that the latter have specific, enforceable and appropriate performance minimum requirements attached to them, and are contractualised.

Service commitments that should be contractualised include:

- Capacity: The existing 20-minute rule, whereby passengers should not have to stand for journeys of more than 20 minutes, is currently regularly broken, and measures should be put in place within franchise contracts to rectify this.
- Crowding: Measures of overcrowding, whether the Passengers in Excess of Capacity measure or a new alternative, should apply to all journeys
- Frequency: Minimum service frequency should take account of latent demand and the possibilities for modal shift. Adequate frequency and first and last train times of evening and weekend services should also be included, in supporting the move towards a seven-day railway
- Connections: Franchise agreements should include requirements, for instance station travel plans or station access strategies, to ensure that station access is treated holistically, and door-to-door journeys are improved. Maximum waiting times between connections on routes between key locations in the country should also be contractualised
- Fares: commitments on fare prices, structures and ticketing should be required
- Passenger satisfaction: Passenger satisfaction surveys should inform how the franchise is operating and meeting its commitments under the franchise

Failures by franchisees should be addressed through jointly agreed performance improvements with the reserve powers to sanction TOCs through fines for poor performance or to remove them at break points in the franchise agreements or, in severe cases, to remove them altogether.

Next steps

This set of core standards for franchises is part of Campaign for Better Transport's Railways Fit for the Future campaign, which aims to ensure that our railways can continue to grow and expand and better meet the needs of passengers. As a next step, we will be discussing the findings with others which will inform a campaigners' guide to influencing the franchise process.

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Campaign for Better Transport's vision is a country where communities have affordable transport that improves quality of life and protects the environment. Achieving our vision requires substantial changes to UK transport policy which we aim to achieve by providing well-researched, practical solutions that gain support from both decision-makers and the public.

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