Campaign for Better Transport

Going Local

Lessons for rail policy from London Overground and Merseyrail

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Executive summary

London Overground and Merseyrail are, unlike other British rail operations, managed locally by the transport authorities in their area. At a time when the rail franchising system is under scrutiny, in the wake of the collapse of the West Coast franchise process, this report examines these operations and identifies lessons for rail policy generally.

Our research has shown that London Overground and Merseyrail are successful rail operations and have improved significantly since the previous arrangements. Their performance in terms of punctuality and reliability is good, and the passenger satisfaction is among the highest on the rail network. They have also invested in and improved stations and trains, there are generally good staff relations and usage has grown significantly. While other rail operations like c2c and Chiltern have also shown good performance and satisfaction, London Overground and Merseyrail benefit additionally from local contract management and have also exceeded the standards for comparable city or inner suburban services. The authority and operator have shared objectives and a greater responsiveness to problems and the local management of the contracts is more hands-on.

Many other authorities have expressed an interest in taking control of rail services and we think that **this would bring potentially large benefits for passengers, staff and wider communities.** This will, however, depend on a number of things - particularly whether funding for authorities taking on rail services is ring-fenced. We have also noted that local authorities may be more able than central Government to bring investment to local rail networks, especially to stations.

The success of London Overground and Merseyrail has implications for the future of franchising and contracting for rail services generally. We suggest two criteria for deciding the shape and nature of future rail contracts.

- **Local services should be highly specified and run as concessions, management contracts or gross cost contracts, in contrast to the main inter-city services,** where the scope for action by operators to grow revenue is much greater
- **Timetables should be strategically planned,** to allow for more transparent decisions on priorities between different types of rail services (local, long distance, freight etc.)

London Overground and Merseyrail also have lessons to teach on revenue protection, station management, accessibility and other aspects of service quality. These lessons will be particularly useful given recommendations to incorporate service quality measurement in the letting and monitoring of franchises made by Richard Brown in his recent report reviewing the rail franchising programme. However, London Overground and Merseyrail also show that indicators and priorities can and should vary, depending on local circumstances, and the voice of local authorities should be sought and heeded on this, even for contracts or franchises being let and managed by the Department for Transport (DfT).

Ultimately, this is about trust and confidence: trust by the public in the system, for example on fares and changes to timetables; trust by train operators in the franchising or contracting authority, and vice versa; and trust by the workforce in terms of being treated as partners, for example in changing work patterns. We believe that London Overground and Merseyrail offer examples of how such trust and confidence can be built.

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Introduction

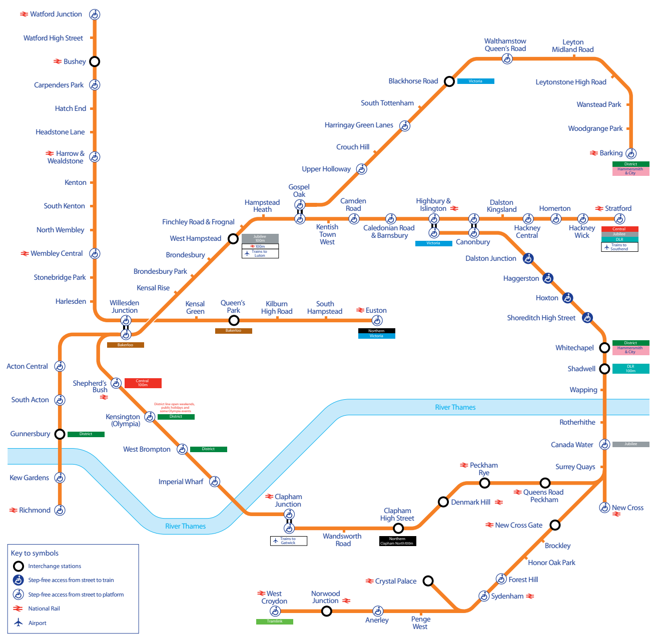
The scorecard for Britain's railways is mixed. On the one hand they are carrying more people than at any time since the war, and general passenger satisfaction appears to be high. On the other they are seen as expensive to use and run, and there are some aspects that cause sometimes severe dissatisfaction. The system for letting rail passenger franchises has come under scrutiny following the recent problems with the West Coast mainline. The recent review of franchising by Richard Brown[1] has suggested a more varied approach is needed and also recommended greater devolution of local services to local authorities or groupings.

With this in mind, this report explores the experience of two rail operations, London Overground and Merseyrail, that are already under local control and are substantially different from ordinary franchises. These operations are also different from each other – Merseyrail is more like a franchise (though a 25 year one and structured differently from others) while London Overground is a concession. Both are run by their local transport authority. They have very high levels of performance (in terms of punctuality and reliability), and passenger satisfaction, both of which have increased since the local authorities took over the contracting. In researching this report we interviewed key people in the local authorities, operations, unions and passenger groups. We then drew lessons from these franchises for the future, both for devolution of local services and also for the rail network as a whole.

London Overground

The network currently run under the London Overground title brings together a range of different services and some wholly new lines. Most of the network was formerly part of the Silverlink franchise, which comprised of all local services running out of London Euston, the North London Line from North Woolwich and Stratford to Richmond, the West London Line from Willesden to Clapham Junction, and the Gospel Oak-Barking line. The "Silverlink Metro" network consisted of these latter two lines and the local Euston-Watford services. In June 2007 these were separated from the rest of the Silverlink franchise, which went into what is now London Midland, and were handed over to Transport for London, which let a concession for operating these services as London Overground.

Subsequently, the East London Line (formerly a stand-alone part of the London Underground) was extended northwards to join the North London Line at Dalston and southwards to take over former rail services to Crystal Palace and West Croydon. In December 2012 the network was further extended to Peckham and over the South London Line to Clapham Junction.



The London Overground arrangement is very different from those for other parts of the rail network. It is let as a concession. A management contractor - London Overground Rail Operations Ltd. (LOROL) is appointed by Transport for London (TfL) to manage the network's stations and trains on a day to day basis. TfL set the specifications for train frequency, station facilities and overall performance, and LOROL is rewarded for meeting these and exceeding certain targets. TfL also plan and fund improvements and extensions to the network – and, crucially, keep the fares revenue and take revenue risk. There is close management of the concession and the specifications by TfL.

However, London Overground remains part of the National Rail network; Network Rail manages and maintains the track and signals, and the system remains within the Rail Ticketing and Settlement arrangements, so through tickets are available between London Overground stations and the rest of the National Rail network. The services are also subject to normal regulation, including access rights, managed by the Office of Rail Regulation. London Overground trains have to share tracks with other operators, and there are significant rail freight flows, in particular on the North London Line and Barking routes.

As already implied, London Overground has seen significant investment since 2007. Apart from the extensions already mentioned an entire fleet of new trains has been introduced, service frequencies have been increased significantly, stations have been upgraded and staffing levels increased. This has been funded from a variety of sources: TfL's general income, Olympic-related investment, developers and rail industry funds.

Merseyrail

Merseyrail is a self-contained network covering rail services mostly within the Merseyside city region (see map below), though it extends to Chester and into Lancashire. The system consists of two electrified lines, the Northern Line and the Wirral Line, and includes tunnels under Liverpool city centre and across the River Mersey to the Wirral (a third line, the City Line, although marketed as part of the Merseyrail network, is in fact separately operated as part of Northern Trains)[2].

At privatisation in 1997, the Merseyrail services were franchised by the Office of Passenger Rail Franchising (OPRAF) with the franchise managed by OPRAF and subsequently the Strategic Rail Authority (SRA) in London, with Merseytravel, the Passenger Transport Executive (PTE) for Merseyside, as a co-signature. This was the model followed for other franchises involving the city regions. However, Merseyrail was different. As the network is self-contained and largely within the Merseyside conurbation, Merseytravel was more involved in the franchise – it contributed to the service specification and took revenue risk. This sounds like a good deal, but in practice it gave Merseytravel the worst of all worlds. Although it influenced the specification and took the risk on revenue, it had little influence on the service in practice because the franchise was managed from London. It ended up taking the blame locally for what was seen as a very poor quality of service, known as "Misery Rail".

There was therefore pressure from Merseytravel for central Government to transfer to it the role of franchisor, so it could manage the franchise locally. The Government and the Strategic Rail Authority agreed to this, and powers were given to Merseytravel to act as franchisor. A new Merseyrail franchise was let in 2003 by Merseytravel, and it was won by a joint venture between NedRail (now Abellio), a subsidiary of the Netherlands Railways NS, and Serco.

Although some of those we spoke to referred to this as a contract or concession, the Merseyrail arrangement is in many respects akin to other rail franchises in Britain. Revenue risk is taken by the train operator rather than by Merseytravel (unlike on London Overground), and the operator is therefore responsible for revenue protection. However, there are some differences from other franchises:

- The franchise is a long one – 25 years, with 5 year review periods. This gives the operator some long term certainty but allows for breaks if problems are apparent (on either side)
- Merseyrail has a profit sharing arrangement with Merseytravel, whereby the PTE gets back half of any profits made and is able to reinvest this into the local transport network. This arrangement is unique and creates an incentive structure explored in more detail below
- The franchise is governed by tight specifications, reflecting the fact that both trains and infrastructure are used very intensively. The specifications also govern the quality of service, such as overcrowding, maximum standing time for passengers and station staffing. These specifications are much tighter than other rail franchises that might be considered similar, such as Northern Trains or south London services
- The franchise is locally managed by Merseytravel, which ensures much more day-to-day inter-action between franchisor and operator. There are quarterly reviews with the operator which agree action by Merseyrail within the contract parameters
- Merseyrail is to an extent integrated into the rest of the transport network on Merseyside, notably through ticketing, previously called "trio" but now evolving into a local smartcard scheme called the Walrus, which is valid on all public transport in the conurbation

It should be noted that Merseytravel is funded for this franchise through a special grant from the Department for Transport. This is renegotiated every five years, coinciding with the "Control Periods" through which strategy and spending for the railway industry and especially for Network Rail is regulated.

The system has seen some investment, especially in stations, with a major rebuilding of Liverpool Central recently undertaken, a new station at Liverpool South Parkway (serving Liverpool John Lennon Airport) and also improvements at other stations. Plans for extensions and electrification have not, however, come to fruition. The trains on the network are now quite old. They have been refurbished to a high standard but will be due for renewal in the next few years. Merseytravel has now issued an expression of interest in procuring new trains and is considering how best to finance these.

The new Liverpool South Parkway - credit simon835 on Flickr

Outcomes

The results for both these networks have been impressive in a number of ways. Performance and passenger satisfaction are high, and remain among the highest on the National Rail network. There is also a sharp contrast, especially on London Overground, with the previous regime: Silverlink was widely seen as having poor performance and passenger satisfaction was low in general. Beyond these general improvements, our research has found evidence of upgrades in specific aspects of passenger service, which have generated usage and revenue.

Performance

The reliability and punctuality of rail services are measured through the **Public Performance Measure (PPM).** Both London Overground and Merseyrail have high PPM figures (i.e. they are very reliable and punctual). London Overground has seen a significant improvement – PPM was 91.2 per cent in 2006-7 before it took over, and increased this to 96.8 per cent in 2012-3, among the highest for any train company. Merseyrail has scored consistently at around 95 per cent. The table on page 7 shows the performance of London Overground relative to other London commuter operations for 2009-12.

Passenger satisfaction

Passenger satisfaction is measured by the National Passenger Survey (NPS), carried out by Passenger Focus. Both the networks reviewed have very high satisfaction scores. The conversion of Silverlink metro services into London Overground and the investment already noted has resulted in a significant improvement in customer satisfaction, from 65 per cent either fairly or very satisfied in Spring 2007-8 to 93 per cent in autumn 2012. Merseyrail's satisfaction has been consistently high for some years, and in the autumn 2012 NPS stood at 92 per cent. These are among the highest satisfaction scores of all National Rail operators.

It is often said that London Overground's high performance and passenger satisfaction is due to the high levels of investment. However, these tables show that the performance and satisfaction improved prior to the major investment in stations and trains – we argue that this is at least partly due to the incentives in the contract and the way the contract has been managed.

Increased patronage

The London Overground and Merseyrail networks have seen significant increases in usage. This is of course in common with the rest of National Rail; however these networks have particular characteristics. London Overground has had investment and a continued buoyant London labour market, but even so its success is noteworthy: every increase in capacity has been more than exceeded by increased usage. On the West London Line, we were told that overcrowding went back to previous levels as little as three months after trains were lengthened.

Merseyrail is different in that it is a mature network operating in an area with high unemployment and social deprivation. Even so, it has recorded increased patronage, from 27.8m journeys in 2004 to 32.8m in 2012. This can be at least partly explained by the fact that fares are cheap. Although fares were historically low, reflecting the Merseyside economy and long standing Merseytravel policy, low fares have been a priority in this contract. Fares increases on the network have been pegged to the Retail Price Index, rather than increased annually by RPI+1 per cent as has been Government policy on the rest of the network[3]. Train fares are also now cheaper than many bus fares, so people see the train as better value.

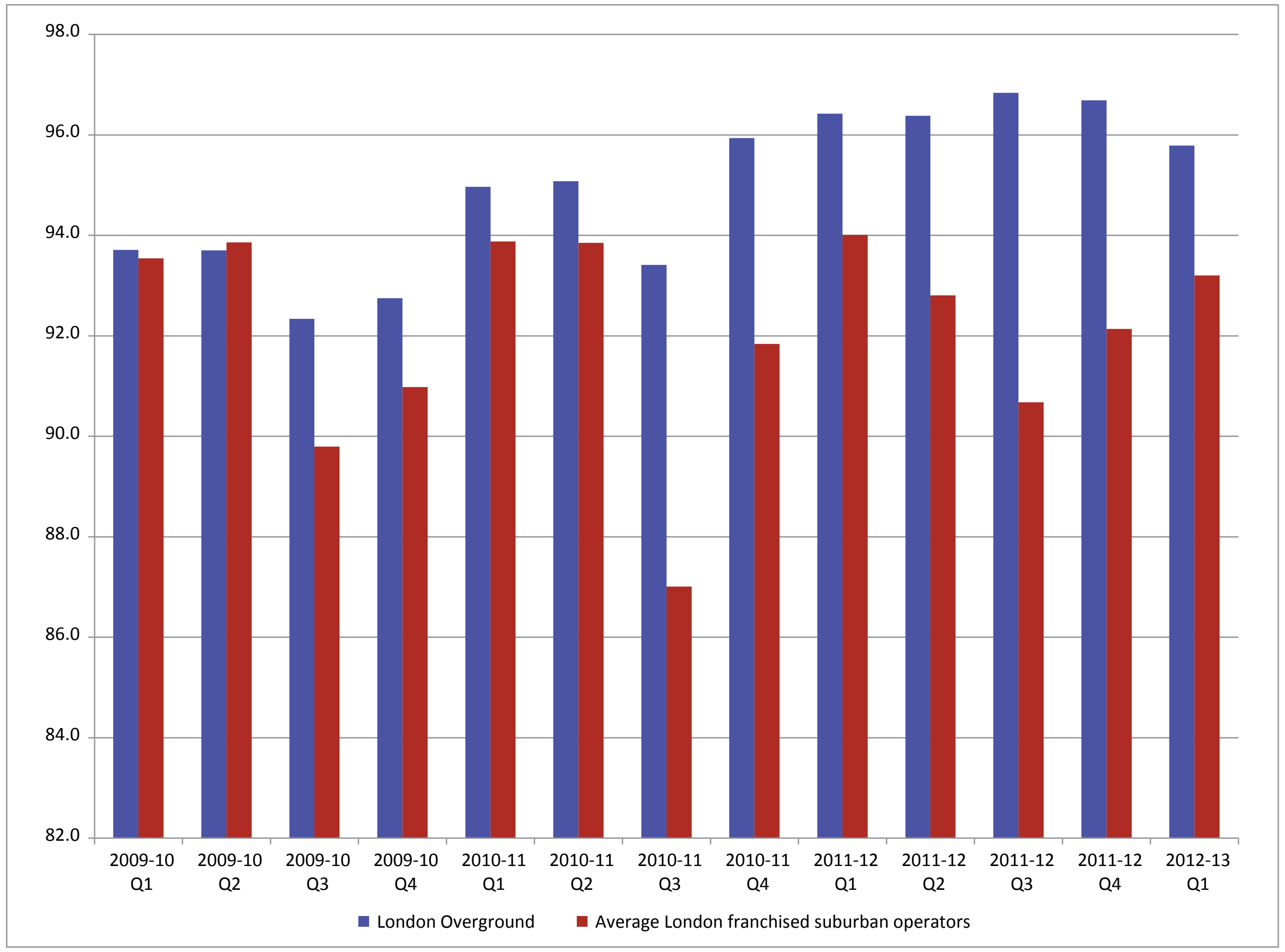
Station improvements and staffing

While good performance is a major driver of the high passenger satisfaction figures and increased patronage, we have identified other elements in London Overground and Merseyrail that have supported these trends. Staffing and investment in stations is one of the elements which differ from other comparable rail networks. A clear difference is that on both networks all stations are staffed

Public Performance Measure for London franchised suburban operators, 200910 Q1 to 2010-11 Q4, in percentage

	2009-10	2009-10	2009-10	2009-10	2010-11	2010-11	2010-11	2010-11	2011-12	2011-12
London Suburban Franchised Operators	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
c2c	96.8	96.2	96.9	96.8	96.8	96.3	90.5	95.8	96.91	96.67
Chiltern Railways	95.1	96.1	95.3	94.3	95.1	95.8	92.0	93.0	95.22	91.27
First Capital Connect	92.5	92.6	94.8	87.4	92.3	91.8	83.3	89.7	92.23	91.08
London Midland	89.4	91.4	88.2	90.3	92.2	91.7	85.1	88.4	92.44	91.58
National Express East Anglia	92.5	92.7	89.3	89.9	92.0	92.4	86.4	90.2	92.51	91.41
Southeastern	93.5	94.0	84.8	86.0	92.2	92.6	80.0	90.5	93.65	92.79
Southern	93.8	92.9	87.1	89.3	93.5	92.6	82.0	90.1	92.81	90.43
South West Trains	94.6	95.2	89.3	92.1	95.9	95.5	90.4	92.9	93.88	93.64
London Overground	93.7	93.7	92.3	92.7	95.0	95.1	93.4	95.9	96.42	96.38
Average London franchised suburban operators	93.5	93.9	89.8	91.0	93.9	93.9	87.0	91.8	94.0	92.8

PPM for Average London Franchised Operators and London Overground, 2009-10 Q1 to 2010-Q4 and MAA to 31 March 2011



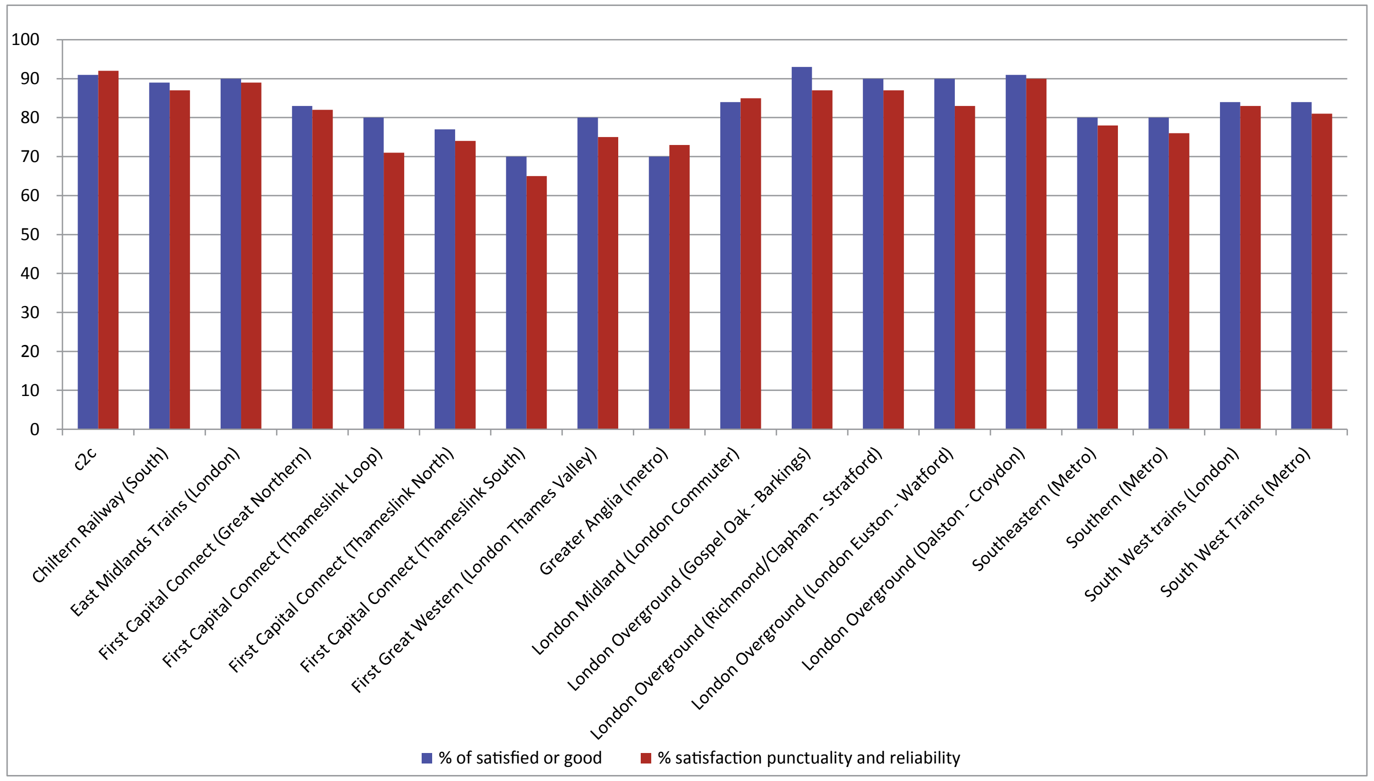
from first to last train (only six on Merseyrail are not staffed all the time). Many other networks – for example in inner south London or in other conurbations – have much more limited station staffing with many unstaffed completely at night or in early morning. This contrasts notably with the approach taken after the review on railway value for money[4] by Sir Roy McNulty, which identified station staffing as a cost that could be reduced. Some operators have since applied for staff reductions at stations - TfL and Merseytravel have made it clear that they do not intend to follow this approach. However, an innovative approach to stations on Merseyrail has seen branded shops, M2Go, introduced at some stations where staff sell tickets alongside other goods. This programme is supported by Merseytravel but is the responsibility of Merseyrail.

Alongside this both networks have seen significant investment in stations. A report to the Merseytravel Board in 2012 compared facilities at the 92 Merseyrail stations with those listed in the 2009 Better Rail Stations report by Chris Green and Sir Peter Hall[5] and found that nearly all exceeded the standards recommended in that report. An exception, Liverpool Central, has now had major investment, and the other main city centre stations on the Merseyrail network are scheduled for major work this year. A programme of improvements has been drawn up with Merseytravel, Merseyrail and Network Rail, and funding has been drawn in from different sources to pay for this as it becomes available.

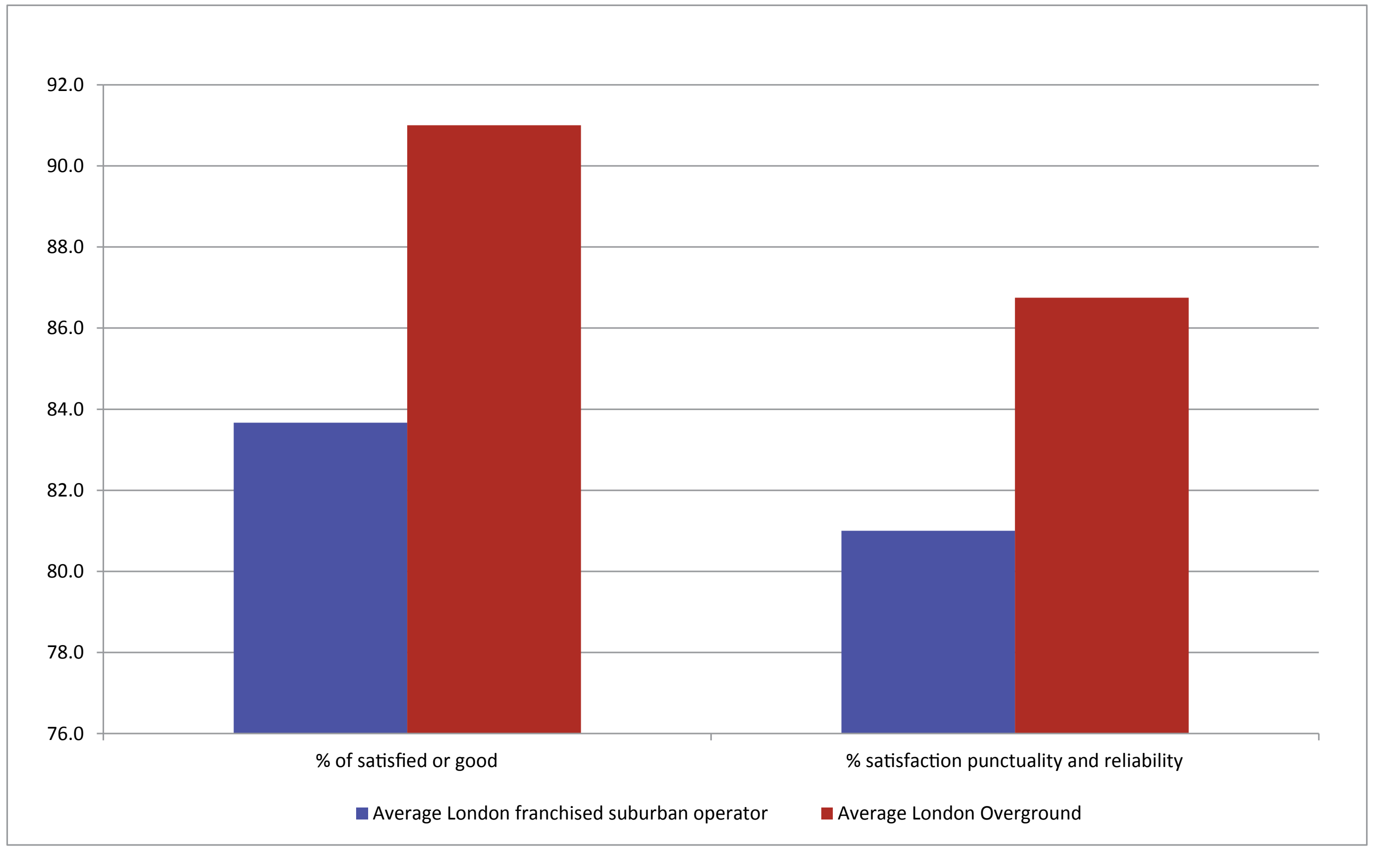
London Overground has sharply improved station standards from the Silverlink days. All stations were upgraded with painting, new shelters and TfL branding within days of London Overground taking over. Again, there has been subsequent significant investment, especially in CCTV, real time information and passenger facilities.

The benefits of this approach to stations are widespread. Perceptions of safety and security – by staff as well as passengers – have increased

Passenger satisfaction measure, overall and in respect with punctuality and reliability for London franchised operator, National Passenger Survey 2012



Passenger satisfaction, overall and in respect with punctuality and reliability for the average London franchised operator and London Overground, National Passenger Survey 2012



significantly, driving increased evening and night use of the services. A survey of Harrow residents just before the Silverlink Metro services transferred to London Overground showed that 25 per cent said they would use the services more if they felt they were safer, and 45 per cent regarded them as unreliable[6]. Other benefits are not so visible. One of those we interviewed suggested that London Overground had seen reduced suicides because of increased staff presence at stations. This is important both because of the human tragedy represented by suicides and because of the trauma they cause to drivers and staff; suicides also of course cause problems for other passengers and services. On Merseyrail, all stations now have "secure stations" accreditation.

Fare evasion

Station investment and staffing on London Overground has also reduced fare evasion, which is a major problem. A survey of ticket-less travel across the South Central network conducted in 2008 by consultancy Steer Davies Gleave on behalf of the Department for Transport (DfT) estimated fare evasion at 8 to 10 per cent of passenger journey across the network, equivalent to £180m. Comparable data across the train operating companies (TOCs) is not available, but according to TfL around 12 to 16 per cent of passenger journeys on the Silverlink Metro network were ticket-less prior to conversion to London Overground. Based on evidence from train companies' initiatives to detect fare dodgers, the Association of Train Operating Companies (ATOC) estimates that between 3 per cent and 5 per cent of journeys made on the network every day are made without tickets[7].

On London Overground, the concession operator LOROL is subject to penalties and incentives geared towards meeting a specified target. TfL incentivise LOROL to collect additional revenue through a fare evasion incentive regime consisting in a penalty if the number of passengers without a valid ticket exceeds the performance benchmark of 3.25 per cent. LOROL benefits from an incentive payment if fare evasion is below this benchmark. As a result, reduced fares evasion now generates an estimated £9m per year in revenue and fare evasion has fallen to 2 per cent. TfL argue that standard franchises have been ineffective in incentivising operators to collect fare revenue on inner suburban routes – and we discuss this in more detail later.

As already noted, Merseyrail takes the revenue risk for the network, and it is argued by those involved that this incentivises the operator to undertake revenue protection and avoids Merseytravel having to do this.

Accessibility

The two networks under review have seen significant improvements in accessibility since the start of the contracts. This has been seen in both infrastructure and in staff training. In infrastructure, stations on London Overground have had lifts installed and ramps built since the start of the concession. On Merseyrail, a programme of station improvements has been implemented, with lifts to platforms and platform improvements using national programmes such as the National Stations Improvement Programme and the Access for All funds. Staff on Merseyrail are trained in assisting people with disabilities and access needs and this is part of a wider Merseytravel programme. When refitted the Merseyrail trains were given space for wheelchairs and other accessibility improvements.

Industrial relations and turnover

Another feature of the approach taken in managing these networks has been better industrial relations. Previously staff relations for both operations were poor, with Silverlink having particularly high turnover. This was partly because pay and conditions were relatively poor compared with other London rail franchises. Since taking over, London Overground has put in place new terms and conditions that have addressed this problem, for example incorporating Sunday into the basic wage package (it was treated as extra requiring overtime). This might sound like extra expense but in fact the operator decided that investment in better staff pay and conditions saved money, because of reduced costs in recruiting and training new staff.

Pay and conditions are only part of the story. Our interviews on London Overground suggested that a partnership approach between operator and staff has been developed which has borne fruit in terms of flexibility on both sides. This flexibility has been particularly important as new trains, depots and extensions have come on stream. These have come in on time, with good staff co-operation. Contingency plans are in place which staff are familiar with and which allow for responses to problems. Flexible working has been introduced, which helps drivers counterbalance the problem of boredom from repetitive work on the same 27 stations. Staff training is good and half of people promoted come from inside the company, so staff can see opportunities for promotion and progression internally with clear career mapping and a commitment to promoting lifelong learning. As a result of this we were told that the workforce is the most diverse in the rail industry.

It is argued that this has come about partly because of the concession regime, which rewards good performance and hence incentivises the operator to minimise turnover and maximise staff performance.

Lessons for the future

In this section we look at the immediate lessons from these two networks for future rail policy, and we then discuss the implications for wider rail franchising.

Local management

As we have noted, London Overground and Merseyrail are characterised by consistently high levels of performance and passenger satisfaction. This can at least partly be accounted for by local management – both in terms of the train operations themselves and the management of the operating contract. Local management of train operations brings benefits. It is notable that the other rail operations with similar high levels of performance and satisfaction to London Overground and Merseyrail are c2c (Essex Thameside) and Chiltern. These are relatively self-contained networks and undoubtedly having a relatively small, focused operation makes the task easier for operators. Success is not however entirely attributable to self-containment - parts of London Overground work with other passenger services and also with intensive rail freight services, so the operator faces challenges in producing high performance levels.

But franchise management is also important. c2c and Chiltern, like other franchises, are managed from the Department for Transport in London. However good the officials involved, the level of ownership of the contracts, the objectives they have, the problems they face and the propensity to co-operate in sorting out these problems will inevitably be lower than when contracts are managed locally.

London Overground and Merseyrail are managed locally, and intensively. Some Transport for London managers are in the same building as London Overground staff. In Merseyrail the Merseytravel contract managers are 20 minutes away. As one put it, "if it snows, the managers know that it's snowing, and as users themselves will co-operate to sort out problems". We have noted that in both contracts a high degree of partnership working has developed. Contracts with performance specifications do exist, but they are generally "left in the drawer", and as one interviewee put it, "if they come out of the drawer you know you've failed". Instead there is a sense of shared objectives which feed through to day-to-day operations as well as overall management and strategic direction.

All this suggests that in the future localised management of rail operations should be considered where possible, whatever the shape of the contract. We note that among the local authorities considering the future rail services in the North of England there has been considerable discussion about creating separate business units (for example Tyne-Tees or Manchester) which will allow this local focus. The research also suggests that much more hands-on management of rail franchises and contracts, by whoever lets them, will bring performance and user benefits and potentially avoid problems developing.

Devolution

There has been considerable discussion about devolving rail services to local administrations, and the Government consulted on this in 2012[8]. London Overground and Merseyrail are of course examples of devolved services. The Scottish Government has complete devolution in that it lets contracts for the Scotrail services and also produces its own specification for rail investment. The Welsh Government specifies and co-signs the Wales and Borders franchise (currently Arriva Trains Wales) and agrees investment plans with the UK Government.

A number of expressions of interest have been made in taking further control of local rail services.

- A "Rail in the North" proposal is being developed by local authorities in the North of England, led by the transport authorities in Greater Manchester, West Yorkshire and South Yorkshire. This would take on the services currently run by Northern Trains and First TransPennine. Detailed discussions on governance and finance are currently underway to see how contracts for these services could be best run locally. Cumbria County Council has also expressed interest in managing the Cumbrian

- Coast line from Carlisle to Barrow-in-Furness, which is part of this network

- Centro, the Passenger Transport Executive for the West Midlands, has expressed interest in taking over the contracts for commuter services around the West Midlands conurbation

- The West of England partnership, representing authorities around Bristol and Bath, have proposed a Greater Bristol Metro system and this was reflected in the Greater Western franchise Invitation to Tender in 2012[9]

- Transport for London has expressed interest in extending the London Overground arrangement to other lines in the London area, including services to Sevenoaks and Enfield. It should be noted that in any case with the Crossrail project, now under construction and due for completion in 2018, TfL will manage the contract for Crossrail services and is expected to use the concession model for this too

It is expected that other local authorities will come forward with proposals for greater influence on local rail services. Many have track records of investing in local rail enhancements; for example the Integrated Transport Authorities or PTEs in the metropolitan areas have invested heavily in upgrading and expanding rail services and as noted already have been co-signatories to their local rail franchises. Outside the conurbations, counties such as Lancashire and Devon have invested in local rail services, and recently a Suffolk County Council scheme saw an hourly service introduced on the Ipswich-Lowestoft line with a new passing loop at Beccles. Community Rail Partnerships covering many local services have helped promote this investment.

From the experience of London Overground and Merseyrail, this devolution can be expected to bring significant benefits:

- Better and more responsive management of the operator

- Integration with other modes of transport: Merseyrail and London Overground are part of the smartcard integrated ticketing schemes in their areas, Oyster in London and the Walrus card in Merseyside. The rail services are part of the public transport information in the cities, and the London Overground network is included on the world-famous Underground map

- Branding and local ownership: Merseyrail and London Overground are strong brands which are well recognised and are linked to the wider public transport and general city region branding. Other authorities have local brands – for example, Centro has developed a Network West Midlands brand, which is used across the whole public transport network – but they do not at present manage the rail contracts and hence the quality and quantity of services. As one contact put it, "without local heavy rail services being under the control of local transport authorities to some degree you can't get virtuous circles of integration on fares, service co-ordination and branding across the modes, with smartcard ticketing binding them altogether"

- Local priorities: we have noted already that approaches used on London Overground and Merseyrail on fares, station staffing and accessibility vary from those used on other rail franchises covering similar types of lines (and from those used on these networks prior to devolution). Interviewees have argued that devolution has allowed local priorities, markets and circumstances to be reflected in the contracts and their implementation. The specification and priorities, for example, on the Cumbrian Coast line will be different from those for Manchester or Tyne & Wear

- Innovation: depending on freedoms given to devolved authorities, they will be able to experiment with different approaches to local train operations, which could reduce costs and increase income. We have already noted, for example, the M2Go shops on Merseyrail stations which bring in income by combining a small shop with ticket sales, and so give a staff presence on stations. Integration with other modes of transport and local marketing and branding are part of this, but more radical approaches to the contract and to investment have been proposed (see below). Local procurement of non-specialist work such as station rebuilding could reduce costs and support local employment (though care would be needed to ensure that this was not simply undercutting rail workers' pay and conditions). The Accrington eco-station project[10] is an example that shows how local authorities can innovate and reduce costs and environmental impacts

Above all, devolution can be expected to bring local accountability: Merseytravel and Transport for London are responsible to democratically elected politicians who can set the general terms of rail contracts and link them to wider policies such as parking, traffic management and land use planning.

The Brown review strongly endorses devolution:

"Franchising of passenger rail services has already enabled the seamless devolution of parts of the railway including those operations now specified and procured by TfL, Transport Scotland, NEXUS and Merseytravel, with Wales and Borders also largely specified and managed by the Welsh Government. The experience to date of all these franchises has been very positive. I therefore recommend that Government should plan to devolve responsibility for further English franchises to the relevant authorities." (para 5.4-5.5, p37)

It is worth noting that other countries have devolved responsibility for local rail services to local and regional authorities and that these have resulted in a range of approaches to operating these services, but with mostly positive experiences for communities and users.

Funding and investment

We have seen that London Overground and Merseyrail have benefited from investment in stations and trains. While much of this has come from Government grants or from rail industry funds such as Access for All, local authorities have the opportunity to use other funds for investment. For example, Merseytravel has revenue from the tolls on the Mersey Tunnels, while Transport for London collects fares revenue from the buses and the Underground (as well as the Overground) and can issue bonds for investment. Further funding streams are becoming available to local authorities, especially with the devolution of major scheme funding from the Department for Transport to new Local Transport Boards[11], Community Infrastructure Levies and new Government funding such as the Growing Places Fund, the Regional Growth Fund and the Local Sustainable Transport Fund (LSTF). All of these have or can be used for rail investment. In addition some areas are now setting up pooled funds, bringing together transport funding from different sources (this combined fund is being used to fund the extensions to the Metrolink tram system in Manchester). Another example is in Nottingham where the City Council has introduced a levy on workplace parking spaces and is using the money to pay for extensions to the tram network and improvements to the main railway station.

Local authorities may also be better placed than the DfT or the rail industry acting on its own to co-ordinate packages of investment at stations, bringing together a range of different funding streams and including new development in the surrounding area as well as in the station itself. Councils can use their planning powers to create masterplans around stations to encourage development and can then use resulting development to fund station upgrades or even wholly new stations. Perhaps the most ambitious proposal in this area is in Tavistock in Devon, where housing development is planned to fund reopening of a previously closed line providing a commuter service to Plymouth. The developers involved[12] suggest that other opportunities exist for privately funded new or reopened lines or stations where major development is proposed or practicable. This rail-orientated development has further benefits of guaranteeing new or increased patronage for the railway.

The nature of the funding package for future devolved services will be critical. For most services likely to be devolved continued public funding will be needed. Devolution is unlikely to be taken up if Government proposes to reduce this funding significantly or attaches strings to it. Local authorities are unlikely to take on rail contracts without the resources to secure at least the current level of service and the prospect for investment. In the current climate any funding arrangement between central and local government to support local rail services will need to be ring-fenced, since these services represent new responsibilities at a time when other local government income is being reduced.

Implications for the future of rail franchising

Since the collapse of the process for the West Coast franchise the process of letting and managing franchises has moved more to centre stage. It seems that no interest group is satisfied with the current system.

For passengers there is a feeling that little will change as a result of franchise agreements and even suspicion about new operators, however good their plans are (as can be seen by the public reaction to Virgin losing their franchise). Passengers and unions worry that new franchisees might cut costs, especially given that bids have previously been decided entirely on price (either the highest payment or lowest subsidy); the quality of the service has "never been a deciding factor in selecting the winning bid"[13].

For train operating companies themselves, there is frustration with the micro-management of franchises and a lack of confidence and trust in relations with the Department for Transport.

For both the Department for Transport and train operating companies, there is the very high cost of the franchise process itself. With the collapse of the West Coast franchise process, the DfT is having to compensate bidders at a cost of £40m and the National Audit Office concluded that the full cost to the taxpayer is unknown but likely to be significant, with at least £1.9 million in staff and adviser costs, £2.7 million in legal costs and £4.3 million on external advisers for the reviews that it has commissioned[14].

Richard Brown's review contains a number of recommendations which will undoubtedly improve franchising and many of them are consistent with what we have found in this research. However, the review claims that "the franchising system is not broken, but, on the contrary, it has made a major contribution to Britain's increasingly successful rail network." This is at least debatable. No evidence is cited for a causal link between the franchising process and the data on growth in passenger numbers and higher levels of satisfaction, used to

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support this claim. Factors outside the control of the rail operators, including increased government investment in rail infrastructure, taxation policy (particularly on company cars[16]), fuel prices, planning policy and the growth in jobs in central London and other major cities, have been shown to have contributed to the growth in rail demand. This has big implications for the allocation of risk in the management of rail services, which we return to later.

The current debate on franchising is useful in terms of a challenge to business as usual. Too often debates about improving rail services for passengers revert to an argument about the mid-1990s privatisation of the railway and there is a danger that this means that the way we commission rail services through franchising is not sufficiently challenged and alternative options are not considered.

In 2011, Campaign for Better Transport published a paper on what should be the core standards for franchises. In it we set out that we wanted to see franchises premised on continued growth in rail modal share relative to private transport to both reduce congestion and help the economy and to cut carbon emissions from transport. To do that we argued for:

- 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[17]

Richard Brown's recommendations go some way in this direction. He suggests that each franchise should have a clear set of objectives which are based on the needs of the routes it covers. He recommends that "there should be an overt and direct weighting given to quality and deliverability in bid evaluation" and that quality "should be linked to the specific objectives set for each franchise". The National Passenger Survey should be "used more widely both to set quality standards and objectives for bidders and to measure outcomes once franchises are let". (paras 5.25 and 5.35)

This will help. But this research has also brought into question the appropriate allocation of risk, and the nature of contracts for different types of services.

Credit Andy Roberts on Flickr

A framework for franchise design

Much recent analysis has recommended more variation in franchises – a "horses for courses" approach. But the nature of the variation has not been made clear. Based on this research it seems there are two main variables: who is letting the franchise and the nature of the contract.

Types of management contracts

There are two main types of contracted arrangements for passenger transport in the UK and indeed elsewhere: gross cost and net cost contracts. With gross cost contracts the tendering authority agrees to pay an operator a specified sum to provide the specified service for a specified period. It keeps the passenger revenue and often sets the routes and specifies the vehicles. The London bus market, some rail operations in Sweden and bus contracts in Denmark, Sweden and Madrid, in Spain, are gross cost contracts. Tendered bus services outside London are also often let as gross cost contracts.

With net cost contracts, the operator takes on both the revenue risk and the cost risk, and keeps passenger revenue. The tendering authority provides where necessary a contribution in the form of additional contracted income (i.e. a subsidy) where the cost of providing such a service would not be commercially viable if it depended solely on the passenger income that it could achieve. The standard UK rail contracts are net cost contracts, as are Italian bus contracts and some Dutch bus and rail contracts.

London Overground is run as a gross cost contract: TfL takes the revenue and the risk associated with it, with the operator left with risks associated with the train operations. This mirrors other TfL experience and its learning from both London bus contracts and from the Docklands Light Railway (DLR). With the DLR the first contract for the operation and maintenance commenced in 1997 and transferred revenue and cost risk to the franchisee. When the franchise was re-let in March 2006 TfL decided to retain revenue risk, given the limited ability of the operator to manage the risk. This has been accompanied by the initiation of a more rigorous incentive or penalty regime based on punctuality, reliability and the availability of passenger facilities. TfL argue that the use of gross cost contracts in this way is a proven means of cost-effectively providing a public transport service. In particular it insulates the operator from the risks of fluctuation in the London labour market and economy, which means that the costs of the contract or concession are reduced.

Merseyrail is not a pure gross cost contract, in that revenue risks rest with the operator. However, in practice it has some of the features of such a contract: detailed specification and a profit sharing arrangement giving 50 per cent of profits back to Merseytravel. Merseyrail is also a 25 year contract but with 5 year reviews, avoiding the cost of bidding for renewals referred to above (Richard Brown's report supports this approach being used more generally).

In a study on rail privatisation and tendering, Alexandersson, Nash and Preston (2008) note that tendering is seen as less problematic when social objectives dominate. "Experience from countries such as Germany and Sweden suggests that short length, gross cost contracts with rolling stock provided by the franchising authority can result in high quality, cost effective delivery of specified services, with subsidy reductions of around 20 per cent often achieved. This form of contract is being used by TfL for conventional rail services branded London Overground. However, more commercial services (or services where revenue is the main benefit stream) are more problematic, as entrepreneurial innovation, investment and service development may be beneficial. Longer length net cost contracts would be preferable here, but evidence from the UK and Melbourne indicate that these may be plagued by incompleteness."[18]

Other rail franchises have elements of the gross cost approach. The Southern Railway franchise has benchmarks for performance, but penalties for not hitting targets rather than incentives for achieving them. Scotrail has an incentive scheme for achieving quality indicators, and this was inherited from the previous Strathclyde Passenger Transport arrangements for Glasgow suburban services. It is sometimes argued that these detailed indicators can become tick-box exercises, precluding things being done better and that detailed contracts are more likely to be quoted and used in the relationship between contract authority and operator. The evidence from London Overground and Merseyrail is that if structured correctly a partnership based on shared objectives can be developed, where as we have noted the contract is there but stays "in the drawer".

So there are a wide range of approaches available to managing passenger rail services. What is needed is a framework that supports greater differentiation in approach. As noted already, there are two fundamental issues in setting franchises: who franchises them and how much specification there is.

This suggests that the framework should include criteria to assess which rail services would benefit from (i) a devolved franchise authority and (ii) the use of gross cost contracts. These criteria could include:

- Who controls the most appropriate tickets or ticketing? e.g. for journeys in London, TfL's Oyster is most appropriate
- How much can the TOC do itself to influence demand for rail, whether peak or off-peak?
- Following this, what type of market is it, and what potential markets could be developed?
- Is the revenue from the franchise less than the costs?
- Who can best innovate to improve services for passengers and grow demand?

This leads to a range of options. At one end are the urban networks where TOCs have less control over ticketing (e.g. with Oyster), where there is predominantly peak hour commuter traffic and demand is most dependent on outside factors (such as local employment). The growth in smart cards and smart ticketing, which should embrace local rail services, will bring many within this category. At the other end are the east coast and west coast franchises with demand throughout the day and where what the TOC does in terms of ticketing and other elements of their offer can drive up demand without the need for big investment.

In the middle are most franchises which involve a mix of types of service. These will continue to use net cost contracts, if DfT policy continues as before.

A possible framework is illustrated below:

Gross cost contracts or concessions with devolved franchise authority	Net cost contracts with DfT as franchising authority	New model for long-distance services
• LOROL • Merseyrail • Northern + TPE • W Midlands urban • Thameslink / Southern • Metro bits of integrated Kent franchise (ie Southeastern)	• Great Western • Chiltern • Greater Anglia • South Western • East Midlands • West Midlands	• East Coast • West Coast • Maybe long-distance Great Western

Urban, not making a profit ⟷ Inter-city, highly profitable

However, this model is not fixed, since many of the net cost contracts listed include local services which are likely to be brought into smartcard systems. If these are to be truly innovative smart ticketing needs to be multi-modal and multi-operator (at least for all but long distance journeys). That inevitably means the involvement of a body above the individual operators to ensure that the system works well and is fair to both operators and passengers. Given that all public transport involves some level of financial support from the public sector, that body should be a local, regional or national government body.

Given that such bodies will have an increasing role in the ticketing arrangements and in driving demand through innovation in ticketing, it makes sense for those networks on which smart card ticketing makes up the majority of tickets to be franchised by regional transport bodies, potentially using some form of concession or a gross cost contract. Richard Brown's review did not consider "management contracts or operating concessions to be appropriate alternatives for the majority of franchises" (para 4.41) but the growth of smart cards and smart ticketing may make such arrangements more widespread than he envisaged.

At the other end of the spectrum there are problems with the model being used for the long distance services, as demonstrated by two failed TOCs on the east coast route and the failed West Coast franchise process. There may be worth in considering a different model for very profitable services, though as Richard Brown points out some specifications will be needed even for these services and as one interviewee pointed out, the long distance services buy connectivity and volume.

Alongside this, change on these and other net cost contracts will come from the new mechanisms needed for sharing risks between the Government and the operator. The previous mechanism had a number of disadvantages, including a lack of incentive to increase revenue. The new approach developed by DfT, a complex risk-sharing formula linked to the economy, has also been criticised and Richard Brown's review proposes that "exogenous" risk, that outside the control of operators such as the state of the economy, be identified and retained fully by the Government. This will itself change the nature of the "net cost" contracts. As we have already noted London Overground and Merseyrail make a strong case for better and more hands-on management of franchises and contracts, whoever lets them.

All this will mean redrawing franchises. Richard Brown's review recognises this, recommending "designing franchises which cover well defined routes or geographic markets" (2.20). Devolution and realignment of franchises will however bring issues of capacity and priority. On the one hand, devolution could allow for adjustments to the timetables to reflect local needs, but on the other hand, there could be conflicts between local rail needs identified by local authorities and the needs of other rail users, especially where there is limited capacity (as is the case now on much of the rail network). These conflicts are managed through the track access arrangements by Network Rail and the Office of Rail Regulation and to an extent by the Department for Transport in letting rail franchises. This does however mean that the debates about wider priorities for track access and for investment needs are not transparent and that timetables cannot change to meet demand (we were told that the current timetable is essentially still the 1994 Summer timetable instituted by British Rail, because of the difficulty of changing it). There is a case for more strategic timetable planning and management, with clearer direction and choices – devolution will strengthen the case for this. It has been argued[19] that more strategic direction for timetabling would allow much better integration and connectivity between rail services and between rail and other transport, as is found for example in the "Taktfahrplan" in Switzerland.

Just as there are a range of approaches to managing rail contracts a range of options are available for the provision of trains to operators. On the standard franchise trains are procured by the Rolling Stock Companies (ROSCOs) which then lease them to operators and in some cases manage maintenance[20]. These arrangements have advantages in creating a market for trains whereby they can transfer easily between operators and franchises and in financing new trains easily and with limited up-front costs. There is also an incentive for good rolling stock management, maintenance and availability, especially in the leases involving maintenance, and operators can thus reduce many of the risks and costs inherent in purchasing and managing rolling stock. However, other options are possible. We have noted that Transport for London bought a new train fleet for London Overground. This was ordered and paid for directly by TfL but the fleet was then refinanced by the banks. The trains for Crossrail are also going to be bought rather than leased through a PFI, and TfL argues that this reduces risks and hence costs. Merseytravel is also exploring options for procuring a new train fleet for Merseyrail directly and buying it outright.

Conclusions and recommendations

Our research has shown that London Overground and Merseyrail are good rail operations, and have improved significantly since the previous arrangements. Their performance in terms of punctuality and reliability is good, and the passenger satisfaction is among the highest on the rail network. They have also invested in improved stations and trains and usage has grown significantly. While other rail operations like c2c and Chiltern have also shown good performance and satisfaction, London Overground and Merseyrail benefit additionally from local management and have also exceeded the standards for comparable city or inner suburban services.

We have noted that many other authorities have expressed an interest in taking control of rail services and we think that **this would bring potentially large benefits for passengers, staff and wider communities.** This will, however, depend on a number of things - particularly whether the funding for authorities taking on rail services is ring-fenced. We have also noted that local authorities may be more able than central Government to bring investment to local rail networks, especially to stations.

We have suggested that **the success of London Overground and Merseyrail has wider lessons for rail services,** including the local management of contracts and of operations, the partnership with staff and the management and apportionment of risk. This links to the future of franchising and contracting for rail services generally. We have demonstrated there is a continuum of options for franchises; from local services which need to be highly specified and run as concessions or gross cost contracts, through to inter-city services where the scope for action by operators to grow revenue is much greater. We have suggested some criteria for deciding the shape and nature of contracts, but have noted that this is not fixed; **the growth of smart cards and smart ticketing mean that more rail services may potentially be integrated with wider local transport networks and hence be more suitable for gross cost contracts.**

The framework suggested might need to be developed with the aid of maps, which will allow a clear debate on different services etc. **More strategic planning of timetables will be needed,** to allow for more transparent decisions on priorities between different types of rail services (local, long distance, freight etc.). We have also noted that there are a range of ways in which trains can be procured, financed and managed.

London Overground and Merseyrail also have lessons to teach on performance management and indicators, such as revenue protection, station management, accessibility and other aspects of service quality. These lessons will be particularly useful given Richard Brown's recommendation to incorporate service quality measurement in the letting and monitoring of franchises. However, London Overground and Merseyrail also teach that indicators and priorities can and should vary, depending on local circumstances, and the voice of local authorities should be sought and heeded on this, even for contracts or franchises being let and managed by DfT. Many of our interviewees said that getting a rail contract well designed in the first place was critical to its success, and as we have seen good management of franchises is also important in promoting good performance and shared objectives.

It should be noted that we have not addressed the issue of public ownership in this research. We would argue that even if the railways were returned to public ownership in some way, the lessons from London Overground and Merseyrail and the case for devolved management and control of local rail services would still be valid.

Ultimately, this is about trust and confidence. Trust by the public in the system, for example on fares and changes to timetables; trust by train operators in the franchising or contracting authority, and vice versa; and trust by the workforce in terms of being treated as partners, for example in changing work patterns. We believe that London Overground and Merseyrail offer examples of how such trust and confidence can be built.

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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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