

Report of the Director of City Strategy

## **Reforming Rail Franchising**

### **DfT consultation paper and implications for York**

#### **Summary**

1. The Department for Transport is currently consulting on possible changes to rail franchising. This report for the Executive contains our proposed response to the specific questions asked and highlights specific implications for York.

#### **What is being considered?**

2. The Government believes that the existing system of rail franchising has become too prescriptive at the point of bidding, and lacks flexibility once operational. Arguably, the Government now exercises more control over the railways than in the days of British Rail.
3. The Government Coalition has highlighted the need to attract significant private investment and believes this could be released by granting longer franchises, resulting in important benefits for passengers. It believes that this investment will help to deliver the important enhancements to the railway, such as station improvements, better trains, more car and cycle parking and higher quality services.
4. Longer franchises could also make it easier to establish the successful long term working relationships between train operators and Network Rail which are so vital to running efficient and successful railways. The Government also wishes to reduce the involvement of Whitehall in the prescription of specific detail in rail franchises, allowing the industry to be more innovative in their approach.
5. The consultation paper elaborates on the Government's aspirations for rail franchising – specifically, its aim to deliver a much more efficient rail industry which is more responsive to the needs and concerns of its customers and delivers the best possible value for money for the taxpayer in the face of a highly constrained public spending environment.

#### **Key proposals**

6. In summary the consultation paper seeks to achieve the following aims:
  - Deliver better quality services for passengers, addressing problems such as overcrowding

- Reduce the cost of the railways, delivering better value for money for the taxpayer
  - Introduce intelligent and focused reform to deliver the right conditions to foster a successful and sustainable railway
7. The consultation document is included as Annex A to this report and is separated into several areas of consideration as follows:
- Franchise specification
  - Franchise procurement
  - Contract design and management
  - Revenue risk
  - Franchise investment
  - Cost control and efficiency

The Council's proposed response to this consultation is included as Annex B with a glossary of terms included as Annex C.

### **Options**

8. Option 1 – Agree the proposed response outlined at Annex B.
9. Option 2 – Not to agree the proposed response.

### **Analysis**

10. The following provides a summary of the consultation response

#### **Franchise specification**

11. This question relates specifically to the model of franchise proposed in the consultation document including the possible lengths of franchise and the possible specifying of an 'affordability figure' of subsidy/premium for bidders. The consultation also asks for comment on any alternative models for franchising than those used to date.
12. The proposed response highlights the following:
- The current model for franchising is too restrictive and over specified
  - We are supportive of longer franchises to encourage a greater degree of private sector investment and believe that a franchise length of 15 years would be most practical
  - The Council is concerned that a model of franchising exposing companies to full risk could lead to increased costs for the taxpayer.

- As a minimum, the base specification should set the approximate times of first/last trains, stations to be served, minimum frequency of service to each station and, in association with Network Rail, achievable key journey times.

### **Franchise procurement**

13. This question relates specifically to the procurement process and any measures which might be adopted to reduce the complexity of bidding whilst protecting the interests of taxpayers and passengers.
14. The proposed response supports the measures outlined in the consultation, namely:

*'It is proposed that the selection of the winning bidder will be on the basis of the compliant, affordable and deliverable bid, offering acceptable commitments in respect of crowding, customer satisfaction and other specified targets. Bids would be judged both qualitatively and quantitatively, with the winner putting forward the best combined financial offer of premium/subsidy, investment and broader economic benefit. This last category can embrace service quality issues such as journey times and frequency.'*

*'This approach allows the selection decision to reflect both the headline financial offer and the value of additional benefits passengers would receive as a result of bid solutions and proposed investment; while at the same time respecting budget constraints and protecting the interest of the taxpayer.'*

### **Contract design and management**

15. This area builds on the information provided in paragraphs 9 and 10 above and seeks opinion on what measures should be adopted to ensure operator performance and passenger satisfaction.
16. The proposed response supports the aims of the consultation. The following are highlighted:
  - The Council is supportive of the Government's desire to reduce overcrowding but believes that this cannot be achieved in all areas without the provision of longer trains on busy corridors. With specific reference to York, Arriva Cross-Country trains are highlighted in the response, but attention is also drawn to the need for longer trains at times on the East Coast, Northern and Trans-Pennine networks
  - With regard to ticketing, the response is supportive of a diversification of the number of options (including the possibility of mobile phone ticketing) but believes that a minimum of ten percent of seats per journey should still be reserved for 'walk up' passengers
  - The performance of train operators should be based on trains arriving on time at every calling point (rather than just on arrival at the final destination on time)
  - Whilst not in opposition to the concept of poor performance sanctions for operators, the Council would not want these to be so severe that they run the risk of putting train operators out of business

- The Council is of the view that whilst there are many improvements can be made through the franchise process, there are some improvements which can only be obtained through a Government commitment to infrastructural improvements. An example highlighted is with regard to the section of line between York and Leeds which would greatly benefit from electrification for a number of operational reasons

### **Revenue Risk**

17. This section of the consultation focuses on the apportionment of risk over a longer franchise period. The consultation asks where the revenue risk should lie, with the Government and the train operator or even, potentially, with the train operator alone.
18. The proposed response warns against awarding franchises based on unrealistic revenue growth predictions and argues that the Government will have to retain a proportion of the revenue risk, not least because of the risk of an operator no longer being able to operate. Further, a decision to place all of the revenue risk on the train operator would result in unrealistic and unaffordable tender prices being returned.

### **Franchise Investment**

19. This section of the consultation focuses on the desire to introduce a greater degree of private sector investment into the rail network through longer franchises.
20. The proposed response recommends that any uncertainty concerning the lease of rolling stock for the life of the franchise be resolved at the bidding stage so as to give the operator confidence that they will achieve maximum value for the life of the franchise.

### **Cost control and efficiency**

21. The final question posed in the consultation asks what measures might be adopted to assist train companies in controlling their costs and which would enable them to be more cost efficient.
22. The proposed response acknowledges the need to drive efficiencies but highlights that railways are more susceptible to economic fluctuation than many other industries, as evidenced by the problems with the East Coast Main Line franchise in recent years.
23. To overcome these problems, the response suggests that some form of reward based mechanism is incorporated into the franchise to provide an added incentive for operators to meet pre-set targets for controlling costs or improving cost efficiency. It is believed that the potential to gain a franchise extension should these targets be met or exceeded would provide the most satisfactory means of rewarding cost control and efficiency whilst ensuring that subsidy/premium levels are unaffected.

### **Corporate Strategy**

24. Accepting the proposals for self financing support a number of themes within the Council's Strategy. Retaining more money in York will enable us to invest in our

stock, supporting the Thriving & Sustainable themes. Having local control over the long term finances for the HRA also supports the Effective Organisation theme.

## Implications

25. There are no direct implications arising out of this report as it is only a response to the consultation document. Only Passenger Transport Executives and Transport for London have direct input into rail franchising. To this end, the current consultation is the only direct opportunity the Council will have to make its view known and to inform the proposed changes.

## Risk Management

26. Responsibility for the provision of rail services and indeed the content of this consultation document fall outside the remit of this Council. In terms of risk management, if any of the outcomes of the consultation are believed to have a controversial or potentially damaging impact on York, a further report will be brought to the Executive to advise of this and to seek guidance on what action should then be taken by the Council.
27. However, given this is a response to a consultation document the risks arising from this report are minimal and score less than 16.

## Recommendations

28. Executive are asked to agree:
- i. Option 1 – to approve the proposed response to the consultation paper as set out at Annex B.

Reason: To ensure that the Council takes this opportunity to share its views on rail franchising with the Department for Transport.

## Contact Details

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<b>Specialist Implications Officers:</b> None					
Wards Affected:	All				
For further information please contact the authors of the report					

**Additional Papers:**

Annex A – Consultation paper

Annex B – Response to consultation questions

Annex C – Glossary of terms