

Rail Value for Money Study - London TravelWatch Response

August 2010



London TravelWatch is the official body set up by Parliament to provide a voice for London's travelling public.

Our role is to:

- Speak up for transport users in discussions with policy-makers and the media,
- Consult with the transport industry, its regulators and funders on matters affecting users,
- Investigate complaints users have been unable to resolve with service providers, and
- Monitor trends in service quality.

Our aim is to press in all that we do for a better travel experience all those living, working or visiting London and its surrounding region.

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Executive summary and key recommendations

London TravelWatch welcomes the opportunity to provide a written input to the 'Rail Value for Money Study'. London TravelWatch's role is to represent the interests of transport users in London and its surrounding area. Value for money is very important for the passenger as it directly translates into the fare level, the quality of the service and the levels of tax payer support. London TravelWatch is therefore very keen to see the railway industry as efficient as possible, while at the same time protecting the interest of the passenger as the end user of the majority of rail services.

London TravelWatch is particularly concerned that in these stringent economic times there is not a return to short-term, stop-start funding of the railway industry that characterised the period prior to privatisation. Due to long investment horizons this would mean that the railway network may not be able to cater for future demand.

This submission is structured according to the study terms of reference, with two additional sections specific to London TravelWatch's view point as the representative of London's transport users. The sections are summarised as follows:

- **Unique nature of London's rail passenger needs** – London has the greatest dependence on the railway network of any region in the UK. The role of the railway as the only practical means of transport for many commuters means that it is central to the continued economic growth of London. Since the first quarter of 2009/10 passenger kilometres have grown following a contraction as a result of the recession. This continued growth of rail demand means that there is still a need for investment in the capacity of the railway network. For this reason it would not be in the interests of the passenger to revisit the schemes already specified in the High Level Output Statement (HLOS). This is partly because of the complexity and time that revision of the HLOS would involve, but more importantly because passengers need the investment in the capacity and performance of the railway.
- **Barriers to efficiency and value for money** – we recommend that the current stations contractual structure is reviewed because the existing arrangements have not resulted in the level of maintenance and investment seen in other areas of the rail industry.
- **Incentives to generate greater efficiency** – within clear defined limits train operating companies (TOCs) might be more efficient if they had more

responsibility for the business levers of a franchise. As the party with the closest connection to the passenger and the day-to-day operation they should have the greatest insight into the potential for efficiency. However, additional powers must be balanced by clear requirements to genuinely involve passengers, stakeholders and passenger representatives in decision making.

London TravelWatch has a specific concern about longer rail franchises, which relates operator investment to extend the franchise beyond the 15 year maximum. In our experience, operator investment tends to target more lucrative longer distance passengers at the exclusion of suburban metro passengers. London TravelWatch would not want to see operators only 'cherry-pick' lucrative routes for investment. We therefore recommend wider economic benefits must also be factored into investment decisions.

- **Technology, processes and working practices** – to maximise seat capacity we recommend that for services within the London Travelcard zones, first class accommodation should be reclassified as standard class and when new or refurbished trains are procured, only standard class should be provided. This recommendation is based on our research [‘Passenger Attitudes to First Class Travel.’](#)¹

We recommend consideration of light rail as a cost effective alternative to heavy rail on branch lines such as the Abbey Line. Light rail has the potential to increase frequency at a lower operating and capital cost than heavy rail.

- **Options for generating more revenue** – in a national context the main issue to be addressed is the revenue support mechanism. For London and its surrounding area, we recommend both a strategic fares review and a gating strategy.
- **Concerns of passengers** – we recognise that the railway industry since privatisation has achieved considerable successes for passengers. However, passenger satisfaction with value for money is still poor, nationally only 48% of passengers were satisfied with value for money in the Spring 2010 National Passenger Survey. In London and the South East satisfaction levels with value for money falls to 43%. We therefore recommend that the ‘Rail Value for Money Study’ also considers the passenger perspective of value for money as well as that of the tax payer.

¹ <http://www.londontravelwatch.org.uk/document/4222/get>

London TravelWatch agrees that the improved value for money in the rail industry is in the interests of both the tax payer and the passenger. It is therefore vital that value for money from the perspective of the fare payer is also considered by the 'Rail Value for Money Study'. Properly organised, achieving value for money in the rail industry is in the interests of both the tax payer and the passenger.

1 Introduction

London TravelWatch provides this written submission to the ‘Rail Value for Money Study’ in its capacity as the independent statutory watchdog representing transport users of all modes in London and rail users in its surrounding commuter belt. The letter inviting written submissions gave two options for structuring a written response:

1. Restricting a response to one or two of the themes shown in the scoping report.
2. Responding to cover the entire terms of reference for the study, which examine the following:
 - Whether legal, operational and cultural barriers currently stand in the way of efficiency and value for money.
 - Ways of creating the incentives across different parts of the rail industry to generate greater efficiency.
 - The possible role of new technology, processes and working practices in fostering greater efficiency.
 - Options for generating more revenue, e.g. car parking and gating at stations, better utilisation of property.

London TravelWatch has chosen to respond to the whole terms of reference with the exception of issues such as asset management where we believe that the railway industry is better placed to evaluate value for money in this area.

2 Unique nature of London's rail passenger needs

London and its surrounding area are the economic heart of the British economy and rail transport is central to the success and growth of the region:

1. Central London employment is dependent upon the availability of transport and London as a whole contributes between £14.3bn and £19.4bn to the UK economy in the difference between public expenditure and tax paid.²
2. Public transport in London has a larger modal share of trips than any other region of the UK.
3. While there has been investment in transport capacity over the last ten years the average number of passengers per train, bus and tram has also risen in the same period.³
4. The subsidy per passenger kilometre for London and the South East operators is generally lower than the rest of the UK.⁴
5. Everyday 1.11 million people commute into or out of London⁵, for many of these passengers rail is the only viable option available to them. It is therefore of great importance to the wider economy that rail transport quality and capacity is invested in and maintained.

² Source: Page 102, London's Place in the UK Economy, Oct 2009, City of London

³ Source: Travel in London Report 2, 2010, TfL

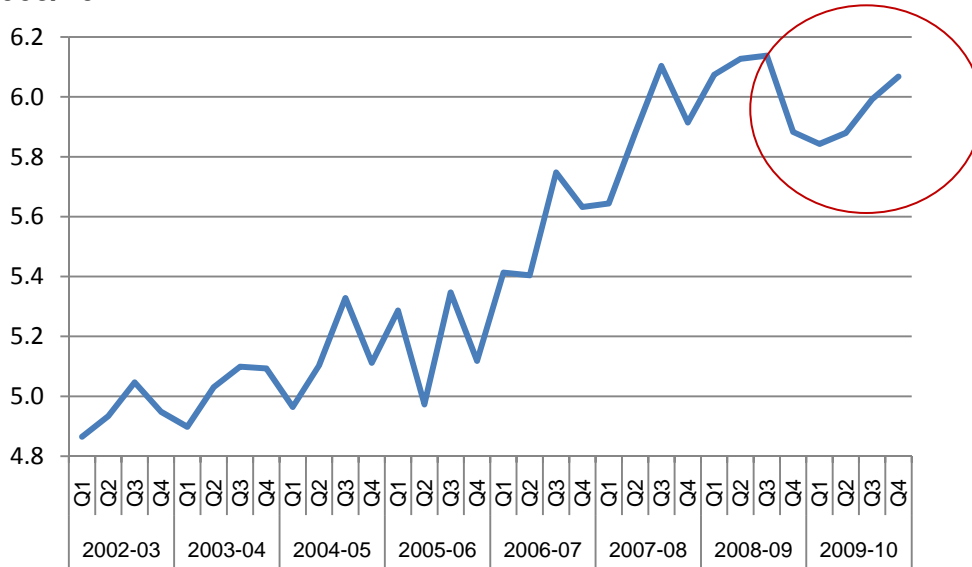
⁴ Source: ORR Statistics 2008 <http://www.rail-reg.gov.uk/upload/xls/nrt-tables-ch6-misc-240610.xls>

⁵ Source: Travel in London Report 2, 2010, TfL

2.1 Forecast passenger demand

In London and the South East passenger kilometres have grown following the reduction in passenger demand as a result of the recession. The numbers of passenger kilometres has been growing since the first quarter of 2009/10 as shown in Figure 1.

Figure 1 – London and the South East billions of passenger km 2002/03 to 2009/10⁶



In the short to medium term forecasts of passenger growth based on current Treasury projections of gross domestic product suggest that the pre-recession forecast will be reached approximately two years later than had been forecast prior to the recession. This might mean that smaller scale schemes can be delayed slightly, but for large schemes such as Thameslink, with a 20 year plus development and delivery period, two years is not sufficient to enable substantial cost savings by delaying the project.

Cost savings should not be sought from reduction or deferral of capital spending on the railways on the basis of the impact of the recession on demand. It is widely acknowledged that rail is vital to London’s economic standing and London TravelWatch strongly urge that investment is not restricted because of the long-term consequences in terms of economic growth, quality of life and the environment of London and its surrounding region.

⁶ Source: <http://www.rail-reg.gov.uk/upload/xls/nrt-yearbook-2009-10.xls>

3 Barriers to efficiency and value for money

3.1 Legal barriers

Stations and the contractual matrix which govern them are one of the most complex areas of the railway. The relationships and responsibilities of the parties involved are far from clear and have not resulted in the levels of maintenance or investment that has occurred in other areas, such as rolling stock. A simplified and better aligned contractual structure could incentivise investment to the benefit of passengers and reduce costs.

We welcome the Network Rail initiatives currently underway to simplify and clarify this structure. However, the ultimate solution probably lies in the Department for Transport's (DfT) suggestion that, 'significant benefits could be generated for passengers if operators are given an enhanced new role in relation to maintaining and improving stations'.⁷

The role of third parties in delivering investment in Network Rail's infrastructure has been an area where the Office of Rail Regulation (ORR) has asked for improvements. We recommend that Network Rail should put in place a structure so as to facilitate and encourage third party investment in the network.

3.2 Industry leadership

Network Rail has a vital role in coordinating the route utilisation strategies as the infrastructure manager. However, in terms of the development of the network, there needs to be a stronger emphasis on the passenger via the train operator, stakeholders and consumer bodies. This means in part making it easier for train operators to invest in the network and take responsibility for managing the delivery of that investment.

We recommend that train operators are given greater control over the business levers of the franchise, but within very clear outcome boundaries along with the proviso that they must genuinely involve passengers and stakeholders in the development of the train services to meet passengers' needs. This should give train operators more rights to control their business but within a clear contractual framework that they have to take responsibility for the delivery of the service in the public good.

⁷ Source: page 27, Department for Transport, 'Reform of Rail Franchising' (July 2010).

3.3 Cultural challenges

The recent Foster review of the Intercity Express Programme (IEP) identified lessons learnt for the DfT. These lessons whilst drawn from a narrow scope appear to have more general implications for the DfT's role in relation to the rail industry as a whole. The report concluded with the following lessons learnt for the DfT in the future, which also have pertinence for DfT franchising and other rolling stock orders:

- Industry engagement – DfT to involve rail industry more closely in decision making. In relation to the IEP this related to industry scepticism about the technical solutions being proposed, but for franchising the specification of the service level commitment has led to similar concerns in the rail industry.
- Confidentiality-protected partnering – DfT to be more transparent in the future, within the limits of commercial confidentiality. For rail franchising the confidentiality of the bidding process has meant that there have been missed opportunities to engage the rail industry's expertise in specifying the franchise.
- Internal skilled resource – reduce DfT reliance on external advisers. The recommendation relates to the IEP but could equally be applied to franchising. For the two years of 2006/7 and 2007/8 69%⁸ of the cost of specifying and procuring franchises were external costs of advisors and others. Costs fell substantially from the SRA procurement process, but this nevertheless illustrates the scale of the role of external advisers in procurement of franchises.
- International comparisons – DfT should learn from international innovations and expertise.
- Value for money – DfT should fully consider alternative options.

3.4 The cost of changes during a franchise

London TravelWatch recommends that the mechanisms used to make changes part way through franchises are reformed. This is because under current arrangements relatively minor changes can appear to be both complex and expensive to implement. This means many changes that would benefit passengers can only be implemented when the franchise is renewed. This point is illustrated by two examples from our work:

1. We encountered difficulties in the course of investigating the South London Line Victoria to Bellingham services with the estimates of operating cost of the new service. Based on the original estimate by the DfT done on a top down formula for changes to the franchise the operating cost was estimated to be £5.3 million. However, when TfL later

⁸ National Audit Office review of DfT Letting Rail Franchises 2005-2007

undertook a more detailed bottom up approach it was estimated to be far lower at £2.3 million. The consequence being the funding gap was considerably less for this service option. London TravelWatch believes this difference in cost estimate creates a barrier to proposed changes to a franchise agreement. This makes the franchising system more inflexible and gives it the appearance of being more expensive to alter than is really the case.

2. A significant element of the cost of changes during a franchise is the compensation formula used by the DfT to ensure that a timetable change of the service level commitment of one operator does not adversely affect the revenue of other franchised operators. London TravelWatch appreciates that compensation may be required by franchised TOCs where shared revenue flows are changed by the DfT's actions. However, the mechanism makes it very hard and expensive to undertake even minor changes to the timetable outside of the re-franchising process.

An example of this point was the inclusion of an additional stop on East Midlands Trains services at Bedford in the evening peak. The gap in services was leading to crowding on East Midlands Train but the solution to include an additional stop was initially resisted by the DfT on the grounds of the substantial cost of revenue compensation to First Capital Connect. The stop has now been accepted and included in the timetable change by East Midlands Trains, but it illustrates the challenge and cost in making minor modifications to the timetable.

We therefore recommend a review of the way in which franchises agreements deal with requirements for changes within the period of the franchise.

4 Incentives to generate greater efficiency

4.1 General principles

In any distribution of risk and responsibility in a contractual structure it is a general principle that the party most able to control and influence that aspect of the contract should be given responsibility. As the TOC is the organisation actually delivering the service to the passenger it is logical to assume that they are in the best position to control the costs and revenues affecting that business.

Therefore, giving TOCs greater control over the business levers of the franchise would be likely to generate the greatest potential for efficiency of operations. However, this needs to be with clear outcomes against which ongoing performance is monitored, for example:

- Levels of delay and cancellation, as well as the availability of the railway
- Levels of crowding on trains
- Levels of ticketless travel
- Levels of passenger complaints and passenger satisfaction
- Standards of quality of information to passengers, and presentation of the stations and trains

The outcomes need to be aligned across the railway industry from Network Rail to the train operators, regulators and the DfT. For the franchisee and Network Rail the performance regime needs to provide sufficient sanctions at the correct time to ensure that they act in the best interest of passengers and tax payers.

In addition the TOCs must engage with passengers, consumer bodies and stakeholders in the development of the train services to meet passengers' needs. If TOCs are given more control over the train service they also have to take on more responsibility for meeting the needs of their passengers and responding to the market for their business as any other industry would do as demand changes.

Greater regulation of TOCs by the ORR would also be a prerequisite of TOCs enhanced roles in the railway industry. Consumer bodies distinct from regulation are also vital as the role of the ORR in regulating Network Rail, and representing passenger and freight operators in this context is difficult to reconcile with that of representing passengers. This is because the passenger in the context of the regulation of Network Rail is at one remove, as the TOC is the customer of Network Rail.

Greater efficiency could be achieved through a simplification of the railway industry's structure, which is current more complex than many other EU railways.

This might involve TOCs taking greater roles and responsibility such as investment in infrastructure or rolling stock and responsibility at stations for maintenance and investment. This change would see the party nearest the passenger undertaking the role. The structure of the railway industry needs to align incentives within the industry as a whole so all parties are incentivised to work together to achieve agreed outcomes.

4.2 Franchise length and operator investment

One suggested means for greater efficiency is to have longer franchises. EU regulation 1370/2007 permits public service contracts to be a maximum of 22½ years provided that there is significant capital investment. It is therefore for the bidder to propose capital investment which could potentially extend the life of the franchise.

We do not suggest franchises substantially shorter than ten years would be appropriate. This is because it does not give a sufficient planning horizon for franchisees to be able to affect change. Secondly, the costs and upheaval of more frequent replacement of franchises is unlikely to be to the benefit of passengers.

We are however concerned that an increased focus on franchisee capital investment over a longer term could be to the detriment of passengers using metro or suburban services. We would be concerned if, in the pursuit of longer franchises, bidders target investment solely at longer distance passengers. To increase the length of franchise capital investment must be distributed across the franchise and not just 'cherry-pick' lucrative revenue streams. Wider economic benefits must also be considered in investment decisions because the railway industry is underpinned by public funding.

4.3 Revenue support

The current revenue support mechanism has been recognised not to fully give operators the incentives to generate efficiencies or additional revenue. An example the impact of this perverse incentive is First Capital Connect's decision to halt financially positive gating schemes after entering revenue support on the grounds that the investment no longer had a business case as the revenue would be shared with the DfT. We believe that addressing this structure is a key task of both franchise reform and value for money. We therefore welcome the inclusion of suggested reforms to its mechanisms in the DfT 'Reforming Rail Franchising' (2010) consultation document.

The following operators in the London TravelWatch area are currently in revenue support:

- South West Trains
- First Capital Connect

- First Great Western
- National Express East Anglia
- Southeastern

While these companies are in revenue support there is no financial incentive for the TOC to invest even if measures would result in increased revenue. It is this lack of incentive to invest which has the most impact on passengers. Reform of the mechanism of revenue support would potentially have major benefits both for efficiency and revenue generation.

4.4 Examples of efficiency measures taken by operators

Within London TravelWatch's remit there have been a number of examples of activities undertaken by TOCs to generate savings since the start of the recession. Some of these savings are efficiency measures whereby the same service has been delivered for less, but those savings where there have been impacts on the passenger represent cuts in services. Examples of measures taken by TOCs have included:

- Several train operators, have announced significant numbers of job losses amongst 'back office' roles and other areas considered less essential.
 - National Express East Anglia and C2C - Removal of free text services for disruption information, and redundancies in customer services teams.
- Southeastern trains on its north Kent HS1 services reduced the length of train formations in response to the levels of demand.
- There have been proposals to reduce booking office hours by:
 - First Capital Connect
 - Chiltern
 - South West Trains

While not all of these measures may have directly impacted on passengers, the proposed reduction in booking office opening hours, and the trend to make passengers pay to access information do have a detrimental effect on the user.

5 Technology, processes and working practices

5.1 General principles

In some cases the railway industry has been slow to take advantage of innovations and technology that has been developed in other countries or industries. Adopting good practice rather than developing individual bespoke solutions to problems is a potential way of reducing costs and doing things more efficiently.

5.2 Rail industry procurement

The TOC taking greater control and investment risk in rolling stock may be a more appropriate route for some types of procurement. This would only be appropriate where the TOC is the party best placed to manage the process and the risks. However, one of the key barriers to the introduction of new technology, particularly relating to ticketing, and customer information, is that it is very slow and complex to replace or develop new cross-industry systems. An example of this is the problems that passengers face in obtaining real time information during disruption. Individual TOCs procured different customer information systems (CIS). The consequence of individual procurement has been that each system does not necessarily talk to each other.

In a network approach a single procurement would have been launched which would have enabled the passenger to benefit from higher quality information. In addition it is likely that the procurement might have been cheaper as Network Rail is now investing in systems to link all of the differing TOC systems to provide a nationwide solution. There is a key question therefore in devolving responsibility to the TOCs as to how network wide systems can be effectively procured for the least cost and greatest benefit to the passenger?

The railway industry is dependent on inherited systems from British Rail in many areas of ticketing and information. This is largely because the cost and complexity in the privatised railway of replacing any of them is too great and disruptive. However, these legacy IT systems are cumbersome and expensive to operate. If a nationwide network investment in these systems were undertaken it could save money in the long run. However, devolving investment to the TOCs makes this kind of investment even harder. Outcomes need to be aligned across the railway industry to ensure that the benefits of network wide compatibility of systems are maintained.

Even where specific investment is mandated via the franchise this is a very slow and expensive way to effect change. An example of this is the ITSO smart card

technology. This has been specified in South West Train's (SWT's) franchise, but as ITSO was not specified to be compatible with Oyster, SWT ticket vending machines cannot vend Oyster pay as you go. The result is that SWT's passengers are unable to purchase Oyster products at SWT stations, with the exception of Wimbledon and Richmond which have outlets largely because London Underground operates from the same station.

5.3 Engineering access

The cost of disruption resulting from the requirements for engineering access for new projects and large scale maintenance and renewals is a significant element of project cost. Planned disruption to the railway network is also a very significant problem for passengers wishing to travel at weekends or bank holidays. Investment in infrastructure capability to give flexible access for maintenance when new schemes are designed or renewals undertaken should be a priority. Investment in new technology or practices to make possessions quicker and safer to undertake could also increase the productivity per hour of possession. This is another area where better alignment of incentives should be established across the industry to reduce disruption to the passenger.

5.4 Worldwide practice

We recommend that as part of the 'Rail Value for Money Study' a comprehensive review should be undertaken of the potential for cost savings from good practice and new technology from around the world. The ORR as part of the PR08 considered possible technological solutions to reduce infrastructure maintenance and renewal costs that are used in Europe. However, it did not look at the amounts of engineering access time and the overall maintenance philosophies of comparable railway systems.

5.5 First class rail services

London TravelWatch has recently published its '[Research into Passenger Attitudes to First Class Travel](#)'⁹ which presents the findings of an online survey of 600 rail users in London and the South East conducted by Ipsos – Mori. The research shows that the level of passenger expectation for first class travel services varies according to the length of journey time. For journeys of less than an hour, the majority of users, (including those who use first class) believe that the provision of first class is unnecessary. This means for local services within the London Travelcard / Pay As You Go area, first class accommodation should be reclassified as standard class and when new or refurbished trains are procured, only standard class should be provided. This would maximise seats and would mean an increase in overall capacity.

⁹ <http://www.londontravelwatch.org.uk/document/4222/get>

For journeys between one and two hours, the majority of users, (including those who use first class) believe that some 'core' facilities should be provided. These include a guaranteed seat, a more comfortable seat than Standard and additional space and leg room. This does not necessarily need to be called first class but could be branded as something else, such as business or comfort class. This length of journey covers the majority of commuter journeys between London and the Home Counties.

For journeys over two hours, the majority of users, (including those who use first class) believe that a far wider range of facilities should be provided in above and beyond a guaranteed seat, a more comfortable seat than standard and additional space and leg room. These include full restaurant services, complimentary soft and hot drinks as a minimum, a member of staff present at all times, a guaranteed table, complimentary alcoholic drinks, sandwiches, snacks, newspapers, free internet access and a place to plug in a laptop. This reflects the nature of the journeys being made, which are either a one-off leisure activity or for business.

The findings of this research suggest that altering the provision first class seating from services where passengers do not believe that it is appropriate may be a cost effective means of generating additional capacity. When rolling stock is procured or refurbished these findings could be implemented as part of a strategy for first class travel in the London area.

London TravelWatch also found that a number of passengers said that they would consider upgrading to first class if the facilities that they deemed necessary were present. This represents a potential income generator and would free up capacity in standard class on services over an hour in duration.

5.6 Light rail

London TravelWatch welcomed the innovative proposal to increase the frequency of services on the line between St Albans Abbey and Watford Junction using light rail. The use of light rail has the potential to be done at a reduce cost of capital and operational expenditure in comparison with heavy rail. The reduced cost makes it a practical possibility to provide public transport in areas where passenger numbers would not support a heavy rail service expansion or extension. We hope that this and other innovative solutions will be explored particularly in the context of public funding constraints. Other areas where light rail might be appropriate include the Romford to Upminster and Grove Park to Bromley North branches. In addition the Hayes to Lewisham line might be suitable for conversion to London Underground operation. In the case of the latter extension of the Bakerloo line would release National Rail paths into London Bridge which could be used to increase capacity on other routes.

6 Options for generating more revenue

6.1 General principles

London TravelWatch believes that there are three major ways to increase revenue:

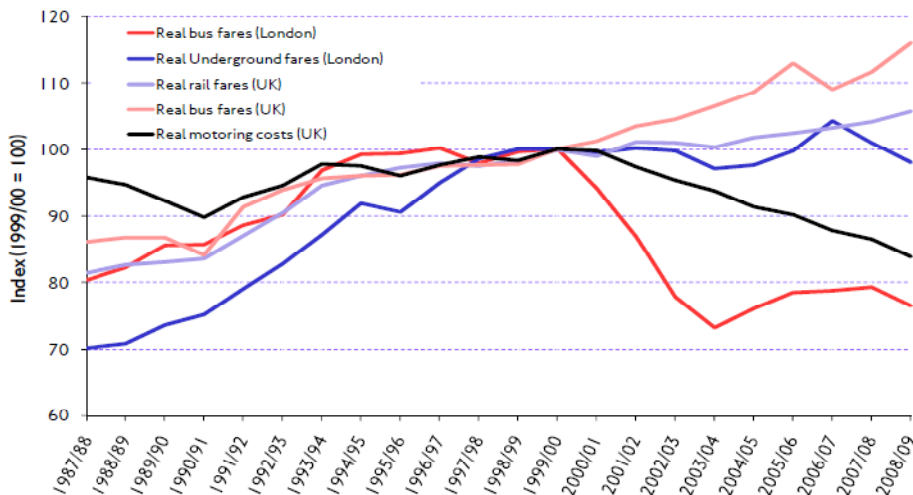
1. A strategic review of fares policy across the London and South East area.
2. A gating strategy for stations in the London area.
3. Reform of the revenue support system to give TOCs the incentive to increase revenue.

6.2 Strategic fares review

We recommend a strategic fares review in London and the South East to ensure that passengers get the best value for money and that the system is fair across the whole region. This review could also be linked to the role of fares in contributing to the funding of the rail industry.

Figure 4 shows the divergence in fares and costs of motoring since the end of the 1990s. The real cost of rail fares have increased more significantly than Underground and London Bus fares since the 1999/2000 index base year.

Figure 2 – Real terms cost of public transport fares 1987-2009¹⁰



¹⁰ Source: TfL Travel in London Report 2 - http://www.tfl.gov.uk/assets/downloads/corporate/Travel_in_London_Report_2.pdf

Market segmentation is limited basically to peak, off-peak and season tickets. The pricing signals are not designed to encourage greater use of, for example, spare capacity on contra-peak services. As part of this smart card ticket technology could be used to reward season ticket holders not travelling at peak times. London TravelWatch does not support the use of pricing policy to attempt to price passengers out of the highest period of demand, as for most central London commuters there is no alternative due to their terms of employment but to travel during the rush hour.

In some senses it is not surprising that passenger that only 43% of passengers in London and the South East say that their expectations of value for money are not being met. This does not in itself indicate that the actual ticket is poor value for money as to make that judgement requires a point of relative comparison and a clear understanding of the objectives of the pricing policy for fares. In order to do this, it is necessary to establish a coherent multi-modal pricing policy as a key element in the transport strategy for London and its region as a whole. We believe that the Mayor has power to do this, but has not exercised it except in the case of the London Overground concession.

Some examples of issues that we recommend are reviewed:

- Oyster pay as you go zones to be extended match the boundaries of metro services, for example to Dartford, Shenfield and Cheshunt.
- Resolve the inconsistencies in conditions of carriage between TfL and National Rail operators.
- Resolve the differences between fares between areas only just outside the London travelcard boundary.

Another reason why fares policy in London lacks coherence is that fares changes have usually been made incrementally, in response to short-term budgetary or other pressures, rather than as part of a consistent long-term strategy. A review of fares policy, from first principles, is overdue. As part of such a review, it would be useful to discover the reasons which cause the cost of rail travel to the user in most other comparable cities to be markedly lower than in London and the corresponding cost to society as a whole, through taxation, to be higher. The contribution that fare payers should make, should be the end point of a comprehensive review of the purpose of rail fares, not the starting point.

6.3 Reform of revenue support

The greatest need, recognised by the DfT franchise reform proposals, is for reform of the revenue support mechanism to give TOCs the incentives to increase revenue. Currently this means that, particularly while in revenue support, no incentive exists for TOCs to invest to increase revenue, but more generally there is little emphasis on TOCs investing and marketing their services to increase their revenue rather than relying on macro economic growth.

In our experience many TOCs have the attitude that they cannot influence the growth of passengers in the suburban context. Their belief being that growth is only driven by macroeconomic factors and that as the fare value per passenger is low investment in marketing is not justified. However, with the exception of the London Overground concession all other TOCs retain the revenue risk in their franchise agreements. We believe that there is the potential for TOCs to take actions to grow passenger revenue in the suburban context both through:

6.3.1 Marketing and investing in the promotion of suburban services.

Franchise agreements need to ensure that if TOCs retain revenue risk that they are incentivised to grow revenue and do not simply rely upon macroeconomic growth.

6.3.2 Community rail partnerships in an urban context.

We recommend consideration is given to harnessing the efforts of stakeholders to promote the usage of lines, such as the South London Line, to generate additional revenue to fund additional services.

6.4 Gating strategy for London

We recommend a gating strategy for London aimed at systematically increasing revenue yield. Many large stations in certain areas such as south east London are not gated. However, a combination of revenue support and the allocation of the London Travelcard revenue make it hard to justify individual investment by a single operator. A strategic approach by TfL or the DfT however, could capture significant volumes of currently lost revenue by looking at gating schemes across entire areas. High level initial analysis by TfL, presented in Table 1 and carried out at our suggestion, indicates investment in strategically gating London stations in this area might deliver £2.6m of additional revenue over ten years.

Table 1- Options for gating additional south London stations

Station	Capital Cost	Change in annual revenue	Change in annual opex	Years to break even	Difficulty of gating
Herne Hill	-£288k	£154k	-£45k	3	Medium
Elephant and Castle	-£347k	£169k	-£86k	5	Medium
Denmark Hill	-£190k	£198k	-£41k	2	Easy – once Access for All finished
Hither Green	-£404k	£174k	-£82k	5	Medium
Blackheath	-£404k	£177k	-£82k	5	High - ticket office needs moving
Grove Park	-£210k	£132k	-£41k	3	Easy

We recommend that a coordinated gating policy to increase revenue by reducing fares evasion is developed to cover all TOCs in London. We advocate in general

the gating of all stations with a footfall of over 2,000,000 per annum within our remit. This threshold may well be lower for lucrative revenue flows. Smart card ticketing can also offer income and saving potential which are complemented by gating policy.

The installation of gates at National Rail stations has been at the behest of individual train operators and there has been no London-wide strategy or decision making process on where and when gates should be introduced. It is important that this is across all TOCs because the apportionment of London Travelcard revenue means that the business case may not exist for an individual TOC. However, as a whole a coordinated gating strategy may increase revenue across the area such as to reduce the funding requirement from the tax player.

There have been a number of observable benefits from the introduction of ticket gates, however some of these may be a function of increased staff presence as gates require staff to be deployed and be visible. The benefits are:

- Increased revenue for the train operator.
- Reduced ticket fraud.
- Reduction in crime levels on trains and in stations.
- Increased satisfaction levels amongst passengers.

In the London TravelWatch area a total of 29% stations on the National Rail network are fully gated and a further one per cent partially gated. The distribution of the gated stations shows 78% are in the London Travelcard area and 22% outside. However, the geographic spread of such stations shows the divergent policies of different operators and franchise awards.

6.5 Stations – retailing, revenue and development

One means of additional revenue generation is to make greater usage of the commercial usages of rail stations. The exploitation of the commercial value of stations if they were in the greater control of the TOC could be a means of funding both upkeep and investment.

Car parking investment on usually constrained sites can be challenging but there are a number of examples from Chiltern and London Midland of decked car parking as a solution. We would always advocate the use of station travel plans as a tool to ensure that all other avenues for onward travel from the station have been explored before increasing car parking capacity. However, from an income generation perspective it has the potential to increase railway industry revenue. Our research into station travel planning is set out in more detail in our report, 'Getting to the Station.'¹¹

¹¹ <http://www.londontravelwatch.org.uk/document/2319/get>

7 Concerns of passengers

London TravelWatch supports the need for value for money in the railway industry as it ultimately benefits both passengers and tax payers alike. However, the consequence of efficiency measures should deliver more for less in terms of quality and increased capacity. The passenger as the ultimate end user of the passenger railway service should benefit from higher quality services and value for money fares.

One of the greatest risks in seeking to improve value for money is that a cycle of stop-start funding is unintentionally created. Stop-start funding prevents strategic investment and creates maintenance backlogs which may ultimately lead to industry cost rises.

In considering the options for generating greater value for money and efficiency it should be borne in mind that any in restructuring the industry there are likely to be short to medium term cost consequences. During this disruption to the industry, management time will be focused on the reorganisation and not the passenger.

Longer franchises may have benefits but in three important areas there are substantial risks to the quality of services to the passenger:

1. As part of longer franchise TOCs are likely to take a greater role in leading investment they will favour more lucrative longer distance passengers excluding those who commute from suburban locations. London TravelWatch believes that commercial considerations should not be the only factors in influencing investment and that the wider economic benefits should also be part of investment decisions.
2. Performance – if a TOC performs poorly but not below the termination levels, long franchises may land passengers with poorly performing operators for upwards of two decades.
3. In reality long franchises are likely to be broken down in to shorter periods where contracts would be renegotiated to take account of changed circumstances. In these negotiations the tax payer may not get best value for money as it is a single supplier negotiation.

8 Conclusion

London TravelWatch welcomes this study both from the perspective of the passenger and tax payer. Value for money of the rail industry directly affects the quality and quality of rail services as well as the level of fares. For this reason the 'Rail Value for Money Study' should not be confined to the sole perspective of the tax payer. The importance of this point is illustrated by the last National Passenger Survey which showed that only 43% of passengers in London and the South East were satisfied with value for money.

Barriers to efficiency and value for money

There are a number of areas where legal, operations and cultural barriers exist to efficiency and value for money. In particular the current contractual structure for stations has not resulted in the level of maintenance and investment seen in other areas of the rail industry.

Incentives to generate greater efficiency

As the operator is the organisation actually delivering the service to the passenger it would be logical to assume that they are in the best position to control the costs and revenues affecting that business. However, this greater responsibility needs to be within clear contractual and performance boundaries to protect the interests of the passenger. In particular operators should be required to engage with their passengers, stake holders and consumer bodies by consulting genuinely and extensively to meet the needs of passengers.

Technology, processes and working practices

London TravelWatch, based on its research in into [Passenger Attitudes to First Class Travel](#)¹², recommends that for services within the London Travelcard zones, first class accommodation should be reclassified as standard class and when new or refurbished trains are procured, only standard class should be provided. This would maximise seats and would mean an increase in overall capacity.

Options for generating more revenue

In the London context of revenue generation, we recommend a strategic fares review and a gating strategy for London stations. Nationally, the major issue to be resolved is the lack of incentive for operators to generate additional revenue while in revenue support.

¹² <http://www.londontravelwatch.org.uk/document/4222/get>