

**DERBYSHIRE COUNTY COUNCIL**

**CABINET MEETING**

**12 June 2012**

Report of the Strategic Director – Environmental Services

**REFORMING OUR RAILWAYS (HIGHWAYS AND TRANSPORT)**

(1) **Purpose of the Report** To seek agreement to how the County Council's response to Government consultation on railway fares and railway decentralisation will be made, and to update Cabinet on refranchising proposals for Northern Rail and Trans-Pennine Express services.

(2) **Information and Analysis** Following the 2011 study by Sir Roy McNulty into 'Rail Value for Money', the Government has produced its response as a Command Paper entitled 'Reforming Our Railways: Putting the Customer First'. This sets out how to cut £3.5 billion from the annual publicly-funded cost of the national rail network by 2019. It has four objectives:

- securing value for the passenger and addressing concerns about rail fares;
- dealing with the fiscal deficit;
- supporting economic growth, through continued taxpayer investment for passengers and freight; and
- delivering environmental goals, by reducing carbon emission.

To achieve these objectives, the Command Paper commits the Government and industry to work together to:

- phase out above-inflation rises in average regulated fares as soon as possible;
- expand smart ticketing technology so that passengers can enjoy Oyster-style smartcard payment and more flexible season tickets;
- reform rail franchises so that operators have to deliver more value and better levels of service for passengers while ensuring taxpayer subsidies are concentrated on safeguarding less profitable routes that remain crucial to communities; the Government also sees greater decentralisation and local involvement in the railways as a way of delivering greater efficiency and responsiveness;

- invest in Britain's capacity to grow jobs and prosperity by funding thousands more carriages, extending electrification of the rail network and redeveloping railway stations; and
- empower passengers by providing better punctuality and real-time travel.

The key to reform will be closer collaboration between train operators and Network Rail which maintains rail infrastructure.

Allied to the Command Paper, the Department for Transport (DfT) has launched two consultations, one on fares and ticketing and one on decentralisation of the railways. DfT is also seeking the views of stakeholders on the future Northern and Trans-Pennine franchises.

#### **A) Rail Fares and Ticketing Review**

This consultation exercise is designed to inform a review of the structure of fares (the fares paid by different groups of passengers). The aim of this review is to identify ways in which more passengers can travel and have a better experience of rail whilst, at the same time, bringing down costs for the industry. A more efficient rail industry can deliver more benefits for passengers and allow rail to grow, while minimising the public subsidy for rail. The Government also wants to address the long-standing concerns about complexity in the system. Any changes will need to be balanced and fair. Train operators will still be required to offer the regulated, discounted, off-peak fares for longer-distance travel that have helped keep rail travel affordable for a large number of people.

The consultation document sets out the Government's objectives for regulating rail fares and ticketing as:

- protecting passengers from possible market abuse and ensuring that rail travel remains affordable for a wide group of people, particularly where they do not have a realistic alternative;
- allowing more scope for innovation in fares and ticketing, and encouraging train operators to make better use of the capacity that is available;
- ensuring passengers are treated fairly when they are buying tickets, and have easy access to a complaints handling system if problems occur when buying or using tickets; and
- ensuring that, from a passenger perspective, the rail network operates as an integrated whole.

There is no standard railway fare scale to act as a basis for comparison; it is a complex mix of historical factors and market fares that have led to the current situation. Within parts of Derbyshire, fare policies adopted by South Yorkshire

and Greater Manchester Passenger Transport Executives (PTEs) are also an influence. Despite fare increases in recent years, rail overcrowding has not been a big issue for local journeys in Derbyshire, apart from peak period journeys on some routes into and out of nearby cities. This raises what is probably the key issue on which the County Council ought to comment (because of the interaction of this with its highway network management duties and role in bus provision); the role of rail in dealing with peak period and commuter travel.

The full set of questions posed in the consultation is attached to this report as Appendix 1. It is recommended that the Cabinet Member for Highways and Transport be authorised to agree a full response to these questions appropriate to the County Council.

It is also recommended that the Cabinet Member be requested to ensure that the response stresses to Government that rail is playing an important role in the management of highway congestion, a role which could be undermined by fare structures designed to discourage peak period rail travel. Whilst it is a sensible objective to encourage those who have a choice of travel times to avoid the busiest periods, making rail travel during these periods more expensive will also penalise those who do not have a choice with regard to timing. Some of these people will have the option of travelling by car and will take this up to the detriment of congestion and the impacts this has on road users and those living or working close to major roads. In those parts of the country where rail capacity in peak periods still exceeds demand it is vital to ensure that fare structures encourage rather than discourage the use of rail. Another issue to be taken into account is that the fare paid for the rail journey is, in many cases, accompanied by a charge for car parking at the station which can be disproportionate to the local rail fare paid. This is a further influence on the choice made over mode of travel, and can discourage the use of rail, as well as causing inappropriate parking in free spaces near to stations, often on the highway.

With regard to any rebalancing of fares between different regions, it is difficult to argue that individual passengers in one part of the country should be subsidising the fares of passengers elsewhere. However, passenger rail is not a truly commercial operation and is subsidised because of the benefits it offers to society.

It is recommended that the County Council's full response urges Government to be cautious over the introduction of any change and mindful of the impacts this could have on less heavily-used but socially important services.

## **B) Rail Decentralisation**

At present, local authorities' influence over the rail services provided in their area is quite limited. In line with its aspirations for localism, the Government is looking at devolving, where appropriate, more accountability and decision-making related to local rail services to local authorities and PTEs.

The DfT is seeking views on whether improved outcomes for transport users might be achieved, in some cases, if more decisions relating to local rail services were made closer to the communities they serve.

This consultation explores how this might be done in parts of England. Five options are set out, ranging from co-signatory status for franchise agreements to devolving responsibility for entire franchises. These are set out in Appendix 2 to this report. Derbyshire is served by three principal rail franchises: East Midlands Trains (expiring March 2015), Cross Country Trains (expiring March 2016) and Northern Rail (expiring April 2014, but see section below).

The Government is also inviting PTEs and local authorities to indicate their interest and come forward with outline proposals for taking on decision making responsibility for passenger rail services in their area.

For a transport authority like the County Council, with interests in rail but with limited ability to influence outcomes through financial contributions, the issues raised by the consultation involve a balance between local decision making and the objectivity of the process. It is an important consideration that DfT, although it is remote from local rail issues, does not have its own local service priorities. Any consortium of local transport authorities which became the 'client' for franchises would, inevitably, reflect the objectives of its core membership, most likely the PTEs. Other interested parties wishing to influence outcomes could potentially find this more difficult than at present.

Whilst moves towards local influence are welcome, Government will need to give careful consideration to open any transparent processes to take into account the aims and objectives of those not represented directly on the client body. Consideration needs to be given to issues like how to make funding new railway stations with a good business case a lot simpler and easier, and how to safeguard the interests of all train operators on the network, not least protecting the need to grow rail freight services. There is a danger that localised determination of franchises, where this is dominated by PTE areas, will be focused upon city to city and urban priorities to the exclusion of rural areas and smaller towns. It is also important that the needs of rail freight (as a commercial operation on the rail network) are given adequate consideration. PTEs are, by definition, focussed upon passengers and will not necessarily seek the same balance between passenger and freight capacity as would DfT.

Taking these issues into account, it is recommended that the County Council expresses a view that Option 1, retaining a central role for Government, is its preferred outcome.

### **C) Northern and Trans Pennine Rail Franchises**

The current Northern and Trans-Pennine rail franchises were established in 2004 as 'steady state' franchises with no specific allowance for growth in passenger numbers. However, growth of over 40% overall since has had to be managed, causing capacity problems around big cities in the north. The Northern franchise covers all local rail services from the East Midlands to the Scottish border, including five PTE areas. Within Derbyshire, it operates the Buxton, New Mills and Glossop services into Manchester, plus the Hope Valley stopping service and the Nottingham to Leeds service. Trans-Pennine Express operates 'semi-fast' services within Northern's area and into Scotland but, while operating along the Hope Valley route in Derbyshire, the only stops within the County are limited calls at Chinley.

In response to these issues and devolution proposals, DfT has contacted all local transport authorities and PTEs in the franchise areas for comment based on the options outlined in Appendix 2. Dialogue over this is ongoing, but the PTEs are proposing a future arrangement based on Option 5 (the entire franchise devolved to a grouping of PTEs/local authorities) with the Trans-Pennine network running as a separate service group within the franchise. In practice, individual PTEs would administer sub-groups of services (for example Transport for Greater Manchester for the Derbyshire services), but different arrangements could apply east and west of the Pennines within the franchise. Overall control would be vested in a joint body called 'Rail in the North of England' (RINE) which would comprise the Director General of each PTE plus 'observers' from a limited number of local authorities.

This proposed arrangement raises the concerns outlined above against the consultation on devolving responsibilities in that RINE would be composed of bodies with their own aims and aspirations for rail. Whilst this is in no way inappropriate, it would mean that they would not be able to consider any proposals raised by others with quite the same detachment and objectivity currently brought into the process by DfT. The issue raised above over the need to balance passenger and freight considerations is certainly applicable within this franchise area, on key routes, such as the Hope Valley Line, where line capacity is an issue. The way in which RINEs governance and consultation processes will operate is therefore important, as is the role envisaged for observers on the board and how these will, in turn, communicate with other interested parties. There is a concern that RINEs metropolitan focus could work to the detriment of other interests. It is likely

that a further report will be brought to Cabinet on this franchising process when these governance issues are the subject of firm proposals.

(3) **Financial Considerations**      There are no financial consideration associated with this report.

(4) **Property Considerations**      There are no property considerations associated with this report.

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, and transport considerations.

(5) **Key Decision**      No.

(6) **Call-In**      Is it required that call-in be waived in respect of the decisions proposed in the report? No.

(7) **Background Papers**      DfT Command Paper on the DfT website.  
<http://www.dtf.gov.uk/publications/reforming-our-railways>.

(8) **OFFICER'S RECOMMENDATIONS**      That Cabinet:

- 8.1 Authorises the Cabinet Member for Highways and Transport to approve a full response to consultation on the Rail Fares and Ticketing Review, taking into account the key principles set out in the body of the report.
- 8.2 Approves the County Council's response to consultation on Rail Decentralisation, as set out in the body of the report.
- 8.3 Notes the continuing discussions on the organisation of the future Northern and Trans-Pennine rail franchises and agrees to receive a further report when appropriate.

**Ian Stephenson**  
**Strategic Director – Environmental Services**

## **Appendix 1**

### **Consultation questions – Rail Fares and Ticketing**

#### **Chapter 1: Principles of fares and ticketing regulation**

The consultation document sets out the Government's objectives for regulating rail fares and ticketing as:

- o Protect passengers from possible market abuse and ensure that rail travel remains affordable for a wide group of people, particularly where they do not have a realistic alternative.
- o Allow more scope for innovation in fares and ticketing and encourage train operators to make better use of the capacity that is available.
- o Ensure passengers are treated fairly when they are buying tickets, and have easy access to a complaints handling system if problems occur when buying or using tickets.
- o Ensure that from a passenger perspective the rail network operates as an integrated whole.

1.1 Do you agree these are the right objectives? Is there anything we've missed?

[Additional comments are invited].

The consultation document explains that Government regulates by:

- o Protecting the availability and level of certain fares, generally:
  - commuter fares;
  - off-peak fares for longer-distance journeys;
  - anytime fares for shorter-distance journeys;
- o Requiring train operators to participate in the National Rail Enquiries service and the National Rail Conditions of Carriage and ensuring that:
  - a through fare can be purchased between any two stations, even if it involves using the services of more than one train operator;
  - a ticket from A to B can be used on the trains of any operator for that journey, unless it is specifically stated to be valid on only one operator's services;
  - where train operators have a station ticket office or machine, they are required (except in certain defined circumstances) to sell tickets for any journey by any operator.

1.2 How effective do you think the current system is in achieving the Government's regulatory objectives?

[Additional comments are invited].

## Chapter 2: Smart ticketing and season tickets

The consultation document identifies the main benefits of smart ticketing as:

- o Greater speed and convenience for passengers.
- o Better journey data, allowing for new ticket types designed around the way passengers travel today.
- o Potential to attract more passengers to the railway.
- o Potential to make more efficient use of rail capacity.
- o Reduced risk of overpaying.
- o Improved security features.
- o Savings from reduced cost of sales.
- o More accurate allocation of revenue between train operators.

And it identifies the main risks and issues of smart ticketing as:

- o Greater complexity from a wider range of fares/tickets.
- o Data security issues.
- o Functionality issues (does the technology work?).
- o The need to ensure systems remain inter-operable across the whole rail network despite a potential proliferation of technologies.

2.1 Do you agree with the benefits and with the risks and issues we've identified in relation to smart ticketing? Is there anything we've missed? How might we address the risks and issues?

[Additional comments are invited].

The consultation document identifies the following issues with the current system of season tickets:

- o High upfront cost.
- o Commuters who travel fewer than 5-days a week pay more per journey than 5-days a week commuters, which may be acting as a barrier to some people wishing to enter or re-enter the job market.
- o Perceived financial disincentive to work flexibly or part-time.
- o No incentive to travel outside the busiest periods.

2.2 Do you agree with the issues we've identified with the current system of season tickets? Is there anything we've missed?

[Additional comments are invited].

2.3 What features would you expect to see in a smart, flexible and more tailored season ticket? (Please select all that apply)

2.4 Do you have any other suggestions as to how season tickets could be tailored to better meet the needs of particular groups?

*If you are responding primarily as an employee or member of the public:*



2.5 Could you work more flexibly in order to avoid the busiest trains? (Working more flexibly could include working at home or from a different work location some of the time; changing the total number of hours worked and/or start and finish times) If not, why is this?

2.6 Are there any other factors that prevent you from changing your commuting patterns? (Please select all that apply)

- ☐ Domestic or caring responsibilities.
- ☐ School or nursery opening hours.
- ☐ Availability of rail service at other times.
- ☐ Other (please state).

*If you are responding primarily as a business or employer:*

2.7 Do you already, or could you in future, allow your employees to work more flexibly by:

- ☐ Working at home some of the time.
- ☐ Working from a different work location some of the time.
- ☐ Changing their total working hours.
- ☐ Changing their start and finish times.

2.8 If you answered no to any of the above, what prevents you from offering this flexibility (now or in the future), and under what, if any, circumstances could you envisage being more flexible?

### **Chapter 3: Using fares to achieve more efficient use of rail capacity**

3.1 Do you agree that introducing new commuter fares could help the railway operate more efficiently by encouraging some commuters to change their travel patterns?

3.2 What do you consider to be the main benefits and the main risks/issues with introducing new commuter fares?

3.3 How could we ensure that any new commuter fares structure was as fair as possible?

3.4 How could we use fares to achieve more efficient use of rail capacity on intercity services?

### **Chapter 4: Fares and ticketing complexities**

Currently, passengers with Advance fares, valid only on one specified departure, who miss that departure must buy a new ticket to travel on the next train (unless the missed departure is due to a missed national rail connection, in which case train operators generally accept the original ticket on the next

service). We are considering whether passengers could be allowed to “pay the difference” instead (potentially on payment of a fee, if this was considered necessary to avoid perverse incentives).

4.1 What do you see as the main advantages and disadvantages of such a change?

There is evidence of an imbalance (even after taking account of differences in average income) between fares in the London commuting area and other parts of the country, and that passengers on higher yield services are, effectively, cross-subsidising passengers on lower yield services. This is something we intend to explore further as part of the review, but we do believe that there is a case for reducing any significant regional imbalance in fares levels.

4.2 What would you see as the main advantages and disadvantages of such an approach?

The Government is working with ATOC to consider how to provide open access to rail fares data. This could allow private sector companies to develop more innovative approaches to delivering rail fares information in a way which helps passengers to better understand the fare options available to them. However, we would need to minimise the risk of data being provided in a way that inadvertently resulted in passengers buying invalid tickets for their journey. We also need to consider possible wider consequences, e.g. train operators changing their pricing strategies.

4.3 What steps could the Government take to protect passengers' overall interests as part of providing open access to fares data?

## **Chapter 5: Buying tickets**

5.1 Selling tickets through ticket offices is a major cost for the railways. How can we reduce this cost without deterring passengers from using the railway?

5.2 What are the costs/benefits of reducing ticket office opening hours? What would you consider to be an acceptable alternative to the ticket office that met most of your ticket requirements?

5.3 What safeguards would need to be put in place for passengers in the case of changes to ticket office opening hours?

5.4 How important is it for passengers to be able to buy train tickets from a wider range of outlets (e.g. including post offices or retail outlets located away from the station)? Please feel free to make any additional comments about how you would like to be able to buy train tickets in future.

- o Very important.
- o Important.
- o Quite important.
- o Not important.
- o Don't know.

[Additional comments are invited].

5.5 What other improvements would you most like to see to make buying rail tickets easier?

## **Chapter 6: Next steps**

6.1 Do you have any other comments about the impact of anything in this consultation document on passengers or potential passengers, including by income group, equality group(s) or any other group?

6.2 Are there any other comments you would like to make about anything else in this consultation?

## **About you and how you use the rail network**

*If responding primarily as an employee or member of the public, please state:*

How often you travel by train (select one option only):

- At least once a week (please specify how many days a week you travel in a 'normal' week).
- At least once a month (please specify how many days a month you travel in a 'normal' month).
- At least once a year.
- Other (please specify).

The main reason(s) you travel by train (select all that apply):

- Commuter.
- Leisure.
- Business.

*If you travel mainly for commuting purposes, please state:*

What type of organisation do you work for:

- Small company (up to 50 staff).
- Medium sized company (50-250 staff).
- Large company (more than 250 staff).
- Public sector organisation.
- Third sector organisation.
- Voluntary organisation.
- Other including self-employed (please specify).

Your profession or the nature of your work:

Your normal commute e.g. from Reading to London Paddington:

Your normal travel to work pattern:

- How many days a week you normally travel to work.
- Which days you don't normally travel to work.
- What time you normally start work.
- What time you normally finish work.

Which type of season ticket you hold (select one option only):

- Weekly.
- Monthly.
- Annual.
- Other period.
- None.

*If responding primarily as a business or employer, please state:*

Whether your organisation is a:

- o Small company (up to 50 staff).
- o Medium sized company (50-250 staff).
- o Large company (more than 250 staff).
- o Public sector organisation.
- o Third sector organisation.
- o Voluntary organisation.
- o Other (please specify).

Thank you for taking the time to respond to this consultation.

Your response will be considered as part of the fares and ticketing review and a summary of responses will be published as part of the review's findings and recommendations. However, we are unable to enter into individual correspondence in relation to the issues raised in your response.

## **Appendix 2**

### **Devolution of Responsibilities: Decentralisation**

The five potential decentralisation models on which the Department for Transport (DfT) is inviting views are set out below:

#### **Option 1: Co-signatory Status**

How it would work

From the earliest stages in developing the specification for a franchise, the DfT would work closely with the co-signatories who would endeavour to see their requirements incorporated in the specification, subject to being affordable and offering adequate value for money. Co-signatories could also request the inclusion of priced options in the ITT, to be funded by them. This is the position with the present Northern Rail franchise, which has the five north of England Passenger Transport Executives (PTEs) as co-signatory with the Secretary of State. The Railways Act 2005 removed the PTE's right to this status for future franchises. It can, however, be granted at the Secretary of State's discretion where a PTE is able to demonstrate that the status adds value.

#### **Option 2: One Franchise, One Specification**

How it would work

PTEs or other local authorities (LAs) buy enhancements to the Department's base specification or make proposals to reduce services/increase fares and retain the funding. Following a period of consultation, which includes PTEs and LAs, the Department would publish its base specification. PTEs and LAs could then propose increments or decrements to the base (eg, additional train services or a reduction in fares levels with the PTE or LA paying for the higher subsidy/reduced premium; a reduction in train services, an increase in fares levels with the PTE or LA receiving from the Department the value of the reduction in subsidy or increase in premium).

#### **Option 3: One Franchise, Multiple Specifications**

How it would work

With one operator for the whole franchise, PTEs or LAs would take responsibility for specific service groups, with the Department retaining responsibility for the strategic elements of the franchise and those services where no local body wishes to undertake any responsibilities. At some point in the process, the DfT would devolve funding to a PTE or LA for an agreed

service group. The PTE or LA could supplement this funding from its own resources to secure a higher level of specification. The whole franchise would be tendered as one, but bidders would be required to price devolved service groups separately within the overall total. Award of the franchise would be considered on the basis of total price for whole franchise.

#### **Option 4: One Principal Franchise, One or More “Micro-Franchises”**

How it would work

The DfT would procure and manage a principal franchise. However, operationally self-contained service groups or routes could be separately tendered and managed by PTE/LAs or other bodies, as “micro-franchises”. This could happen at the same time as or, more probably, subsequent to the main tendering process with services being tendered out or sub-contracted from the principal franchise. This differs fundamentally from Option 3 in that the “micro-franchises” could be operated by different companies from the principal franchise. An example of this kind of arrangement is the proposal, currently under consideration, to convert the St Albans Abbey to Watford Junction line to light rail, offering a more frequent service at broadly the same cost. Responsibility for the line and services would transfer to Hertfordshire County Council who would then re-let the contract. It may be appropriate for resources released by savings to be deployed to support local transport priorities. However, when the change is initiated after franchise award, sharing some of the benefit with the main franchisee might have advantages in placing an additional incentive on the operator to focus on the delivery of cost reductions.

#### **Option 5: Entire Franchise Devolved to a Grouping of PTEs/LAS**

How it would work

A group of LAs and/or PTEs would form a consortium to take responsibility for specifying, funding and managing a wider network of services. DfT would allocate a grant to fund the devolved services.