

Date: 31 May 2012

Item 8: Department for Transport Reforming our Railways
Paper and Consultations

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to advise the Committee of the Department for Transport's (DfT's) recent documents and to circulate the draft response to DfT's rail decentralisation consultation:

- (a) 'Reforming our railways: putting the customer first' paper;
- (b) 'Rail decentralisation' consultation; and
- (c) 'Rail fares and ticketing review' consultation

1.2 These form the Government's response to the McNulty 'rail value for money' review published in May 2011. Responses are required by 28 June 2012.

2 Recommendations

2.1 **That the Committee:**

- (a) **note the paper; and**
- (b) **note the draft response to the rail decentralisation consultation and that any changes will be made in consultation with the Mayor.**

3 Contents of the DfT Reforming our Railways Paper and Consultations

Reforming our railways: putting the customer first

3.1 This Paper confirms the direction of travel for Government of stepping away from the detail of the rail industry, and expecting the industry to take a greater lead in its future development. It expects the outcome to be both a more customer-focussed industry and also one whose cost effectiveness improves by an additional £1bn pa. Another theme is increasing the industry's transparency with much more openly available data.

3.2 Some specific issues from the paper (not otherwise covered in the consultations discussed below) are:

- (a) an ongoing role for the “Rail Delivery Group” in providing industry leadership;
- (b) an efficiency agenda mainly based on the McNulty approach rather than any fundamental reform of the structure;
- (c) the need to increase staff productivity through for example more driver only operation, allied to pay restraint;
- (d) a move towards less prescription in franchises, though recognition that at least some prescription is needed for non-commercial franchises;
- (e) Network Rail would stay as a company limited by guarantee but with fewer ‘members’;
- (f) a transfer of some DfT functions to ORR such as complaints and disabled people protection policy;
- (g) more ‘alliances’ between Network Rail and train operators;
- (h) support for an ATOC-led rolling stock strategy; and
- (i) a lack of enthusiasm for more open access operation.

Rail decentralisation

- 3.3 The Rail Decentralisation consultation explores various options for devolving responsibility and budgets to local bodies. Expressions of interest are sought from sub-national bodies who wish to take on responsibility for rail services in their area.
- 3.4 The consultation notes that because of the complexity of the network in London, central government is best placed to fund investments, but Government is open to receiving proposals for devolution of specific services. The Mayor’s Rail Vision prioritises the West Anglia and Southeastern inner suburban routes for devolution.
- 3.5 The Mayor’s Rail Vision published in February 2012 sets out the case for devolution of rail services in London. This forms the basis of the response which is attached in draft form as Appendix 1. The response to the consultation will be accompanied by a covering letter from the Mayor.

Rail fares and ticketing review

- 3.6 The consultation looks at:
 - (a) the need to improve efficiency and hence end real increases in fares in the medium term;
 - (b) options to extend the availability of smart ticketing;
 - (c) how smart ticketing is a means to use pricing to spread the burden of

the peak;

- (d) how it may be possible to reduce ticketing complexity; and
- (e) how ticket retailing could change.

3.7 The Mayor will respond to this consultation.

4 Next Steps

4.1 Subject to the Committee's agreement, TfL's response to the Rail decentralisation consultation will form part of the Mayor's submission to DfT.

List of appendices to this report:

Appendix 1 – DfT 'Rail decentralisation' consultation response

List of Background Papers:

DfT 'Reforming our railways: putting the customer first' paper
DfT 'Rail decentralisation' consultation
DfT 'Rail fares and ticketing' review consultation
Mayor's Rail Vision – Published February 2012

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Rail Decentralisation Consultation – Draft Response

Devolving decision-making on passenger rail services in England

The Mayor of London and Transport for London welcome the Department for Transport's consultation on the decentralisation of rail franchising as a means of improving rail services and enhancing local accountability. In February 2012, the Mayor set out in his *Rail Vision* a clear plan and specific proposals for decentralisation, together with detailed reasoning and evidence as to why it would contribute to the transformation of inner suburban rail services in London, as has already been achieved on the London Overground network.

That vision was warmly welcomed by the majority of Londoners and found political support in all quarters in the Capital. It also led to a number of detailed conversations with stakeholders that mean that the Mayor and TfL will soon be in a position to submit a more refined expression of interest in tandem with this consultation response.

The answers below represent the response of both the Mayor and of TfL to the Department's questions.

Experience of existing rail devolution arrangements

- 1. Consultees are invited to identify lessons which may be learned from existing rail devolution arrangements in Scotland, Wales, London and on Merseyside, and which are relevant to any proposals for future rail decentralisation covered in this document.**

There are lessons to be learned from TfL's management of the London Overground concession and Merseytravel's management of the Merseyrail franchise, both of which operate urban rail services.

Responsibility for the 'Metro' elements of the former Silverlink franchise was devolved to TfL in 2007. Under Silverlink Metro, services were of poor quality with old rolling stock, neglected stations, low levels of customer service and high levels of fare evasion. The operation consistently received dismal customer satisfaction results. Since taking over the network and establishing the London Overground service, TfL has made significant enhancements to the level and quality of services. It has introduced new, longer rolling stock; upgraded infrastructure to run more frequent services; and refurbished stations. It also offers higher standards of customer service having introduced more station staff, pioneered the extension of

Oyster smartcard ticketing to suburban rail, and significantly improved the provision of real time service information.

London Overground carries around 100 million passenger journeys per year and manages 55 stations. TfL has integrated the Overground into its existing public transport network with standard TfL zonal fares and improved and harmonised branding, information and customer service. The consistent customer proposition across the TfL rail services in the Capital, makes public transport easier to use and encourages modal shift. The Overground has been transformed from a neglected railway into the best performing network in Great Britain, with an outstanding reliability performance figure of 96 per cent compared with 89 per cent Silverlink performance in 2007.

The transformation has led to a surge in customer satisfaction and demand growth. Satisfaction with overall journey experience, as measured by independent body Passenger Focus, increased from 65 per cent either fairly or very satisfied in spring 2008 to 92 per cent in autumn 2011. Its National Passenger Survey (NPS) noted the highest level of overall customer satisfaction on services operated by LOROL, the London Overground concession operator, for a Government franchised or concession operation in London and the South East. Like-for-like demand (excluding the newly opened Highbury – Croydon line) has grown by 110 per cent, while fare evasion is down from 12 per cent to two per cent. These improvements started well before the major investment programme was completed in May 2011. Crime, for example, fell by 19 per cent in the first year of TfL's control.

The Merseyrail franchise which is managed by Merseytravel also has exceptionally high levels of reliability and customer satisfaction. Recent figures show Merseyrail operating performance of 95 per cent Public Performance Measure (PPM) and an NPS customer satisfaction score of 93 per cent either fairly or very satisfied with their overall journey experience.

These two examples demonstrate the benefits that can be delivered from local management of rail services.

How decentralisation could contribute towards achieving objectives and outcomes

- 2. Consultees are invited to submit views on how they consider that devolving responsibility could help achieve the objectives for the railway set out in paragraph 3.1 that is:**

Cost reduction and enhanced value for money

For devolved services, TfL favours using gross cost contracts, in which it absorbs the revenue risk for the inner-suburban services. This is the same model as used for TfL's existing transport services, including London Overground. It is also successfully used by London Buses, which generate fare revenues of £1.3 billion a year. It is thus a proven means of cost-effectively providing a public transport service. Because train operators have little control over revenues that are driven largely by macroeconomic

factors, they will accept revenue risk only at a price. This additional cost to the public sector would be reduced if TfL took the revenue risk instead. For the routes TfL has proposed for devolution in 2014/15, the gross saving from the transfer of revenue risk has been estimated at £100m over 20 years. This could then be invested in improving customer service quality and providing incentives to improve reliability. TfL is better placed to take risk than train operators as it already takes risk on approximately £3.2bn fare revenues and would have control over some of the drivers of revenue, including fares and service levels. This is wholly consistent with the objective of greater value for money as set out in the McNulty review.

Arguably customers using inner suburban services are placed at a disadvantage by the current arrangements, because train operators have a commercial incentive to prioritise the development of longer distance services, which have a higher yield, even though they are no more advantageous to the Capital's economic development. The vast majority of journeys on inner suburban routes are local with average length of around seven miles on the relevant West Anglia and Southeastern routes

TfL would incentivise train operators to collect additional revenue through a fare evasion incentive regime. For example, LOROL is required to pay a penalty if the number of passengers without a valid ticket exceeds the performance benchmark of 3.25 per cent. It receives an incentive payment if fare evasion is below this benchmark. Net cost contracts have been ineffective in incentivising operators to collect fare revenue on inner suburban routes. On London Overground, reduced fare evasion now generates an estimated £9 million per year in revenue.

TfL's proposals would not add additional bureaucracy or layers of management to the industry. Rather, they are designed to replace existing industry relationships and functions. Accountability for London's regional railways would sit in one place, integrated with other modes.

Local democratic control

Devolution would increase the level of democratic accountability compared to the current system, where roles and responsibilities are diffuse and accountability is unclear. The line of democratic accountability that exists currently through ministers to parliament means that responsibility for train services is in actual fact remote from users. Conversely, giving responsibility for London's inner suburban rail services to the local, directly elected Mayor would dramatically increase democratic control – the improved ability of users to hold such a figure to account is seen clearly in the other transport services devolved to the Mayor, notably London Underground.

Train operators are not accountable to the passenger in their current form. The answer to question 7 provides more detail on accountability.

Benefits for passengers

Devolution would provide a means to achieve more readily and cost effectively the goals of the Mayor's Transport Strategy of simple and consistent standards of service quality. In London, passengers would benefit from a package of

improvements including increased service frequency to turn up and go standard where feasible, station deep cleans, improved security, information and cycle parking. The improvements from service quality are fully costed and would be partly funded by reducing the risk premiums paid to operators. They have a social (non-financial) benefit of £130m over 20 years.

The improvements would be expected to be reflected in improved customer satisfaction scores, which are currently around 80 per cent satisfied or very satisfied on a moving annual average basis on the routes that TfL is proposing for devolution. The most recent equivalent figure for London Overground is 87 per cent.

Supporting and stimulating economic growth

The Capital is highly dependent on rail, with the Tube and National Rail having a combined mode share of 78 per cent for trips to central London in 2010. Londoners make six times as many rail trips as people in the rest of England, and 60 per cent of all UK rail trips are made either to, from or within the Capital. As rail is the main means by which people get to two million central London jobs, the Capital's economy is crucially dependent on it. 400 million journeys per year are made on inner suburban services in London.

In turn, the UK's economy is crucially dependent on the London economy. As a global and business financial centre, the city's productivity per head is 60 per cent higher than the UK average. London and the South East contributes more than a third of UK GDP, and by 2016 it is forecast to generate a tax surplus of £27bn. London's share of the UK economy is forecast to continue to grow until at least 2020.

Specifically, the London Overground experience shows that devolution of rail services in the Capital will lead to improved stations, higher standards of service quality, better performance and lower rail network crime, which would help support economic growth because:

- additional rail travel will be generated, increasing farebox revenue, which can be reinvested in rail services
- passenger traffic will shift away from the private car and towards public transport, reducing congestion on the roads to the benefit of the wider economy
- an enhanced and more integrated rail network will make London a more attractive place to live and work, contributing to attracting inward investment

Devolution would also deliver local economic benefits. The West Anglia routes which TfL has prioritised for devolution serve the Lea Valley regeneration area. Some of West Anglia's stations are of extremely poor quality and would benefit from deep cleans and improvements to the station environment. Help points are provided on only 40 per cent of platforms and CCTV is of low standard with no centralised monitoring. Local democratic control would lead to a significant improvement in customer satisfaction and encourage rail travel, contributing to growth in the local economy.

Contribution to carbon reduction

The performance and service quality improvements proposed by TfL would generate additional passenger demand especially in the off peak when journeys are more discretionary. A proportion of these journeys would switch from car, reducing CO2 emissions. Evidence from London Overground has shown that around ten per cent of new rail journeys have transferred from car.

Views on activities that should be devolved

3. Comments are invited on the list of responsibilities that should be retained by central government and those that might be devolved to sub-national bodies.

Responsibility for letting and managing franchises

In London, TfL proposes that national government should continue to specify and manage outer suburban rail and longer distance rail services. Responsibility for specifying, procuring and managing some London-focused inner suburban services should be transferred to TfL along with general responsibility for setting rail fares for travel within the London area. The following five point plan sets out TfL's proposals:

1. *the Mayor should be allocated DfT's rail budget for relevant inner suburban passenger services*
2. *when Anglia and Kent franchises come up for renewal, inner suburban services should be specified by TfL to Overground standard under a separate concession*
3. *TfL should have full accountability for contract management, such as 'breach' and 'default'*
4. *fares for travel within London would be set by the Mayor, simplifying fares and building on the success of Oyster smartcards by introducing more flexible ticket products*
5. *...and with the above, relevant inner suburban services could be branded 'London Overground'*

The Mayor has expressed interest in local management of the selected routes for devolution as described in the answer to question 4. Of the forthcoming round of franchises, DfT should continue to specify and manage the Essex Thameside and Thameslink franchises but when the Anglia and Southeastern are refranchised, inner suburban routes should be let as separate TfL concessions.

Fares and ticketing

The Mayor's views on fares and ticketing are set out in detail in the response to the Rail Fares and Ticketing Review consultation.

Simplified fare tariffs would encourage travel and greater use of smartcards would encourage more flexible alternatives to traditional season tickets. New products would be phased in gradually and would be subject to affordability, with existing printed season tickets retained while there was demand. Measures could be introduced to ensure that outboundary passengers would be protected from significant fare changes following devolution.

Track access rights

Devolved services would operate within the existing regulatory framework. As now, track access rights will be regulated by ORR, which is an independent national body. This will assuage any concerns that may be held by some stakeholders that by devolving some services the interests of users of other services operating in the same area could be compromised.

Views on types of service that should be devolved

4. Which types of service are suitable for local control? Should longer-distance services be regarded as “strategic”, because they serve a variety of markets and economic purposes, and therefore be specified nationally?

The government’s model of longer, less prescriptive franchises works better for medium to long distance journeys, where train operators are incentivised by the farebox to provide good quality services that meet passenger demand. Longer distance services are suitable for national control and TfL proposes that these services continue to be specified and managed by DfT. However, London passengers could experience reductions in off peak services and station service and facilities if inner suburban services were bundled together with longer distance services as part of longer, less prescriptive franchises.

Urban rail services such as London’s inner suburban services are most suitable for local control. These services meet a social and economic need but would be relatively neglected by a commercially focussed train operator, especially under a less prescriptive franchise regime. This is because commercial incentives are modest from a combination of:

- demand being overwhelmingly driven by London employment and other macro-economic factors
- fares, mostly outside operators’ control, being relatively low in absolute terms because of short distances as shown in Table 4.1
- relatively high costs associated with peaked mass-market demand
- largely captive customers with few, if any, alternative travel modes

Companies that provide inner suburban rail services therefore deliver the minimum required. However these journeys are vitally important to the London and by extension UK economies.

Table 4.1 Average fares for inner and outer suburban services

	Inner suburban £	Outer suburban £
West Anglia	2.10	6.50
Southeastern	2.00	4.75

The Mayor's Rail Vision proposes that the following factors should be used as indicators as to which inner suburban services are most suitable for devolution in the period through to 2015:

- existing franchises are due for reletting
- service quality is relatively low. (For example, poor station ambience, Public Performance Measure)
- services are mostly self contained within London
- franchises will be subject to remapping anyway because of the Crossrail and Thameslink projects

On this basis, the Mayor's *Rail Vision* proposed that, when they are refranchised in 2014 the following routes should be prepared for devolution:

- Liverpool Street / Stratford – Chingford / Enfield Town / Cheshunt / Hertford East (i.e. the West Anglia inner services, currently part of the Greater Anglia franchise)
- Charing Cross / Cannon Street / Victoria – Dartford / Orpington / Sevenoaks / Hayes (i.e. the inner services that are currently part of the Southeastern franchise)

Although these routes have been proposed for devolution in the Mayor's *Rail Vision*, the specific routes are indicative and there are feasibly other options. For example, an option for TfL to manage Hertford North to Moorgate services has been discussed with DfT. The preferred options will depend on operational feasibility, affordability, value for money and support from key stakeholders.

Work for TfL shows that West Anglia inner suburban services can be disaggregated from longer distance services with little impact on operational efficiency. The Southeastern network is more complex and disaggregation would result in an increase in the number of vehicles required although the increase would be small in relation to the size of the fleet.

The following table compares performance and service levels for London Overground and these indicative routes:

Table 4.2. Comparison of routes

	London Overground	West Anglia Inners	Southeastern Inners
Performance (PPM)	97	87	92
Customer satisfaction (NPS)	87	79	81
Services per weekday	938	412	904
Passenger journeys 2010/11 (million)¹	56	20	71
Stations	55	36	68
Route miles	71	45	88
Stations with help points %	100	40	100
Fare evasion %	2	9	not known
Average fare £	1.10	2.10	2.00

Local bodies such as TfL and the Mayor have a detailed knowledge of the services and their characteristics and can respond quickly as changes occur. They are also best placed to integrate rail services with the rest of the public transport network in terms of fares, information and the delivery of a consistent customer service proposition. This is especially so in London where National Rail services are fragmented and disjointed in many passengers' eyes, compared to the multi-modal TfL network.

The key driver behind a passenger-focussed railway is for concession control and service specification to be directly accountable to a local electorate. The Mayor is elected on a mandate which includes manifesto promises in respect of public transport, and he has personal accountability for the resulting Mayor's Transport Strategy. Under devolution the democratic accountability would be extended to include National Rail in London.

Devolution could also create a single 'till' or point of responsibility for rail transport in London and the South East. This would mean that accountability for London's regional railways would sit in one place, integrated with other modes delivering synergies and cost savings.

¹ London Overground has expanded significantly since 2010/11. Current passenger journeys are around 100 million per year.

5. In areas where responsibility for local passenger services is devolved, what are the implications for other users of the rail network, including freight customers and operators, and how might these implications be addressed?

Devolution of inner suburban routes in London would not disadvantage other operators.

As now, TfL would have no control over allocation of train paths. ORR would continue to regulate and protect access where appropriate. Operators with access rights have legally enforceable rights set out in their track access contracts and provisions within the Network Code. These include for example:

- Detailed provisions about the timetabling process (Part D of the Network Code) and the decision criteria (Condition 4.6) that Network Rail should apply during this process.
- A requirement in Part H of the Network Code for Network Rail to establish a Railway Operational Code covering, among other things, train regulation policies, emergency timetable procedures, and arrangements for dealing with track blockages, adverse weather etc.

Aside from the formal protections that will continue to be provided to all rail users, as they are at present, it is in TfL's own interest to protect the interests of freight and longer distance services:

- Long distance services are vital to London's economy. They play a major role in allowing non-London residents to work in London, in providing efficient transport connections between London and other business centres in the UK, and in making it easy for visitors and tourists to come to London
- Promoting rail freight contributes to the Mayor's objective of reducing transport's contribution to climate change. One proposal set out in the Mayor's Transport Strategy is to "Encourage, and where appropriate specify, improved freight movement efficiency through, for example, greater consolidation, more off-peak freight movement and greater use of water and rail-based transport",² and this commitment has been demonstrated by the Mayor's recent intervention to protect continental gauge rail access from the High Speed 1 line to a freight yard at Barking³

More generally, it should be noted that longer distance passengers would in practice benefit from greater Mayoral control through for example improved interchange opportunities and integration of the transport network within London – 50 per cent make onward journeys.

² Mayor's Transport Strategy, section 5.22.3

³ See *Modern Railways*, March 2011, p11

Views on the five options

6. Consultees are invited to comment on the models for decentralisation and how they might apply or be appropriate to particular parts of the country or service groups in a particular area.

The consultation sets out five models for decentralisation:

- Option 1, Co-signatory status
- Option 2, One franchise, one specification
- Option 3, One franchise, multiple specifications
- Option 4, One franchise, one or more micro franchises
- Option 5, Entire franchise devolved

TfL believes that devolution of separate concessions comprising London-focused inner suburban routes is appropriate and desirable. This would allow TfL to take revenue risk, reduce the cost of franchising and allow savings to be spent on service improvements. TfL control over the specification and incentivisation of performance and service quality would deliver substantial benefits to passengers. Consequently, option 5 is TfL's preferred option. Options 1 and 4 are not appropriate for London.

TfL has tried using the DfT's "increments and decrements" process, consistent with option 2. It has specified increments to the South Central and Greater Anglia franchises. In the Greater Anglia case, increments were treated as priced options and did not form part of the base specification. There was no requirement for bidders to price the increments and the element of competition was removed from the process.

Although increments and decrements have, overall, achieved some benefits, they would be even less effective with less prescriptive franchises. TfL is beholden to the private operators over which it has little control in practice, and certainly no powers of contract breach or default, or even the ability to affect key objectives such as payments for reliability. With less prescriptive franchises, it would become almost impossible to define any given increment.

Option 3 provides another possible model for London. DfT could devolve funding and management responsibility for inner suburban services to TfL. The inner suburban services could still be let on a gross cost basis. TfL would need a role in procurement of the franchise and in management and compliance to ensure that benefits were delivered. However, it is expected to be complicated to implement and could lead to game playing, where a train operator takes revenue risk on some of its services but not on others. In addition, ATOC has expressed concerns about reporting to two authorities with different franchise management and incentive regimes which could increase risk for train operators and be reflected in increased bidding costs.

Option 5 is TfL's preferred option. TfL would take responsibility for specifying, funding and managing relevant parts of the London network and DfT would transfer budget for running the services to TfL. TfL is well placed to take financial risk on the concessions as it already takes risk on £3.2bn fares revenue. It is also capable of

taking operator of last resort responsibility and has this status for London Overground.

TfL would work closely with neighbouring county councils and set up a governance structure to take account of the interests of passengers living outside the London boundary, just as it has done for London Overground passengers in Hertfordshire. This is discussed in more detail in the answer to question 9.

The definition of networks for devolution will depend on operational issues. The devolved unit must be able to operate efficiently as a separate business with its own rolling stock, stabling and maintenance facilities and staff. TfL has undertaken operational analysis of its prioritised routes to ensure that they meet this criterion.

Views on governance

7. Comments are invited on issues related to the size of the area that needs to be covered by a devolved body and the governance issues that this may give rise to.

The routes that TfL has proposed for devolution in London during the period through to 2015 are set out in the answer to question 4, and in Figures 1 and 2. It should be noted that these routes are indicative and that there are feasibly other options.

The area to be covered would extend slightly beyond the GLA boundary but would remain within the Mayor's wider London boundary⁴. The Mayor already has limited powers of increment and decrement with respect to train service beyond the London boundary to defined points, and this is deemed perfectly acceptable. PTEs also have powers beyond the PTE boundaries.

Services which primarily serve London stations would be devolved to TfL. Outer suburban services and long distance service would continue to be let by DfT. Rail services would comprise a mix of inner suburban TfL contracts and longer distance DfT-franchised services. This would enable government to benefit from less prescriptive franchises for longer distance services. Devolution would have no impact on calling patterns or access to the network for longer distance services. The area would be determined by operational factors and be based on current service patterns to maintain operational efficiency.

TfL proposes specific governance measures to represent the interests of passengers using devolved rail services that extend outside the London boundary:

- The Railways Act 2005 requires that at least two members of the TfL Board must be able to represent the interests of people living, working and studying

⁴Guidance on the Role of Transport for London in DfT's Rail Franchising Process, DfT, July 2007
<http://www.dft.gov.uk/publications/rail-passenger-franchise-tfl-role/>

in areas outside Greater London, which are served by railway services that are operated or likely to be operated by TfL.

- TfL would work closely with neighbouring transport authorities to establish a formal consultation mechanism that would be activated before making changes to cross-boundary services.

The process above means that there would be at least as much accountability as there is now. TfL would work with DfT and neighbouring authorities to determine an appropriate system of governance.

In practice the majority of outboundary users are going to/from London and many passengers would continue to use fast services operated by DfT franchised operators. For example, 93 per cent of journeys from Sevenoaks towards London are made to central London stations. Sevenoaks and Cheshunt – like Watford Junction today on London Overground – would continue to be served mainly by longer distance services and would be managed by the DfT-appointed franchisee, which would also set fares for the London flows. Outboundary users would benefit from service quality improvements and availability of Oyster Pay as You Go.

Views on funding

8. Consultees are invited to comment on the basis on which the level of funding to be devolved might be established.

The budget for operating the devolved services should be transferred to TfL. Funding for devolved rail services should be identified by DfT and TfL through disaggregation of the franchise's management accounts between inner and outer suburban services. This process was used to split the costs and revenues of the Silverlink Metro business from the rest of the Silverlink franchise when the London Overground concession was set up. Budget disaggregation is also carried out whenever a franchise is remapped and will be required for the Thameslink and Crossrail franchises/concessions.

Revenue attributed to particular services can be readily identified through the rail industry's LENNON revenue attribution system. Operating costs should also be disaggregated to service level and a share of franchise overheads allocated to each of the remaining businesses.

Infrastructure would remain as Network Rail's asset and the costs of maintenance and renewal would continue to be recovered through access charges. Future enhancements to the infrastructure would continue to be determined by the HLOS (High Level output Specification) process.

Under the proposed arrangement, DfT franchise management costs would be reduced, as some functions would transfer to the local body. This cost saving should form part of the funding agreement.

Expressions of Interest

9. Expressions of interest are invited from sub-national bodies who would like to develop proposals to take on devolved responsibilities for rail services in anticipation of franchises being re-let.

The Mayor's, and TfL's, early expression of interest is set out in the Mayor's *Rail Vision* published in February 2012⁵: The Mayor has identified two sets of inner suburban routes for devolution over the next few years as they come up for franchise renewal: the Southeastern network inner suburban services from Dartford, Sevenoaks, Orpington and Hayes, and the West Anglia inner suburban services from Enfield Town, Cheshunt, Hertford East and Chingford. These specific routes are indicative and are subject to detailed feasibility studies. Other combinations of routes may also be operationally possible⁶.

The proposed routes are wholly within the Mayor's wider London boundary. This is the area within which the Mayor has the right to make increments and decrements. Further details of the indicative routes are shown in Figures 1 and 2.

TfL would increase service frequencies to a minimum 'turn up-and-go' level wherever possible, subject to infrastructure requirements and impacts on other operators. For example, TfL would implement a new, off-peak Bromley South to Victoria all-stations service, to address gaps in service provision identified in previous TfL studies.

In addition, TfL would be able to make best use of interchange points and fully integrate the services into other parts of its network. The Southeastern and West Anglia networks have been identified because service quality is currently poor, and TfL has almost no rail presence in southeast London, other than parts of the DLR and Tramlink networks. Of the 68 National Rail stations on the Southeastern network within Greater London, TfL has a presence at only one – New Cross.

Local services on the Great Eastern mainline will be transferred to the Crossrail TOC in 2015. This will be a TfL managed concession similar to the London Overground. Like the London Overground route to Watford Junction, Crossrail and the elements of the Southeastern and West Anglia franchises proposed for devolution will all share track with longer distance services, for which there are established regulatory processes to ensure scarce capacity is best allocated.

So by 2020, the Capital could be seeing the advantages of devolution on parts of Southeastern and West Anglia, and on the Crossrail concession, in addition to the established benefits to the London Overground network. Separating inner-suburban services from longer distance services within existing franchises also makes it easier for the Government to achieve its policy of a less prescriptive franchising model.

Longer distance services have different revenue drivers and higher yields, and train operators are more incentivised to innovate and attract customers from competing modes. Freeing the franchises of inner-suburban services would make the residual longer distance services more homogenous. It would be a practical manifestation of the Government's stated policy that 'one size does not fit all'.

⁵ <http://www.london.gov.uk/mayor%E2%80%99s-rail-vision-investing-rail-services-london>

⁶ One example is Hertford North to Moorgate depending on future Thameslink train service specification

Figure 1. West Anglia Routes for Devolution (indicative)

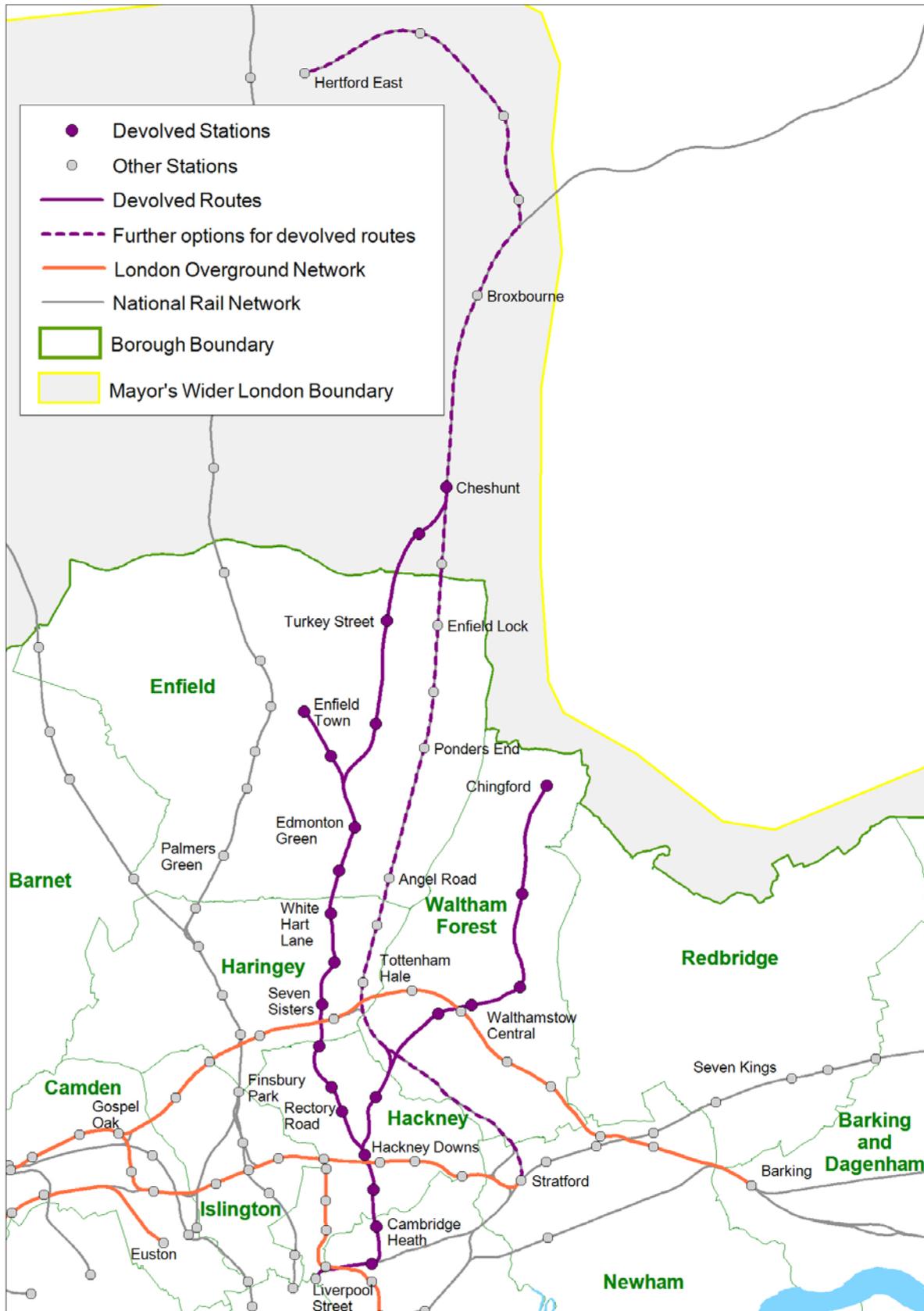


Figure 2. Southeastern Routes for Devolution (indicative)

