



House of Commons  
Transport Committee

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**Rail fares and  
franchises**

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**Eighth Report of Session 2008–09**

*Report, together with formal minutes, oral and  
written evidence*

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## The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Transport and its associated public bodies.

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# 1 Introduction

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## Background to rail fares and franchising

1. In 2006, we produced two major reports on rail passenger franchising and rail fares.<sup>1</sup> We made a series of unambiguous recommendations to the Government about how best to improve services and increase the value for money of the railways. We were clear about the systemic problems, and argued that these were likely to cause problems in less benign economic climates. At the beginning of 2009, with the UK going into recession, large increases in rail fares were introduced across the country. These fare rises were accompanied by rumours of franchise holders defaulting on their contracts. We felt the two subjects merited another short inquiry to follow up our 2006 reports. Our inquiry has addressed two main areas:

- a) fares—in January 2009 regulated fares increased by an average of 6% and unregulated fares by an average of 7%, and
- b) franchising—the implications of the recession for train operating companies (TOCs) and their rail franchises.

2. We held two oral evidence sessions in February, one with train operating companies, trade unions and passenger representatives, and a further one with the then Minister of State for Transport, the Rt Hon Lord Adonis. In June, we had a follow-up oral evidence session with Lord Adonis to examine developments in the intervening months.<sup>2</sup>

## Rail franchising—on track?

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3. In our 2006 report on passenger rail franchising, we concluded that the franchising system had failed to fulfil its objectives, and that it was nothing short of a “policy muddle”.<sup>3</sup> We were concerned that “the drive to extract premiums from some parts of the network will result in further above-inflation fare increases and a deterioration in customer service, investment and innovation”.<sup>4</sup> We argued that the Government needed to “conduct a strategic review of the long term needs of rail passengers, and an honest appraisal of the structure best suited to fulfil these needs over the next several decades”.<sup>5</sup> We urged the Government to ensure that this review be included in the 2007 Rail White Paper. The

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1 Transport Committee, Sixth Report of Session 2005–06, *How fair are the fares? Train fares and ticketing*, HC 700; and Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354

2 Lord Adonis appeared before the Committee on 25 February 2009 as the then Minister of State for Transport, and on 17 June as Secretary of State for Transport to give evidence on rail fares and franchising.

3 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, paras 122–124

4 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 58

5 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 122

Government failed to do so, telling us that the system was “delivering” both good services and value for money.<sup>6</sup>

4. Just a few weeks after the publication of our report, in December 2006, GNER defaulted on its franchise commitments for the East Coast Main Line service,<sup>7</sup> and the franchise was re-let to National Express in 2007. GNER had committed itself to paying the Government £1.3 billion in premiums for the seven year franchise. Despite GNER defaulting on this contract, National Express offered the Government even higher premiums for the line—£1.4 billion over the course of its seven and a half year franchise.<sup>8</sup> During the first half of 2009, less than two years into the contract, the financial strain of the recession became apparent and National Express made significant cuts in staff and services on the East Coast Main Line.<sup>9</sup>

5. Since February 2009, the Rt Hon Lord Adonis, Minister, and subsequently Secretary of State, has given us repeated assurances that no train operating company was reporting financial difficulties or seeking to renegotiate their terms.<sup>10</sup> Indeed, on 17 June, he told us that:

We are now about a year through the recession and no train operating company has defaulted on its obligations even though, of course, their share prices have come under very considerable pressure in that time and the return they are able to make from operating rail services has diminished. The evidence so far is that the franchising system has continued to prove its worth.<sup>11</sup>

6. Precisely two weeks later, on 1 July 2009, National Express Group announced that it would not provide any further funding for its East Coast Main Line subsidiary. On the same day, the Secretary of State made a Statement in the House of Lords, announcing that National Express had sought a re-negotiation of their contract over several months, but the Government had refused to contemplate this option. Instead, a publicly-owned company would be established to take over the East Coast Main Line until the service could be re-franchised in 2010.<sup>12</sup>

**7. As we said three years ago, the current system of rail franchising is a muddle. Within just three years, two franchise operators have had to abandon a major franchise—both of them on the East Coast Main Line. Whilst we fully support the Secretary of State in his decision to take back responsibility for the East Coast Main Line franchise, we remain convinced that these two high profile failures are indicative of the underlying problems in the current franchising model.**

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6 Transport Committee, First Special Report of Session 2006–07, *Passenger Rail Franchising: Government Response to the Committee's Fourteenth Report of Session 2005–06*, HC 265, pp 1–2

7 BBC, *GNER to surrender top train route*, 15 December 2006, <http://news.bbc.co.uk>

8 National Express awarded contract for growth on InterCity East Coast, DfT Press Release, 14 August 2007

9 It has been reported that National Express' revenue growth in the first quarter of 2009 was just 0.3%. The premium increased by just over £50 million this year, and will do so again in each of the next two financial years. The 'cap and collar' risk-sharing arrangements for Government support do not apply until the end of 2011. See: *Modern Railways, Hard times are getting harder*, June 2009

10 Qq 233 and 243

11 Q 319

12 HL Deb, 1 July 2009, col 225, Statement by Rt Hon Lord Adonis

## Rail franchises in the recession

8. The National Express East Coast franchise is reportedly not alone in facing financial distress. South West Trains, owned by Stagecoach, is involved in a dispute over its £1.2 billion contract with the Government about when it becomes eligible for revenue support.<sup>13</sup> Stagecoach has warned that its rail division would face a “significant” loss if it were to fail to resolve the dispute. Virgin West Coast’s revenue growth for the 48 weeks to 29 March 2009 was only 0.5%, although it is expected to remain profitable in the current financial year.<sup>14</sup> Arriva is facing heavy losses on CrossCountry.<sup>15</sup> In recent months, there have been a reported 7,000 job cuts in the rail sector, including 750 jobs at National Express Group, 480 at South West Trains, and 300 jobs at Southeastern.<sup>16</sup> It is unclear what the cost to the tax payer of the default on the East Coast main Line is likely to be, because much of the information is confidential.<sup>17</sup> It is clear, however, that if more franchises were to default, the financial implications could be very serious indeed, perhaps jeopardising funding for other transport projects. **We are concerned that there is a lack of information available to us regarding the financial stability of franchise operators. Many more franchises may be struggling to meet their required financial agreements, without our knowledge. Any additional failures in the franchise system, coupled with risk sharing, will inevitably cost the Government considerable sums. We are deeply concerned about the impact this could have on the funding for other transport projects.**

## Risks and renegotiations

9. In our detailed analysis of the franchising system in 2006, we noted that only a very small proportion of risks are transferred from the public to the private sector through the current rail franchising system.<sup>18</sup> This situation remains unchanged today. Three years ago, we questioned whether there was any point in private sector involvement in the railways if risk was not transferred to them.<sup>19</sup> Recent events have vindicated our concerns.

10. A witness in our 2006 inquiry, Mr Segal of MVA transport consultants, noted that the state of the economy posed the most serious risk in relation to the railways. He highlighted that this risk falls to the Government alone: “the big risk is, if there is a downturn in the economy, almost all the train operating companies will find great difficulty on their revenue line and that means the government will end up bailing it out”. Mr Segal told us that train operating companies invested only small sums, relative to the turnover of a franchise. In tough times, they would be able to walk away from that investment without major damage to their company or reputation.<sup>20</sup> The Government cannot walk away.<sup>21</sup>

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13 See paragraph 11.

14 Stagecoach Group Trading Update Press Release 28 April 2009

15 “Off the Rails”, *The Independent*, 20 May 2009

16 “Rail Company to cut jobs”, *BBC News Website*, 9 January 2009

17 Q 566

18 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, paras 17-25

19 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, paras 25

20 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 17

21 Under section 30 of the Railway Act 1993, amended by the Railways Act 2005, there is a requirement on the Secretary of State to act as ‘operator of last resort’ if need be, to ensure continuity of services.

11. The retention of risk in the public sector has been amplified over the past decade through changes in the construction of franchise contracts. In the early franchises, franchise holders carried the entire revenue risk, but now the Department for Transport retains a high proportion of the revenue risk through the so-called ‘revenue risk-sharing’, or ‘cap-and-collar’ arrangement. Under this system, the franchise holder bears the risk of revenue shortfalls alone over the first four years of a contract, but from year five onwards, relatively small percentage shortfalls in revenue can lead to significant reimbursements from the DfT. The converse is also true so that the Government takes a share of profits if they are more than 2% above the target.<sup>22</sup>

12. As we have noted in the past, the process for awarding franchises along with the relative absence of significant risks for franchise holders tend to fuel very optimistic bids. The two failed contracts on the East Coast Main Line where operators had offered the Government £1.3 and £1.4 billion respectively to run the franchise are clearly cases in point. If passenger growth and revenue forecasts are optimistic, bids tend to promise the Government lower subsidies or higher premiums. We voiced our concerns about the weight attached to maximising premiums at the expense of other priorities in 2006.<sup>23</sup> The last round of franchises were let on the assumption that passenger numbers would grow by 9–10%, and profit would rise by 10%.<sup>24</sup> The recession has, however, changed the outlook dramatically, and passenger numbers have been virtually static in 2008–09.<sup>25</sup> There has also been a marked tendency for passengers to migrate towards cheaper tickets, and the shift from lucrative first class seats to standard class seats has had a particularly severe impact on the revenue of some franchises. This has meant a decrease in revenue even where passenger numbers have remained the same.<sup>26</sup>

**13. Privately-owned companies maximise profits and dividends in the good times when the optimistic assumptions of their franchise bid are met. But in hard times, when revenue stagnates and costs rise, there may be insufficient financial resilience to get by without default or at least significant fare rises and reductions to passenger services such as ticket office closures and subsequent job losses. Tightly specified franchise contracts limit the options available to operators, and partially protect passengers, but also leave tax payers at risk of having to pick up the bill. The current risk-sharing arrangements mean operators are not held to account on their promises. There is no point in involving the private sector if it simply takes the profits in the good times, leaving the tax payer to pick up the tab in bad times?**

14. We have previously concluded that, given the absence of any significant transfer of risk to train operating companies, it was essential for the Government to resist any pressure to

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22 As an example, if, after four years, actual revenue out-turns fall between 98% and 94% of target revenue, then the DfT will provide support equivalent to 50% of the shortfall. If it out-turns below 94%, then DfT will provide support equivalent to 80% of the further shortfall. Conversely, if actual revenue out-turns are between 102% and 106% of target revenue, then 50% of the excess between 102% and 106% will be shared with DfT. If it out-turns above 106%, then 80% of the further excess will be shared with DfT. See: Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 20.

23 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 58

24 “What a ridiculous way to run a railway”, *Yorkshire Post*, 6 July 2009

25 Christian Wolmar, “Interesting Times for Rail”, *Public Servant Magazine and Conference Proceedings*, 21 May 2009

26 Q 174



re-negotiate the terms of franchises in trouble.<sup>27</sup> Such renegotiations had been common in the past, with more than half of the original 25 franchises created at privatisation obtaining changes to their contracts.<sup>28</sup> The Government has so far held firm that it will not renegotiate contractual terms, but whether the Government would be able to hold this line in the face of multiple defaults is open to question. **The Government must continue to hold firm on its commitment not to re-negotiate franchising contracts.**

15. On 1 July, the Secretary of State indicated that the Government might invoke the cross-default provision to revoke National Express' two other franchise contracts as well as the East Coast Main Line.<sup>29</sup> The aim of the cross-default provision is to ensure that franchise holders cannot choose simply to hand back the keys to franchises in trouble whilst retaining their profitable services. It has subsequently emerged that the use of a 'special purpose vehicle' by National Express could prevent the Government from using the cross-default mechanism.<sup>30</sup> **We believe it is unacceptable that National Express may be able to cling on to its remaining franchises through the use of a 'special purpose vehicle'. The misuse of legal instruments, such as 'special purpose vehicles', to insulate parent companies from potential losses and legal problems as a result of the failure of subsidiaries is sharp practice.**

### Options for the East Coast Main Line

16. If a franchise holder defaults on their contract, the Government has several options. As discussed above, it could renegotiate the terms of the contract, it could take the franchise back temporarily in order to re-let it to another train operating company as soon as possible, or it could run the franchise itself under a management contract. Doing nothing, however, is not an option, as section 30 of the Railways Act 1993, amended by the Railways Act 2005, imposes a requirement on the Secretary of State to act as "operator of last resort" if need be, to ensure continuity of services. When the Connex South Eastern franchise was taken back into the public sector in 2003, it was run successfully by the public sector for two years.<sup>31</sup> The Government then re-let the franchise to a private operator. There have been suggestions that the Government should retain the East Coast Main Line franchise in the public sector as a public interest franchise.<sup>32</sup> **The Government should be willing to attempt different forms of franchising. Now is an ideal opportunity to keep the lucrative East Coast franchise in the public sector. The service could then be used as a comparator for other types of franchises, both in terms of financial viability and passenger service quality.**

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27 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 23

28 Preston J. M., (2008). "A Review of Passenger Rail Franchising in Britain: 1996/7 – 2006/7." *Research in Transportation Economics*, 22, pp 71-77

29 HL Deb, 1 July 2009, col 225, Statement by Rt Hon Lord Adonis

30 BBC Web site: Robert Peston Blog: *Peston's Picks: I could operate trains*

31 Robert Jupe, A "fresh start" or the "worst of all worlds"? *Critical Perspectives on Accounting* 20 (2009) pp 175–204

32 Q 318

## Length of franchises

17. Most franchises are currently between seven and ten years duration (see Table 1 below). Some are shorter, such as the recent South Central franchise which will run for less than six years.<sup>33</sup> Since 2003, no franchise has been awarded for more than ten years.

**Table 1: Length of current rail franchises by start year**

Train Operating Company	Owning Group	Franchise period	Length (years)
C2C	National Express Group	1996–2011	15
Virgin West Coast	Virgin Trains	1997–2012	15
Chiltern Railways	Deutsche Bahn AG	2002–2021	19
Southern <sup>34</sup>	Govia – Go Ahead Group/Keolis	2003–2009	6
Merseyrail	Serco-NedRailways	2003–2028	25
National Express East Anglia	National Express Group plc	2004–2011	7
First Scotrail	First Group	2004–2011	7
First TransPennine Express	First group/Keolis	2004–2012	8
Northern Rail	Serco-NedRailways	2004–2013	9
Southeastern	Govia – Go Ahead Group/Keolis	2006–2014	8
First Capital Connect	First Group	2006–2015	9
First Great Western	First Group	2006–2016	10
National Express East Coast	National Express Group plc	2007–2013	6
London Overground	MTR La	2007–2014	7
London Midland	Govia – Go Ahead Group/Keolis	2007–2015	8
East Midlands	Stagecoach Midland Rail Ltd	2007–2015	8
Cross Country	Arriva Trains Ltd	2007–2016	9
South West Trains	Stagecoach Holdings	2007–2017	10
Arriva TrainsWales	Arriva Trains Ltd	2008–2018	10

18. In 2006, we recommended that the Government move towards medium-length franchises of up to fifteen years “with one or two in-built break-points where contracts may be terminated if performance is unacceptable”.<sup>35</sup> Many others have subsequently argued that current franchises are too short and fail to encourage long-term planning by train operating companies. There is little incentive for operators to invest in long-term infrastructure that will almost certainly be handed over to someone else before it has started to return revenue. It is also argued that the current length of franchises contributes to train operating companies taking short-term cost-cutting measures (such as reducing catering costs) to increase revenue, because operators are less concerned about the long-term impact of such measures. Network Rail, as well as train and freight operators, have all

33 Q 318

34 The franchise is officially called South Central but is operated under the name Southern—see <http://www.go-ahead.com> and <http://www.dft.gov.uk>

35 Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 90

indicated that planning the UK's rail system in five-year chunks, or by seven-year franchises, was inefficient.<sup>36</sup> ATOC Chief Executive, Michael Roberts, has argued that “there should be a place for longer franchises and less prescriptive, more output-based specifications, which give operators the flexibility to respond better to customers, and reward them accordingly”.<sup>37</sup> According to Sir Richard Branson, co-owner of Virgin Trains, the current franchise system “does not work”. He emphasised that a longer franchise contract of 20 to 30 years would allow Virgin Trains to underwrite engineering work on the West Coast Main Line, such as a further £1 billion upgrade that could cut the journey between London and Glasgow by 40 minutes. He said, “a long-term contract would provide time to earn a return from such investments. Such work could increase revenues by up to £100 million a year and would be profitable within a decade”.<sup>38</sup>

19. The Government has argued that the difficulty of predicting revenue over 15 or 20 years militates against longer franchises,<sup>39</sup> but the Secretary of State told us in June that a review of the length of franchises was under way in the Department, and hinted that there could be scope for a revision of Government policy in this area.<sup>40</sup> **The current length of franchises does not encourage train operators to plan on a long-term basis. It discourages investment in the services, and contributes to train operators taking short-term cost-cutting measures that reduce passenger service quality. The Government should let franchises on a longer basis, albeit with break points so that contracts can be terminated at pre-defined points where performance is unsatisfactory.**

### Putting passengers first

20. The needs of passengers have not always appeared to be built into franchise contracts in a satisfactory way. However, the award of the South Central franchise to Southern Railways in June 2009 has been welcomed by passenger groups.<sup>41</sup> The franchise, which runs until 2015, requires Southern Railways to introduce longer suburban trains at peak times and more trains on key lines during evening and weekends, increase the number of stations staffed at night and introduce CCTV on all trains by 2011. The franchise will also deliver at least 1,000 extra car parking spaces and 1,500 additional secure bicycle spaces. Every station across the network is required to be cleaned and refreshed, and enhancements are scheduled at 34 stations in the region. In addition, the Government has required Southern Railways to set targets for passenger satisfaction and provide additional investment if these targets are not achieved. Announcing the franchise, Lord Adonis said:

We have worked closely with rail user groups such as Passenger Focus to ensure that this new franchise works for passengers.<sup>42</sup>

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36 “Network Rail and operators consider longer-term rail strategies”, *Rail Magazine*, 3 June 2009

37 “ATOC strikes back”, *Rail Magazine*, 3 June 2009

38 “Branson calls for overhaul of rail franchise system”, *The Guardian*, 20 May 2009

39 Paul Clark MP in Westminster Hall Debate, 3 June 2009, cols 67–90WH

40 Q 330

41 The South Central franchise is, and will continue to be, operated under the name Southern—see <http://www.go-ahead.com>

42 Department for Transport press release, “More frequent and more secure rail services for London and the South East”, 9 June 2009

21. The needs of passengers have not always been properly catered for within rail franchising contracts. The Government must ensure that franchises are more passenger-focused, and that commitments within existing franchise contracts are also enforced. It would be good if the franchise recently awarded for the South Central line, which includes monitoring of passenger satisfaction, and the inclusion of additional factors such as cycle and car parking space targets, were to become the norm for future franchise negotiations.

## 2 Fares

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22. In 2008, we recommended that the Government re-visit its commitment to shift a greater proportion of the cost of the railways onto passengers and away from the tax payer. We have acknowledged that some re-balancing may be required, but tax payers and passengers alike are suffering the effects of the recession, and this is not a sensible background on which to rebalance the financial burden rapidly.

### Fare rises

23. Our analysis of rail fares in 2006 led us to conclude that rail travel in the UK was poor value for money. The variation in fare rises on different routes over a decade has also meant that the cost of travelling 100 miles on two different routes with similar quality of service, can now vary greatly.<sup>43</sup> We argued that exorbitant rail fares had the potential to hamper regional economic growth by restricting the mobility of the workforce. We also thought it would hinder the long-term popularity of the railways.<sup>44</sup> The variation in the development of fares has continued, and both regulated and unregulated fares are affected.

24. In January 2009, when the Retail Price Index (RPI) stood at 0.1% and the Consumer Price Index (CPI) annual rate of inflation stood at 3.0%, regulated rail fares rose by an average of 6% and unregulated fares by 7%.<sup>45</sup> Regulated fares can only increase by RPI+1%. However, since the annual January fare increase is based on the RPI the previous July, which, in this case, had been 5%, a very large real terms increase in regulated rail fares was possible.<sup>46</sup> Due to the fares basket system<sup>47</sup>, some individual fares increased much more than the average, with some regulated fares rising by more than 11%.<sup>48</sup>

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43 Transport Committee, Sixth report of Session 2005–06, *How fair are the fares? Train fares and ticketing*, HC700, paras 63 and 47

44 Transport Committee, Sixth report of Session 2005–06, *How fair are the fares? Train fares and ticketing*, HC700, para 67

45 The Consumer Prices Index (CPI) is the headline UK domestic measure of inflation. It measures the average change from month to month in the prices of consumer goods and services. It is the measure adopted by the Government for its UK inflation target. The Retail Price Index (RPI) is another measure of inflation but, unlike CPI, it does not include Council Tax and mortgage interest payments.

46 Q 2, Q 5, Q 13 [Mr Mapp]

47 Although the Government has limited most regulated fare increases to an overall RPI+1% cap, that cap is applied to a group of fares called a basket and individual fares may increase by up to 5% more than the average of the basket as long as the overall cap is not exceeded. For example, Southeastern (who had a RPI +3% cap) has increased its Gillingham–London annual season ticket by 10.2%—an increase of £280. See also: Passenger Focus press release, “2009 fare rises unacceptable and unjustified”, 31 December 2008.

48 First Capital Connect increased its Off-peak Return fare Kings Lynn-London by 11.5% and its St-Neots-London fare by 11.1%

25. While we recognise that the six-month gap between the benchmark RPI and the subsequent fare rises could cut both ways, our concern is that the train operating companies have taken advantage of the mechanism to raise fares at the worst possible moment and to a level which is out of all proportion to the real economy. But as we noted in the previous chapter, short-termism is built in to the franchising system as a perverse incentive. A short-term approach and insensitive attitude towards passengers will damage train operators' relationships with their customers in the long-term. The system encourages and allows train operators to take their passengers for granted.

### Hidden fare rises and service cuts

26. Train operating companies are considering where they can make cuts to services that are not governed by specific franchise agreements. Some of these, announced or implemented this year, include:

- a) removal of restaurant cars (but not buffets) from National Express East Coast and National Express East Anglia services;
- b) removal of carriages from some Southeastern services (though reinstated after passenger protests);
- c) application by South West Trains (Stagecoach) to close a number of ticket offices—some of which have been rejected by the Secretary of State, and
- d) plans to reduce ticket office opening hours at First Capital Connect.<sup>49</sup>

27. Certain train operators have decided to charge large fares to passengers for reserving seats. We do not object to a small nominal charge, say £1, for a seat reservation, but some TOCs have gone much further, charging prices which are prohibitive for some travellers. The imposition of excessive seat reservation charges is an example of back door fare rises which the Government needs to monitor through conditions in franchising contracts. The introduction of a charge for seat reservations by National Express has been heavily criticised. Previously considered part of the ticket price, seat reservations for long distance journeys are now being charged on the East Coast route. Set at £5 for a return journey and £2.50 for a single, the biggest impact will be on families and group bookings where the price of a ticket could rise by £20 or more.<sup>50</sup> Passenger Focus has commented:

Charging passengers to reserve a seat beggars belief. This is another example of back door fare rises. Some of National Express' routes cover extremely long journeys, cost considerable amounts of money and passengers expect that a seat is covered in this ticket price.<sup>51</sup>

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49 Q 152 [Ms Grant], Q 162, Q 176

50 "Train firms slammed for 'mugging passengers'", *The Daily Mirror*, 13 May 2009

51 Ashwin Kumar, a Director at Passenger Focus quoted in "Passengers face levy to guarantee a seat" in *The Daily Telegraph*, 11 May 2009

The RMT union has said:

That is simply mugging passengers for an extra fiver and it will hit the elderly and families the hardest. This is an outrageous imposition on millions of passengers and amounts to the fourth increase in overall prices in just five months.<sup>52</sup>

## The complexity of rail fares

28. In our May 2006 report on rail fares, *How fair are the fares? Train fares and ticketing*, we criticised the complexity of rail fares. We found that passengers were faced with up to a dozen different fares for a particular journey – sometimes the products differed subtly, and identical products sometimes appeared under different names. In our view, this was an insult to passengers, and we recommended that urgent action be taken to create a unified fares structure for the network in its entirety.<sup>53</sup>

29. Some changes have been made since, but fares are still complex, and even passengers who understand the system often have to spend considerable amounts of time finding the best deals, often only available on the internet.<sup>54</sup> Although train operators were at pains to tell us that up to 15% of their seats were sold at the lowest fares, and that they were easily available,<sup>55</sup> we have heard serious concerns that passengers have to go to extraordinary lengths to secure the best value fares. For example, the TSSA Union explained to us how it was almost invariably cheaper to buy split tickets where passengers had to undertake complex research and buy numerous tickets in order to minimise their fares.<sup>56</sup> **The complexity of the fares structure still remains an issue for passengers. Information on, and access to, the complete range of fares must be available and easily accessible to all passengers.**

## The basket system

30. The Government regulates fares where operators are likely to have a high degree of market power. Some 60% of rail travel is undertaken on regulated fares, such as Season Tickets and longer distance Off-Peak fares. The RPI+1% system has been in place since 2003. Train operating companies have some flexibility in setting prices through the ‘fares basket’ system. This allows some individual fares to be increased by up to 5% more than RPI +1%, provided the overall average does not exceed RPI +1%. When appearing before us in February, the then Minister of State, Lord Adonis announced that:

In a time of economic stringency I do not think it acceptable for individual commuters to face significantly above-average fare increases. The Government’s

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52 “Train firms slammed for ‘mugging passengers’”, *The Daily Mirror*, 13 May 2009

53 Transport Committee, Sixth report of Session 2005–06, *How fair are the fares? Train fares and ticketing*, HC700, paras 31 and 34

54 Qq 164–168

55 Qq 3–6

56 Qq 215–216

intention is, therefore, that in future the cap should apply to individual regulated fares, not just to the average of each fares basket.<sup>57</sup>

31. Lord Adonis confirmed this position when he appeared before us in June.<sup>58</sup> **We welcome the removal of regulated fares basket flexibility. No longer will train operators be able to continue the unacceptable practice of increasing selected regulated fares by six or seven times the inflation rate.**

### RPI+1

32. When the then Minister of State for Transport, Lord Adonis appeared before us in February, we were keen to know whether regulated rail fares would decrease on average in January 2010, if RPI was below -1% in July 2009. Lord Adonis said:

Let me make it absolutely clear to the Committee that we stand by the RPI+1% formula as it applies to most TOCs. If RPI+1% would lead to a fall in fares we will carry through a reduction in fares next January.<sup>59</sup>

When he appeared before us again in June, he confirmed that the policy on RPI+1 as well as the commitment to removing the fares basket flexibility remained unchanged:

RPI is, at the moment, at -1.1%. I see that Oxford Economics estimate that in July it could be -2%. If it is indeed -2% then most regulated fares will fall next January. I gave that commitment to the Committee when I last appeared and I repeat it today. On your second point about the basket of fares and moving the flexibility with the basket, we stand by that policy change too and that will also be carried into effect next year, so there will not be the flexibility for fares to change within the basket as has been the case up to now.<sup>60</sup>

33. **We welcome the Secretary of State's confirmation that the RPI+1% formula will apply for 2010 fares. This means regulated fares could decrease next year. It is only right that passengers, who have borne the brunt of unacceptable increases in recent years, should gain some respite during these difficult financial times.**

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57 Q 224

58 Q 296

59 Q 228

60 Q 296

## Conclusions and recommendations

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### Rail franchising—on track?

1. As we said three years ago, the current system of rail franchising is a muddle. Within just three years, two franchise operators have had to abandon a major franchise—both of them on the East Coast Main Line. Whilst we fully support the Secretary of State in his decision to take back responsibility for the East Coast Main Line franchise, we remain convinced that these two high profile failures are indicative of the underlying problems in the current franchising model. (Paragraph 7)
2. We are concerned that there is a lack of information available to us regarding the financial stability of franchise operators. Many more franchises may be struggling to meet their required financial agreements, without our knowledge. Any additional failures in the franchise system, coupled with risk sharing, will inevitably cost the Government considerable sums. We are deeply concerned about the impact this could have on the funding for other transport projects. (Paragraph 8)
3. Privately-owned companies maximise profits and dividends in the good times when the optimistic assumptions of their franchise bid are met. But in hard times, when revenue stagnates and costs rise, there may be insufficient financial resilience to get by without default or at least significant fare rises and reductions to passenger services such as ticket office closures and subsequent job losses. Tightly specified franchise contracts limit the options available to operators, and partially protect passengers, but also leave tax payers at risk of having to pick up the bill. The current risk-sharing arrangements mean operators are not held to account on their promises. There is no point in involving the private sector if it simply takes the profits in the good times, leaving the tax payer to pick up the tab in bad times? (Paragraph 13)
4. The Government must continue to hold firm on its commitment not to re-negotiate franchising contracts. (Paragraph 14)
5. We believe it is unacceptable that National Express may be able to cling on to its remaining franchises through the use of a ‘special purpose vehicle’. The misuse of legal instruments, such as ‘special purpose vehicles’, to insulate parent companies from potential losses and legal problems as a result of the failure of subsidiaries is sharp practice. (Paragraph 15)
6. The Government should be willing to attempt different forms of franchising. Now is an ideal opportunity to keep the lucrative East Coast franchise in the public sector. The service could then be used as a comparator for other types of franchises, both in terms of financial viability and passenger service quality. (Paragraph 16)
7. The current length of franchises does not encourage train operators to plan on a long-term basis. It discourages investment in the services, and contributes to train operators taking short-term cost-cutting measures that reduce passenger service quality. The Government should let franchises on a longer basis, albeit with break points so that contracts can be terminated at pre-defined points where performance is unsatisfactory. (Paragraph 19)



8. The needs of passengers have not always been properly catered for within rail franchising contracts. The Government must ensure that franchises are more passenger-focused, and that commitments within existing franchise contracts are also enforced. It would be good if the franchise recently awarded for the South Central line, which includes monitoring of passenger satisfaction, and the inclusion of additional factors such as cycle and car parking space targets, were to become the norm for future franchise negotiations. (Paragraph 21)

## Fares

9. While we recognise that the six-month gap between the benchmark RPI and the subsequent fare rises could cut both ways, our concern is that the train operating companies have taken advantage of the mechanism to raise fares at the worst possible moment and to a level which is out of all proportion to the real economy. But as we noted in the previous chapter, short-termism is built in to the franchising system as a perverse incentive. A short-term approach and insensitive attitude towards passengers will damage train operators' relationships with their customers in the long-term. The system encourages and allows train operators to take their passengers for granted. (Paragraph 25)
10. The complexity of the fares structure still remains an issue for passengers. Information on, and access to, the complete range of fares must be available and easily accessible to all passengers. (Paragraph 29)
11. We welcome the removal of regulated fares basket flexibility. No longer will train operators be able to continue the unacceptable practice of increasing selected regulated fares by six or seven times the inflation rate. (Paragraph 31)
12. We welcome the Secretary of State's confirmation that the RPI+1% formula will apply for 2010 fares. This means regulated fares could decrease next year. It is only right that passengers, who have borne the brunt of unacceptable increases in recent years, should gain some respite during these difficult financial times. (Paragraph 33)

## Formal Minutes

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**Monday 20 July 2009**

Members present:

Mrs Louise Ellman, in the Chair

Mr David Clelland

Mr Philip Hollobone

Mr Eric Martlew

Sir Peter Soulsby

Graham Stringer

Mr David Wilshire

Draft Report (*Rail fares and franchises*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 33 read and agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 14 October at 2.30 pm.]

## Witnesses

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### Wednesday 4 February 2009

Page

**Mr Paul Furze-Waddock**, Commercial Director, UK Rail, FirstGroup; **Mr Paul Bunting**, UK Director, National Express Group; **Mr Graham Leech**, Commercial Director, Virgin Trains; **Mr Charles Horton**, Managing Director, Southeastern; **Mr Jim Morgan**, Passenger Development Director for FirstGroup; and **Mr David Mapp**, Commercial Director, Association of Train Operating Companies (ATOC) Ev 1

**Mr Colin Foxall**, Chairman, and **Mr Mike Hewitson**, Head of Policy, Passenger Focus; **Ms Sharon Grant**, Chair, and **Mr Tim Bellenger**, Director, Research and Development, London TravelWatch; and **Mr Richard Rowson**, Business Development Director, thetrainline Ev 17

**Mr John Leach**, President, National Union of Rail Maritime and Transport Workers (RMT); and **Mr Gerry Doherty**, General Secretary, Transport Salaried Staffs' Association (TSSA) Ev 25

### Wednesday 25 February 2009

**Rt Hon Lord Adonis**, Minister of State for Transport, **Mr Bob Linnard**, Director Rail Strategy and Stakeholder Relations, and **Mr Michael Dollin**, Manager Fares Ticketing and Passenger Benefits Team, Department for Transport Ev 32

### Wednesday 17 June 2009

**Rt Hon Lord Adonis**, Secretary of State, Department for Transport Ev 44

## List of written evidence

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- |   |           |
|---|-----------|
| 1. Association of Train Operating companies (ATOC)              | Ev 56, 58 |
| 2. National Union of Rail, Maritime and Transport Workers (RMT) | Ev 62, 70 |
| 3. LondonTravelWatch  | Ev 71     |
| 4. Passenger Focus  | Ev 72     |
| 5. Department for Transport                                     | Ev 73, 75 |

## List of unprinted evidence

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The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

LondonTravelWatch—Appendix

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2008–09

First Report	Work of the Committee in 2007–08	HC 211
Second Report	School Travel	HC 351 (HC 561)
Third Report	Appointment of the Chair of the Office of Rail Regulation	HC 433
Fourth Report	The effects of adverse weather conditions on transport	HC 328 (HC 957)
Fifth Report	The use of airspace	HC 163
Sixth Report	Taxes and charges on road users	HC 103
Seventh Report	The enforcement activities of the Vehicle and Operator Services Agency (VOSA)	HC 39
Eighth Report	Rail fares and franchises	HC 233

### Session 2007–08

First Report	Galileo: Recent Developments	HC 53 (HC 283)
Second Report	The London Underground and the Public-Private Partnership Agreements	HC 45 (HC 461)
Third Report	Work of the Committee in 2007	HC 248
Fourth Report	The future of BAA	HC 119 (HC 569)
Fifth Report	Ticketing and Concessionary Travel on Public Transport	HC 84 (HC 708)
Sixth Report	The Blue Badge Scheme	HC 475 (HC 1106)
Seventh Report	Department for Transport Annual Report 2007	HC 313 (HC 1102)
Eighth Report	Freight Transport	HC 249 (HC 1103)
Ninth Report	The Draft Marine Navigation Bill	HC 709 (HC 1104)
Tenth Report	Delivering a sustainable railway: a 30-year strategy for the railways?	HC 219 (HC 1105)
Eleventh Report	Ending the Scandal of Complacency: Road Safety beyond 2010	HC 460 (HC(07–08)136 & HC(07–08)422)
Twelfth Report	The opening of Heathrow Terminal 5	HC 543

### Session 2006–07

First Report	Work of the Committee in 2005–06	HC 226
Second Report	The Ports Industry in England and Wales	HC 6I–I & 6I–II (HC 954)

Third Report	Transport for the London 2012 Olympic and Paralympic Games: The Draft Transport Plan	HC 199 (HC 484)
Fourth Report	Department for Transport Annual Report 2006	HC 95 (HC 485)
Fifth Report	The Government's Motorcycling Strategy	HC 264 (HC 698)
Sixth Report	The new National Boatmasters' Licence	HC 320-I & 320-II (HC 1050)
Seventh Report	Novice Drivers	HC 355-I & 355-II (HC 1051)
Eighth Report	Passengers' Experiences of Air Travel	HC 435-I & 435-II (HC 1052)
Ninth Report	The draft Local Transport Bill and the Transport Innovation Fund	HC 692-I & 692-II (HC 1053)

### Session 2005–06

First Report	UK Transport Security – preliminary report	HC 637
Second Report	Financial Protection for Air Travellers: Second Report Abandoning Effective Protection	HC 636 (HC 996)
Third Report	Going for Gold: Transport for London's 2012 Olympic Games	HC 588-I & 588-II (HC 1152)
Fourth Report	Departmental Annual Report 2005	HC 684 (HC 1517)
Fifth Report	Future of the British Transport Police	HC 1070-I & 1070-II (HC 1639)
Sixth Report	How fair are the fares? Train fares and ticketing	HC 700-1 & 700-II (HC 1640)
Seventh Report	Parking Policy and Enforcement	HC 748-I & 748-II (HC 1641)
Eighth Report	Piracy	HC 1026 (HC 1690)
Ninth Report	The work of the Department for Transport's Agencies – Driver and Vehicle Operator Group and the Highways Agency	HC 907 (HC 1615)
Tenth Report	Roads Policing and Technology: Getting the right balance	HC 975 (HC(05–06)290)
Eleventh Report	Bus Services across the UK	HC 1317 (HC(05–06)298)
Twelfth Report	Local Transport Planning and Funding	HC 1120 (HC(05–06)334)
Thirteenth Report	The work of the Civil Aviation Authority	HC 809 (HC(05–06)371)
Fourteenth Report	Passenger Rail Franchising	HC 1354 (HC(05–06)265)
First Special Report	The Performance of the London Underground: Government Response to the Committee's Sixth Report of Session 2004–05	HC 431
Second Special Report	The Departmental Annual Report 2004: Government Response to the Committee's Fourth Report of Session 2004–05	HC 432
Third Special Report	Integrated Transport: the Future of Light Rail and Modern Trams in the UK: Government Response to the Committee's Tenth Report of session 2004–05	HC 526
Fourth Special Report	Search and Rescue: Government Response to the Committee's Eighth Report of Session 2004–05	HC 586
Fifth Special Report	Rural Railways: Government Response to the Committee's Fifth Report of Session 2004–05	HC 587
Sixth Special Report	Tonnage Tax: Government Response to the Committee's Second Report of Session 2004–05	HC 611

Seventh Special Report	Financial Protection for Air Travellers: Government and Civil Aviation Authority Responses to the Committee's Fifteenth Report of Session 2003–04	HC 639
Eighth Special Report	European Community Competence and Transport: Government Response to the Committee's Ninth Report of Session 2004–05	HC 976

# Oral evidence

## Taken before the Transport Committee on Wednesday 4 February 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland  
Mr Philip Hollobone  
Mr John Leech  
Mr Eric Martlew

Ms Angela C. Smith  
Sir Peter Soulsby  
Graham Stringer  
Sammy Wilson

*Witnesses:* **Mr Paul Furze-Waddock**, Commercial Director, UK Rail, FirstGroup; **Mr Paul Bunting**, UK Director, National Express Group; **Mr Graham Leech**, Commercial Director, Virgin Trains; **Mr Charles Horton**, Managing Director, Southeastern; **Mr Jim Morgan**, Passenger Development Director for FirstGroup; and **Mr David Mapp**, Commercial Director, Association of Train Operating Companies (ATOC), gave evidence.

**Chairman:** Good afternoon. Do members have any interests to declare?

**Mr Clelland:** I am a member of Unite.

**Graham Stringer:** A member of Unite.

**Chairman:** Louise Ellman, a member of Unite.

**Mr Martlew:** A member of Unite and GMB.

**Q1 Chairman:** Would the panel like to give their name and organisation, please?

**Mr Furze-Waddock:** Paul Furze-Waddock, FirstGroup.

**Mr Morgan:** Jim Morgan, from FirstGroup but representing Hull Trains.

**Mr Mapp:** David Mapp, from the Association of Train Operating Companies.

**Mr Bunting:** Paul Bunting, from National Express.

**Mr Leech:** Graham Leech, from Virgin Trains.

**Mr Horton:** Charles Horton, from Southeastern.

**Q2 Chairman:** Gentlemen, we are in a situation where most fares have been increased by at least six or seven times the rate of inflation, and indeed the maximum increase appears to be 15%. The London Assembly Transport Committee has been told that there is severe overcrowding on commuter routes, which can indeed be dangerous. There are reports of cutbacks and cancellations of services and trains, and there are ticket restrictions and significant changes of use. In view of all that, are you really surprised that there has been such a public outcry about the fares increases?

**Mr Mapp:** Madam Chair, we have a short opening statement to read before we commence. Is that possible?

**Q3 Chairman:** No, I am asking you a question. Would anybody like to justify the increases? Nobody?

**Mr Bunting:** There are some headline fares that have got the attention, quite rightly, of the media and particularly at the moment with the difficulties in the economy, which is affecting all of your constituents. I think that it is right to point out that those fares represent a relatively small proportion of the total

fares available on the network. What we are doing as an industry, as operators, is trying both to make as many great value fares available for our services to as wide a group of people as possible, whilst at the same time keeping the finances of the business in shape. On our East Coast business for National Express, for example, around 15% of our tickets are our cheapest fare available during any 12-week period. In East Anglia we have about half a million advance purchase tickets available at any time. There is therefore a wide range of fares, and what we are trying to do is to make those fares as effective and also as available to people as we possibly can.

**Q4 Chairman:** But you also have, Mr Bunting, an increase of 15.5% on your London-Norwich route. You have also cut your catering. Am I right in believing that the catering staff were given 30 days' notice, without going through the statutory procedures? Is that right?

**Mr Bunting:** No, it is not. We basically applied the correct statutory procedures for the process we were going through and, like any business, we are looking at our cost base—like all businesses in the UK at the moment—and taking appropriate steps to ensure the future of the business.

**Q5 Chairman:** The basic point is that the fare increases overall are at least six or seven times the rate of inflation that is measured by the Retail Price Index. Is anyone going to justify that, apart from speaking in broad generalities, which do not help the people who are facing increases of this measure—at least 6% and 7%, going up to 15%, and many in between?

**Mr Leech:** Perhaps I could add to what Mr Bunting has said. I work for Virgin Trains. We run the West Coast Main Line InterCity services and we are very sensitive to the situation with customers' ability to pay. We take great account of that when setting our fares. There are actually several things that go on with prices at the same time, and so it is true to say that individual fares that we have set have gone up by 6% or 7%, but in fact the average price that is



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**4 February 2009 Mr Paul Furze-Waddock, Mr Paul Bunting, Mr Graham Leech, Mr Charles Horton,  
Mr Jim Morgan and Mr David Mapp**

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being paid by somebody who travels on the West Coast Main Line today is less than if they were travelling in January last year. That is for several reasons.

**Q6 Chairman:** Could I just stop you for a moment? It is all right your talking about average prices, but the price to the person travelling, to the passenger, is the amount they have to pay to undertake their journey. That is what matters to them. You have managed to increase the London to Manchester route by 7.4%.

**Mr Leech:** Yes. I was going on to explain that. Of course, it is the price that the individual customer pays that matters, and the types of tickets which people are now buying is different. Most of us as train operators offer a wide range of prices on our trains. What is happening is that more and more people are being able to buy the cheaper tickets, because we are making them more available. Whereas a year ago somebody may have been paying that full price, Anytime ticket, many of those people are now buying cheaper tickets, which they are able to do. In fact, for many people the price that they pay for their journey today is therefore less than they were paying last year. The other thing that has happened is that we and many other operators have introduced cheaper fares. For example, the cheapest fare that we used to offer between Manchester and London was £12. We are now offering a fare that is £8. We used to offer fares from Birmingham where the lowest one was £10 and it is now £5. Those are being bought by very large numbers of people. As many people buy the cheapest fare that we offer—for example, that is the £8 fare between Liverpool and London—as many people buy that fare as buy the most expensive price.

**Chairman:** Those cheaper fares severely restrict when people can travel. While that might be appropriate for people who can choose to travel at specific times, that does not deal with the general issue of the overall massive increases and the change in the conditions attached to different tickets.

**Q7 Mr Martlew:** On this very point, Mr Leech, you may have been briefed by a letter I have sent to your chief executive. Can you explain why a ticket from Carlisle to Birmingham, if you want to be there before 10.30 in the morning, went up from £71 to £124? Can you explain, if I want to go and visit the Chair in her constituency in Liverpool, why that has gone up from £40 to £70?

**Mr Leech:** That is because when we had the new timetable introduced in December we wanted to look at the new passenger travel on that route and we thought it was right, at the same time as introducing these cheaper fares, to make some changes. However, we review all of them; in fact we are looking at those particular changes and we are aware that there are some problems with them. That was clear as well from feedback from our frontline staff. It was always a trial, therefore, and in that particular instance we will be making changes.

**Q8 Mr Martlew:** You accept that the figures I have just commented on are correct?

**Mr Leech:** For some particular—

**Q9 Mr Martlew:** You restricted the travel, so you almost doubled the cost of these fares. Are you saying now that you are admitting that you got it wrong?

**Mr Leech:** I am saying that we had some massive increases to our services, introduced in December and, as part of that, we had to look at the train services that we restrict. Overall, the same proportion of trains are restricted now as they were before. In many cases we made the restrictions easier. There were some cases where we tightened some restrictions, but all of this is open for review and, with hindsight, in that particular case we think that it right to make some changes.

**Q10 Mr Martlew:** So you are agreeing with me that the fare from Carlisle to Birmingham went up, if you want to get there before 10.30, from £71 to £124. Is that correct?

**Mr Leech:** That is correct for that particular journey, yes.

**Q11 Mr Martlew:** When you are talking about the averages of fares, did you put that into the averages of fares?

**Mr Leech:** Yes, absolutely. Every single change that has happened; because there are many journeys being made much more cheaply than those before.

**Q12 Mr Martlew:** Finally, you are saying now that you got that wrong and you are going to look at it?

**Mr Leech:** Yes, and we are going to make a change in that.

**Mr Martlew:** If the President of America can admit that he has got it wrong, it does you no harm at all!

**Chairman:** We look forward to hearing the results of the change.

**Mr Hollobone:** Second only to bankers in the City of London, you gentlemen must be the most unpopular men in the country.

**Mr Martlew:** We are!

**Q13 Mr Hollobone:** You can speak for yourself, Eric! In the public's eyes, the train operating companies are fleecing the public with huge price increases and often deteriorating travel conditions. I regularly get correspondence from constituents in Kettering, who are complaining about the new franchisee on the Midland main line and overcrowding on services back to Kettering from London in the evening. Yet, in the last two years, there has been a 7% increase in prices in both years. How do you defend your unpopularity?

**Mr Mapp:** I think that it is fair to take this thing in a broader perspective, because it is always going to be easy to find specific examples of fares being increased or restrictions being changed; but if you look at the overall level of fares now compared to

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4 February 2009 Mr Paul Furze-Waddock, Mr Paul Bunting, Mr Graham Leech, Mr Charles Horton,  
Mr Jim Morgan and Mr David Mapp

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privatisation, in terms of the average fare actually paid by customers, it has increased by around 5% in real terms. That is less than—

**Q14 Chairman:** Mr Mapp, this inquiry is not going back to before privatisation. If it was, we might all have a lot of things to say. This inquiry is about what has happened *this* year, in January this year, compared to last year. It starts from the point of seeing that most fares have risen by at least six times the current rate of inflation. While you might want to talk about the generality, we are concerned about individual passengers wanting to make specific journeys and the difference in the cost of those journeys from last year to this, in relation to the rise in the cost of living. It would be helpful if you could perhaps direct your answers to specific points. The generality is the generality. It does not help us on individual problems.

**Mr Mapp:** I was trying to use the point to illustrate the impact of the January fares increase. In reality, customers do decide across a range of fares; train companies have introduced cheaper advance fares on many routes; and, in practice, customers do choose the cheapest fare that suits their particular needs. If you look at the effect of that over time, and the same will apply this January, the overall increase in the average fare paid by customers is actually somewhat less than the headline price increases which you often see in the newspapers. You also paint a picture of a railway that is in rapid decline, falling quality standards and so on. I have to say that it is not a picture that I recognise.

**Chairman:** No, Mr Mapp, I must stop you. We do not paint any such picture. This Committee has conducted a number of inquiries into rail. We recognise the increasing popularity of rail, and we want to keep it that way. However, we do have specific questions about what is happening at the moment and the extent of that increase in rail fares. We therefore paint a good picture of rail; we want it to stay popular; but we are deeply concerned about a number of areas. That is why we have called all of you here today and we want to ask you questions about it.

**Q15 Mr Hollobone:** On that point, Chairman, the Committee recognises that there has been a huge growth in rail passenger traffic over recent years; so, in terms of your business model, it is actually a very healthy marketplace. However, we are sitting here today against a background of an economy where 50, 60, 70% price cuts are happening in the shops because of the recession and yet you, as an industry, are putting up your prices way in excess of the current level of inflation—often, in the public's mind, for a poorer service. What is your defence of that?

**Mr Leech:** In response to that, in many cases it is actually a better service and that is one of the factors we have to take account of. We have to think about what is going on in the external environment, including the economy and people's ability to pay; what is happening to competition. Even more, we

have to think about what is the service that we are providing. There is not a history of putting up fares by large amounts every year in our case. We are thinking about the new service being introduced in December and we have to ask ourselves the question: is the service that we are introducing in December a better service or is it essentially the same service as we were running before 14 December? Clearly in our case, on the West Coast Main Line with Virgin, we are running 30% more trains than we were before. We now have three trains an hour, Manchester to London; three trains an hour from Birmingham into London. We have faster journey times. For example, the trains from Liverpool to London are now 20 minutes faster than they were before. In the case of Chester, there will be an hourly direct service to London instead of only three or four per day. We look at all of those things and we say, "What is the value of what we are providing and what is the investment that has gone into this service?". On that basis, I believe that the sorts of increases we have made can be justified, because they do reflect the fact that there is now a better, more frequent and faster service on the West Coast Main Line; but we have to make a judgment about how much it is justifiable to increase the prices, related to that level of increase—and that is what we did.

**Q16 Mr Leech:** Mr Leech, I think you made the point about average fares now being less than they were 12 months ago. Did I hear you correctly?

**Mr Leech:** I did. Correct.

**Q17 Mr Leech:** When you use statistics, they often hide the reality. Are you saying then that more than 50% of people are paying less to travel by train on Virgin than they were 12 months ago?

**Mr Leech:** Yes.

**Q18 Mr Leech:** What are the reasons for that? Is it that you are providing more, cheaper, advance purchase tickets or is it that, because the prices of certain fares have gone up so much, people have changed their travel behaviour so that they now travel at the off-peak times, where the tickets are more affordable?

**Mr Leech:** It is because people are now finding it easier to buy the cheaper advance tickets. They are not just at off-peak times. I have to emphasise that. It is not the case that you can only travel on a peak-time train by buying an Anytime fare. We have cheaper fares available. This is something that we wanted to happen. We have created these fares because we wanted people to buy them and to have more chance of doing it. We have increased the availability of the cheaper fares. Because we are running 30% more trains than we were before, we obviously have a lot more seats to sell, and it is in our own interest to attract more people to do it. So much investment has gone into the West Coast Main Line—£9 billion from Network Rail, a couple of billion from ourselves—we want to make the most of that. In order to do that, we have to attract more people. Our plans for this year and the years ahead

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**4 February 2009 Mr Paul Furze-Waddock, Mr Paul Bunting, Mr Graham Leech, Mr Charles Horton,  
Mr Jim Morgan and Mr David Mapp**

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are to keep growing that market. We will only do that if we offer fares that people are willing to pay. They have plenty of other ways to travel on our route if they want to.

**Mr Leech:** Can I widen it out to the whole panel now? The average fares for most lines are increasing by 6% but that is the average increase. We are being told that on some of the busier routes the fares increases have been higher and on the less busy routes the increases have been lower. Are all the train operating companies actually going to increase their revenue from the fare box by 6%, or is this masking bigger increases in the fare box as a result of bigger increases on the busy routes and smaller increases on the less busy routes?

**Q19 Chairman:** Who would like to answer that? What increase is expected in your fare box?

**Mr Mapp:** I will start off. I think the overall revenue effect will depend on the pattern of purchasing after the fares have increased. As Graham has pointed out, it is not by any means just about increasing fares: there are a lot of very good value advance fares in particular, either being introduced or reduced. Therefore some customers do shift their buying pattern to choose those particular fares if they are flexible in their travel arrangements. Overall, trying to predict what is the revenue effect is difficult.

**Q20 Mr Leech:** I accept that point entirely but, hypothetically, if everyone had exactly the same journey patterns as they had over the previous 12 months, would the increase in revenue through the fare box be more than 6%?

**Mr Mapp:** The average is an average and it represents the general level of increase across all customers; so I think that, all other things being equal, the increase would be 6%, yes.

**Q21 Chairman:** Do any of the individual operators want to answer that question?

**Mr Morgan:** Perhaps I could respond on behalf of the open-access operator. We have two very cheap fares on our last train between Hull and London of £9 single and £15 return, which have not changed. The rest of our fares have gone up by 6% and we anticipate 6% more revenue as a result of that. Hull Trains is an easy one, because it is a small business.

**Q22 Chairman:** Do any other operators feel able to answer that question? How much do you expect your revenues to increase by? Mr Bunting, can you tell us?

**Mr Bunting:** Generally we would assume it would be less than 6%, because of the price elasticity of that, the headline being 6%. It is probably worth explaining how that figure comes about for our regulated fares, which are based upon an RPI figure, in this case July 2008. We then have a process for inputting 100 million different fares into the system to get them through to the end user. The level at which they were set therefore reflected an historic rate of inflation. Obviously, the speed with which the economy has moved recently has made that seem

quite anomalous, in the way that you pointed out at the outset. We are working within a regulated framework, agreed with the DfT in our contracts, and we are trying within that framework, as colleagues have highlighted, to get the most use of our railways—

**Q23 Chairman:** So how much do you expect your revenue to increase?

**Mr Bunting:** Somewhere below the 6% figure, depending on the elasticities.

**Q24 Chairman:** Mr Furze-Waddock, what can you tell us about your company?

**Mr Furze-Waddock:** I would agree entirely that, overall, we would have anticipated that the increase would be somewhere slightly below the average figure; but of course we are at the moment monitoring on a weekly basis the effect in the economy, to see how those forecasts will hold good.

**Q25 Chairman:** So what do you expect your revenues to increase by?

**Mr Furze-Waddock:** I cannot forecast what the revenue is. That would be market-sensitive information—even if I could forecast it accurately.

**Q26 Mr Leech:** Could each of the train operating companies say what their biggest increase in fare is on any individual route, in percentage terms?

**Mr Furze-Waddock:** I do not know, I am afraid.

**Mr Mapp:** As Paul emphasised, we have 100 million fares in total and the majority of those, but not all of them, were increased in January. To say off the top of our heads what the highest increase was per operator is somewhat difficult; but the averages that we published, and have been completely open about, do represent the average increase that will be experienced by a customer.

**Q27 Mr Leech:** Given that we have asked train operating companies to come here today to discuss fare increases, I think that it is not an unreasonable question. I think that it would be reasonable to assume that each of the operating companies would know what their biggest increase in fare would be, given that that is what you were coming to speak to us about. Does anyone know?

**Mr Bunting:** For National Express, our regulated fares are RPI at the time, which was 5%, plus 1%; so that is 6%.

**Q28 Chairman:** No, you are being asked what the highest increase of your fares is.

**Mr Bunting:** And I was going on to say, Madam Chairman, that for the unregulated fares it is a higher figure, which is RPI plus 2.4%, on our East Coast business.

**Q29 Mr Leech:** With respect, Mr Bunting, that was not the question I asked. We already know that there is discrepancy. The average is the 6%, but what is your biggest increase on an individual route?

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**Mr Bunting:** On the unregulated fare it is RPI, which was 5% plus 2.4%—7.4%.

**Chairman:** I will not pursue that further. You are refusing to answer it here. Unfortunately for you, however, we do actually have figures available, which have been produced by Passenger Focus amongst others; so we can find out. It is a pity, however, that, when you are asked to come to a meeting like this, which arises from great concern about the level of fares increases, you are not able to give factual answers to pretty obvious questions.

**Q30 Sammy Wilson:** Perhaps I could just follow on from the question that John Leech asked a moment ago. I know that it is difficult for you to forecast the likely outcome of the fare increases but, given that the figures we have had for the first six months of 2008 would indicate that revenues of at least three of the companies that we have been supplied information with, the revenue figures have gone up by substantially more than the RPI plus whatever increase was placed on that. In fact, some of the revenue figures are a 50% increase; 28.7% increase; 11.2% increase. Does that not indicate that, just as the earlier questioners have been saying, whilst these may be your average figures, given the way in which you have allocated the increases—some of them to very popular routes, maybe reductions on the less popular routes or the less used at less used times—in reality, you have loaded those price increases onto the journeys which are undertaken by most passengers?

**Mr Mapp:** What you have missed out from the equation there is volume increase. Those revenue increases are indeed a mixture of fares increasing but of course they are also underpinned by growth in passenger numbers. During the course of 2008, across all train operators, we saw a growth in volume of between 5% and 6%.

**Q31 Sammy Wilson:** Are you saying in answer to John Leech's question that, while you had volume increases in the first six months of 2008, you are assuming no volume increases in the first six months of 2009? You are telling us that, on the one hand, in the first six months of 2008, yes, your revenue has increased substantially more than your average fare increase, but in 2009 you are not expecting the same amount?

**Mr Mapp:** Just to be clear, the question that Mr Leech asked was what was going to be the revenue increase resulting from the increased fares in January. I think that we have, as witnesses, given our estimate of what that effect is. Of course, on top of that there may be some passenger growth, but clearly a background factor here is the weakening economic position. To go back to the principle, the numbers that you were quoting earlier are a mixture of passenger growth and revenue increase through higher fares.

**Sammy Wilson:** I assume that you must be anticipating some passenger growth in the first six months of 2009. Therefore if, as we have been told, about half of your passengers will find a decline in

the amount of money they pay, half will experience an increase in fares, then you would have assumed that the figure that you had given us was simply assuming no growth—because you have said that all you are anticipating is your revenue going up by the average fare increase.

**Q32 Chairman:** Mr Leech, you were trying to answer.

**Mr Leech:** Yes. Perhaps I could explain that with the situation on West Coast and hopefully this will pick up on some of the concerns around the earlier questions as well. On West Coast it is true, as I said, that the average price being paid is the same as a year ago—and that is quite genuine. On West Coast we have also not weighted our fare increases onto the popular routes, so our most popular routes—Birmingham, Manchester, Liverpool to London, et cetera—the price increase has been 7½%, which is the figure we quoted as the average. We have applied that across the board on all our important flows; but we are planning for major growth on the route. We are planning for an increase of three million passengers on our trains over the next year, and that is because of the improvement in services that I was talking about. Our focus is entirely on getting that growth. It is encouraging more people to travel; the fares have to be affordable for them; and the revenue growth that we are aiming for is to come from more people using the railway, not from getting them to pay higher prices on average.

**Q33 Sammy Wilson:** In that case you would expect to have higher revenue growth than your average price increase. Can I just come to the average price increase? RPI plus whatever. I think that all of you have taken the maximum percentage on top of RPI. Why was RPI, as it was in July 2008, the chosen figure?

**Mr Mapp:** It was not chosen for January 2009 in particular. It has been the mechanism that has been used over the period since privatisation. The reason for choosing July, as my colleague Mr Bunting alluded to earlier, is that there is quite a significant logistical exercise in changing fares. We have around 100 million fares in the database; the majority of those fares tend to change in January. Simply the process of setting all those fares and then mechanistically making sure that our systems are updated, staff briefed, and so on, takes quite a considerable period of time. This year, as in every other year, the RPI number in July is therefore used as the basis for setting fares, and the period after that reflects the period of time it takes to implement those increases.

**Q34 Chairman:** Could you give a commitment then that if the RPI reduces or indeed becomes negative next July, you will be cutting fares?

**Mr Mapp:** It is an interesting point. The way in which the RPI—

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**Q35 Chairman:** Can you give a commitment that if the RPI reduces next July or becomes negative, you would then cut fares?

**Mr Mapp:** The RPI formula is something that is controlled by the Department for Transport; it is not something that is controlled or set by train companies. We do not have discretion in how—

**Q36 Chairman:** No, but I am asking you the question. If the RPI is reduced next July or indeed is negative, as some predictions have said it will be, does that mean that train fares will automatically be reduced by that amount plus 1%?

**Mr Mapp:** I will give you the straightest answer that I can. The RPI formula was conceived, developed, in a period on the assumption that—

**Q37 Chairman:** I am asking you the question. I am not asking you about how this has arisen. I am noting that all of you have increased fares to the maximum allowed, with the RPI plus 1% or RPI plus 3%, and then variations that go even higher. If that RPI were to be down or negative, would you then automatically reduce fares in the same way that you have automatically increased them?

**Mr Mapp:** If the formula is applied then, yes, the answer is yes, but it is within the DfT's decision how the formula is applied and how it is interpreted. It is not a train company decision.

**Q38 Graham Stringer:** I am slightly surprised that you have been so coy about the fare increases and you have not referred back to the 2007 White Paper. I would not particularly expect you to defend the Government, but is not one of the reasons you are looking for more revenue is because the Government is reducing subsidy?

**Mr Horton:** I am Managing Director for Southeastern franchise. The first year of our franchise we received a subsidy of £145 million to operate our services. By the end of our franchise that will be a position, up to 2014, where we will pay a premium back to the Government of £11 million. That balance—and the reason why there is RPI plus 3%—is to shift the balance between taxpayer and the fare-payer so that, in relative terms, the fare-payer pays more for those services. Government's justification for that is the very substantial investment in new rolling stock and also the fact that, in the particular case in relation to Kent, historically Kent's fares were lower than some other train operators in London and the South East.

**Mr Furze-Waddock:** That is the same for the FirstGroup franchises as well. The RPI factor is a key driver of the revenue and that is the key driver in itself of the premium that we agree to pay or the reducing subsidy.

**Q39 Graham Stringer:** I am just surprised you did not say that to the Committee. What I have difficulty coming to a view on, I actually think the average fare is a bit of an irrelevant figure because you are doing quite separate things, are you not? You are trying to get new people onto the trains, which is an admirable

thing, and you are also trying to get a bit more out of people who have to travel at particular times. To judge whether the RMT accusation that you are profiteering as opposed to just responding to the Government, I would need to know whether you accept the RMT's judgment on your profits: that your profits have been increasing at a disproportionate amount.

**Mr Mapp:** Before I respond to your question about profits, perhaps I could reiterate the point about government policy, which was clearly set out in the 2007 Railways White Paper—so it is no secret. That policy of rebalancing the support for the rail industry between fare-payers and taxpayers so that taxpayers pay a lower level of support is something that is then implemented through franchise agreements. It is something about which the Government has been quite open. It was in the Railways White Paper, and it is something that is reflected in our franchise agreements. In terms of profits, I think that we have nothing to hide. Our profit margins are not excessive. Depending on how you measure them, they are 3% of total train companies' costs or about 5% of rail industry turnover or sales.

**Q40 Graham Stringer:** What profits are you talking about here? Are you talking about profits per franchise? Are you talking about the profits of the overall groups, or are you talking about the profits of each individual train operating company?

**Mr Mapp:** We are talking about the collective profits of train companies from their rail operations, not the total profits earned by the larger transport groups. These are the profits earned by Virgin Trains or by National Express East Coast, added together and taken as a proportion of their total costs or their total revenue. You then have to ask the question, is that 3% profit margin on cost good value for money? We would argue extremely strongly that it is good value for money; that the industry costs are significantly lower because of private sector involvement; and industry revenue and indeed the use of the network in terms of volume is considerably higher because of private sector involvement. We do not believe that our profit margins are excessive, therefore. We believe that we bring considerably more value into the rail industry than the cost of those profits.

**Graham Stringer:** Do you think it would be helpful if you published accounts for each franchise, so that we could see whether there is profiteering going on on each route? You do not, do you?

**Q41 Chairman:** Would anybody think it is a good idea to do that?

**Mr Horton:** Companies' records are obviously lodged with Companies House.

**Q42 Graham Stringer:** But it is not easy to disaggregate them, is it, from franchise to franchise?

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**Mr Horton:** Sure, but it is a longstanding policy of publication of results, using that. As I said, I am very happy to share with the Committee the profit that was achieved by my company.

**Q43 Chairman:** Does that mean, Mr Horton, you are saying that you are willing to identify the profits made on individual franchises?

**Mr Horton:** I am very happy to tell you what the profits which were lodged for my franchise, which are with Companies House at the moment, and tell you that in relation to Southeastern franchise our revenues in the year ended June 2008 were £581 million and our profit on £581 million worth of revenue was £27 million.

**Q44 Graham Stringer:** That is very helpful. I do not know if the other members of your organisation would be willing to put the figures out, franchise by franchise. For instance, RMT claim that there is profiteering because there has been a one-third increase in the dividend on equity by Stagecoach in the six months to 31 October last year. I find it difficult to reconcile those figures with your 3% figures and with the large increases in fares.

**Mr Mapp:** The dividends paid by large, integrated transport groups like Stagecoach do not reflect profits just in the rail industry; they also reflect extensive bus operations in this country and often overseas as well. I think that you have to take that dividend point in that broader context.

**Q45 Graham Stringer:** It would help, would it not—and we have had one offer to give us the details franchise by franchise—if all operating companies were prepared to release them, because a number of operating companies run a number of franchises? Then we could see where, on that particular franchise, exploitation was going on. Can you say anything on behalf of your members?

**Mr Mapp:** Perhaps what I can offer to do is to talk to our members about that request and provide some further information to the Committee in writing.

**Q46 Graham Stringer:** Do any of the other members here want to say anything?

**Mr Bunting:** We share that information with the DfT. They see our finances. At the moment we are in our close period, so I am not able to say anything specific for National Express at this point in time.

**Q47 Chairman:** Is that that you share information on the specific franchises?

**Mr Bunting:** Yes, with the DfT.

**Q48 Graham Stringer:** But would you share it with us and the public?

**Mr Bunting:** I cannot at this point in time.

**Q49 Graham Stringer:** Will you in the future?

**Mr Bunting:** I think that is something we will have to take back to our groups and come back to you on that.

**Q50 Mr Clelland:** I was wondering whether, from what was being said earlier about the level of fares and the various options which are now available for cheaper fares, it has given rise to an indication from general customers about their satisfaction. Do you get an indication that customers are generally satisfied with the levels of fares, the fare structure and the general journey experience these days?

**Mr Bunting:** Overall, for National Express East Coast, in the last 12 months as we have taken over the franchise from GNER—which was in a bit of a poor state—we have increased our overall customer satisfaction by 6%.

**Q51 Mr Clelland:** How have you measured that?

**Mr Bunting:** That is measured through a rolling passenger survey the whole industry does. It is taken by an independent third party, administered by Passenger Focus, and that is reported back to us. We have therefore moved that on by 6% over the last 12 months, which is great. A lot of that is the fact that we have taken punctuality—which is really what the customer wants—and driven that from about 81 to over 86%. In the last few weeks we have run the first 100% punctual days that the East Coast main line has seen since it was privatised. We are prioritising punctuality, reliability, which is what the customer wants, and that is coming through in some really encouraging customer satisfaction figures.

**Q52 Mr Clelland:** Is that a general feeling amongst train operators, that the customers are happy with the situation?

**Mr Furze-Waddock:** It is. Overall satisfaction on Great Western has lifted significantly over the last year, to a level of 80% now. With FSR—First ScotRail—similarly, but 90%. First Capital Connect and TPE are flat. Within that, it would be no secret that surveys on value for money are not as good, but a significant driver of that has been in the past the performance, which is demonstrably improving across the industry. The other factor which the Passenger Focus survey has recently highlighted is the feeling of overcrowding; that is a big driver of a customer's feeling of satisfaction with value for money. All of us are working very hard at the moment with the DfT on schemes to deliver additional capacity. Some operators have recently significantly increased capacity. First Capital Connect is increasing capacity from May on the Cambridge route by 15%, and we are all bidding to the department at the moment for additional rolling stock through the HLOS mechanism. We are, in all of our franchises; and they are all targeted to improve those key flows where we are suffering the most overcrowding.

**Mr Mapp:** Through the National Passenger Survey, the most recent wave of which was published by Passenger Focus last week, overall satisfaction across all train operating companies had increased to 83%, which was the highest level recorded since the survey began in 1999. I therefore think that there is clear evidence that customer satisfaction at the

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moment is good. Clearly we can always do better, and it should not be inferred as reflecting any degree of complacency.

**Q53 Mr Clelland:** Yes, but, Mr Mapp, as you pointed out to the Committee before, we can only do better on the railways apparently if either the taxpayer pays more, the fare-payer pays more, but profits have continually to increase.

**Mr Mapp:** Profit margins have remained remarkably stable and, if anything, have indeed declined over the years; so I think that point needs to be put into perspective. Clearly it is in all our interests. We only make profits because we provide a good service that customers want to use. I think those National Passenger Survey numbers indicate that we are doing that. It is also reflected in the huge growth in usage of the network over the last 12 years. Whilst we are not complacent and there are still clearly areas for improvement, the evidence—evidence that comes from an objective source, Passenger Focus, and we are not involved in that research—suggests that customer satisfaction at the moment is at good levels.

**Q54 Mr Clelland:** I used to work for a private industry. I never wanted it to make a loss, I have to say, and I am not suggesting that private train operators would want to do other than make a profit; it is a question of whether we have got the balance right, and that is what the Committee is trying to get down to. Could I ask Mr Bunting, did National Express overstretch itself when it bid for the franchise for the East Coast line?

**Mr Bunting:** We put in a bid. It was not the highest bid.

**Q55 Mr Clelland:** With the light of experience, was that a realistic bid?

**Mr Bunting:** At the moment we are seeing growth; our customer satisfaction levels are rising; our punctuality levels are rising, so we have every reason to have real confidence with the franchise.

**Q56 Mr Clelland:** No problems with the franchise on the horizon at all?

**Mr Bunting:** We are looking forward to making even further improvements for it, yes.

**Q57 Mr Clelland:** So you do not think that perhaps you might have given rise to expectations which you have not been able to live up to?

**Mr Bunting:** No, not at all.

**Q58 Mr Clelland:** There is to be no deterioration in the service at any level?

**Mr Bunting:** We took over a business that needed some TLC and some hard work, and we have been doing that. As I say, the results we are seeing so far—we have really focused in on getting the trains to run on time, and that is going extremely well at the moment.

**Q59 Mr Clelland:** We had a small inquiry of our own in the North East before the franchises were let, and your representative there was making all sorts of indications that there would be improvements, including additional services, reduced journey times; that there would be improvements in catering services. You are satisfied that all of these things are going to go ahead, as far as you can see?

**Mr Bunting:** We still have our plans to improve the franchise. We are waiting on the final conclusion of the ORR report on our increased service levels, for which we got some real encouragement last week. The rights for our Leeds services have been firmed up. We have the opportunity now to work with Government to push through those improvements that we talked about when won the franchise.

**Q60 Mr Clelland:** Can all of your staff then be satisfied that they can look forward to job security for the next few years?

**Mr Bunting:** I do not think that anybody can look forward to job security for any length of time at the moment. I do not think that is a credible option.

**Q61 Mr Clelland:** Notwithstanding the recession. I understand that. I have to say that does not seem to be affecting the railways too much, in terms of the numbers of people who are travelling and the kinds of profits which are being made. For instance, are the catering staff able to look forward to a secure future as far as the East Coast line is concerned?

**Mr Bunting:** Yes, we are continuing to provide an excellent catering offer, which undertake more food-to-seat rather than putting people in restaurant cars, which frees up more space. We are trying to reflect healthy options, healthy eating, people wanting to change the way they eat on the go; so we are looking at the whole catering process, to make sure it is what the customer needs; and we are making some changes in terms of how we deliver the product to people.

**Q62 Chairman:** Is that accurate, Mr Bunting, or is that a euphemism for cutting back on catering?

**Mr Bunting:** No, it is not a euphemism at all. If we do not have satisfied customers, we will not grow our revenues; we will not maintain our profits. Everything we are trying to do is to make a journey on National Express services a more enjoyable one and to get the value-for-money scores higher. We will not do that by not giving people the things that they want when they travel with us.

**Q63 Chairman:** That does not ring quite true. You do not exactly have a choice of catering when you are on a train, do you?

**Mr Bunting:** A lot of people go to Pret or they go to Costa before they get on the train; so we want to try to make them buy with us when they are on board. We need to improve. We need to improve the quality

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of their coffee to compete with what has become a bit of a high street success story; so we have to work hard to make sure our standards rise to meet the expectations of the customer that they are now getting on the high street.

**Q64 Chairman:** Have Virgin cut the catering?

**Mr Leech:** No, we have not. For our new service we have made some changes to the type of service that we are offering or the type of food. What we have actually done is to spend more money on it; so the amount of money we are spending on our food has gone up. In a similar way to National Express, we are making more commitments to providing organic food in first-class, locally produced. What we have done is invest more in it. We have introduced a very good sandwich offer in first-class during the middle of the day, which is having an extremely good response from customers, as being more what they want.

**Q65 Mr Clelland:** So we have happy customers, happy staff, good profit levels. I wonder why we need to have this inquiry at all! Everything seems in the garden seems to be rosy.

**Mr Mapp:** We are not complacent and we clearly have a lot of things that we need to do to improve, and my colleagues have already illustrated some of those areas. We are not complacent. Nevertheless, the objective evidence from the National Passenger Survey is that overall, across the network, across all passengers, there is a reasonably high degree of satisfaction.

**Q66 Ms Smith:** I want to look at the dividends picture because, although many of the operating groups do take their profits in from other transport services, nevertheless the dividend picture is as it is. Unless you want to disaggregate that for us, I think that we just have to take the picture that we have. According to information from the RMT, FirstGroup's dividend was up 10% in 2008, despite the operating profit not really being up by the same degree; Stagecoach increased their dividend by 33.3% last year, on an increase in operating profit by 25.3%. Clearly in some cases, therefore, dividends increased beyond perhaps the level you would have expected, based on the increase in profit margin. Profit margin is not a problem; it is what you do with the profit that interests me. Would you accept that, in these particularly difficult times and given the renewed interest in long-term investment in our transport services and across the economy, there should be more of a focus on reinvesting profits rather than increasing dividends, in terms of satisfying the short-term interests of shareholders?

**Mr Mapp:** You have to remember that, in addition to the profit element of what we do, there is also the element of subsidy and, increasingly, premium payments to the Government. Many train companies are now in franchise arrangements whereby they receive no subsidy and, over time, will

be paying increasingly large amounts of premium payments to the Government. By the time we get to the middle of the next decade, around 2014, the net payment from train companies to the Government—that is premium payments net of subsidy received—is round about £1.2 billion. Clearly that money goes back into the Department for Transport's pocket; it is there for investment; it gets recycled through Network Rail, through train companies and other stakeholders, to invest in the industry. There is therefore a significant investment revenue stream, if you like, being generated through that mechanism that goes back to the DfT. Of course, train companies themselves do also invest in their operations. We have had some good examples already of the kind of investment that has been made. There has to be a reasonable balance overall between shareholders, who must expect to get some return from their investment in transport companies; there must be some return for the taxpayer, which I think there is through the premium system; and there must be a return for customers. I think that the high level of satisfaction across the network which we have already talked about illustrates that at the moment that balance is about right.

**Q67 Ms Smith:** I do not think that really answers the question, with respect. My question is, given that the developing consensus that the interests of the country, of the UK economy generally, is in long-term investment rather than short-term returns to dividends, can we expect to see lower returns to shareholders in future rather than some of the big increases that we saw last year?

**Mr Furze-Waddock:** Can I add to what David has said? In addition to all of those mechanisms, you will find, certainly in all recent franchise agreements, that there are protections for the Government against operators making windfall profits in the form of a revenue share arrangement where, if revenue exceeds—

**Q68 Ms Smith:** It is not profits I am interested in; my interest is dividends to shareholders. Profits are good if they can be reinvested in the industry and if you give a reasonable return to your shareholders—fine. It is that balance I am talking about.

**Mr Furze-Waddock:** That is what I say. If we do exceed certain levels—and in some franchises there is also a profit share as well as a revenue share—then that money does go back to the Government and it is there for the department to reinvest. Those levels are set out and predicted at the start of a ten-year franchise in the same way as we predict the revenue for a ten-year franchise. They are there from the outset in a published document.

**Q69 Ms Smith:** Can I suggest to you that, on the basis of the increases in fares that we have seen—I am a user of East Midlands trains and I have suffered a big increase in my rail fare and, as Eric has pointed



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out, he has as well on his route—I have not seen any increase in passenger satisfaction. Stagecoach is running that service now as opposed to what was National Express. We have seen a reduction in the quality of the service; a reduction in the catering offer—quite significant reductions—and yet we are seeing these fares increase. Is it not reasonable for customers to expect that some of that increase in fare should lead to an improvement in levels of customer service, in terms of routes, frequencies and the offer on board? I do not think that is the case at the moment.

**Mr Mapp:** Let me make two points in response to that. First—

**Q70 Chairman:** Mr Mapp, first I would like to ask the individual operators. Which operators can tell us there is going to be an improvement as a result of these increases?

**Mr Bunting:** Madam Chairman, can I give you a specific example? In the life of the East Coast franchise we are committed to invest £44 million in improving the service for our customers. That is a big chunk of money that will be ploughed back into our franchise for the benefit of our customers, and I think that is really positive.

**Q71 Chairman:** Mr Leech of Virgin?

**Mr Leech:** We have invested a huge amount of money over the life of the franchise and we are continuing to invest. An example at the moment is that we are spending nearly £2 million on improvements at Euston station. We are spending a lot of money on improvements at Liverpool Lime Street. We are investing more money in the catering; we are now running a full evening meal service on 40 of our services since December, which we were not doing before. There is a whole series of investments which we are making. We see that as important. You cannot just stand still. Even though we have just introduced 30% more services and quicker train services, we are not resting on our laurels. We have seen it as being very important that we continue to invest in improvements to services. That is where we are putting the money.

**Mr Horton:** For the Southeastern franchise, as part of the commitment we made when we took the franchise, we are committed to investing £76 million in passenger and staff facilities. That process is well underway and includes the introduction of high-speed services as well, as part of the integrated Kent franchise. I think it is a similar pattern that, when train operators take on franchise agreements, they also make commitments to invest. Part of our obligations as part of taking on that franchise is to make sure we deliver on the commitments we make to Government.

**Q72 Chairman:** Mr Horton, in your franchise you can have an increase of RPI plus 3%—much higher than anybody else. What is the reason for that?

**Mr Horton:** That is correct. There are two reasons, and it was part of the franchise parameters set by Government when we bid for the franchise; so this

was going to be binding on all the bidders for the franchise. There were two reasons given for that. The first was that the level of fares in Kent had been historically at a lower level than some other train operators in London and the South East. The second reason was that there was an investment of £690 million in the replacement of slam-door rolling stock, which had taken place just as we took the franchise on. Those two specific reasons meant that, for the first five years of our franchise, the formula was RPI plus 3%. After that, it reverts to the RPI plus 1% formula, consistent with other franchises.

**Q73 Ms Smith:** On more than one occasion on the route that I use we have seen staff trundling up and down the carriages with cans of water, because the water boiler in the area where they make teas and coffees has broken down. That leads me to believe that perhaps costs are being cut in terms of maintaining some of the catering services on board, for instance. It may be happening elsewhere too. Is this the case? Are we seeing cutbacks in terms of the maintenance of operations like catering on the trains? Certainly that is the inference that many passengers are drawing in terms of the operations on other lines.

**Mr Leech:** In our case, on the catering we are not only spending more money on food which is given to customers but we have invested money over the last year with Rail Gourmet, in changing all of the equipment and the infrastructure that supports it at stations. We have completely replaced all of the crockery that we have. We have invested a huge amount of money into our catering because we want to improve it. The maintenance of our trains, making sure that there are reliable services on board the trains and that equipment is maintained—that is a high priority as well.

**Q74 Chairman:** I might go along with that, except, Mr Leech, there was a time when there was continual flooding from the kitchens on Virgin Trains, and I was told that it was because the dishwashers could not operate on a tilting train. A pity no one thought about that before.

**Mr Leech:** We have taken them all out and replaced them; so that is no longer a problem.

**Q75 Sir Peter Soulsby:** Can I ask you about the future and whether you see scope for alternative ways of pricing train tickets. I am aware that, I think it was, Dr Mike Mitchell from the DfT, in recently giving evidence to the Public Accounts Committee, spoke quite warmly and positively about so-called ‘airline pricing’ on the easyJet/Ryanair model. Clearly, it has attractions in that it fills aeroplanes and, who knows, it might fill trains in the same sort of way. It may be that the model is not appropriate, but certainly there are some things that some of the operating companies do at the moment that are moving in that direction. I just wonder whether you see that as a potential future way of matching supply and demand in a way that is, frankly, more dynamic than the fixed fares you have at the moment.

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**Mr Bunting:** We have invested, our East Coast and our East Anglian business, in revenue management systems which match and mirror what the airlines have done. In fact, if you go on our website now, you will actually find what we call our 'lowest fare-finder' where we will actually help you locate the lowest fare available on the day and on the train you want to use, so we have put a great deal of faith and indeed quite a bit of investment in state-of-the-art revenue management systems which work on a similar basis to the airlines', and I know that colleague companies are all working to that agenda.

**Q76 Sir Peter Soulsby:** Is that not somewhat at odds with the so-called 'simplification' of the ticket structure which is supposed to have taken place?

**Mr Mapp:** Well, I think actually it fits pretty well the simplified fare structure that we finished introducing in September of last year with our three main types of fares, any-time fares, off-peak fares and advance fares, and advance fares provide ample scope for train companies to offer a range of advance-purchase fares in the way that the airlines do. The investment that Paul has described in revenue management systems for the two of the National Express franchises, and I think that investment has been mirrored in other franchises as well, allows train companies to exploit that opportunity.

**Mr Morgan:** That is the Hull Trains model actually. It is a condition of our licence that we have to keep some space for people with walk-up, inter-available fares, but basically, as a small operator, we need to fill our trains, so we work on the easyJet/Ryanair model and that is what has been very successful for us.

**Mr Leech:** Something that is happening is that these things are coming together, so it has become possible to buy advance fares nearer and nearer to departure, so all operators now offer them on the day of departure and some until very late in the day. In fact, since January on Virgin Trains, you can now buy an advance ticket for the day before right up to midnight on the day before travel, so the idea that advance fares are only available a very long way out simply is not the case.

**Q77 Mr Martlew:** I think there is a great fog over pricing and the customers do not believe what you, gentlemen, are telling us. It may come as a surprise to you, Mr Leech, but I am quite a fan of Virgin. They look after their staff, they are good with their customers and they have invested a lot of money in the rolling stock, albeit through the TOCs. On the franchising, is it not a nonsense, the fact that a company that has a good reputation and is well-liked by the passengers is not taken into consideration and it is actually a blind bid when you go into the new franchise?

**Mr Leech:** Well, that is a matter for the Department to decide.

**Q78 Mr Martlew:** I know who is responsible, but I am asking for your comment on it.

**Mr Leech:** I would say it is a nonsense, but in many procurements for other services, certainly if we procure services for ourselves, then we do take account of the performance of previous suppliers, so, in making this response, I am not making a partisan response for Virgin. My personal view is that, if you are appointing somebody for an important contract and they have been your supplier before, it would be normal to take some account of how well that supplier has performed. That is what I would do in contracts that I manage, but clearly it is a question for the Department for Transport.

**Mr Martlew:** Does the franchising system not work in reality? You, gentlemen, actually complained about how much money you are having to pay to the Government, but you actually bid for that, that is how you got the franchises. Would it not be better, and I am not really advocating this because I would like it to go back into public ownership, for train companies to buy the business and then be regulated the same as the water utilities are regulated, so you actually buy the business?

**Q79 Chairman:** Is there anybody that has an appeal for?

**Mr Mapp:** The existing model has worked reasonably well and the numbers in terms of passengers and so on, I think, demonstrate that, but we are, at the end of the day, commercial companies and we are fairly flexible in the way in which we work. Any sort of franchising framework that allows us to earn a reasonable return, and I emphasise "reasonable return", is something that we would be willing to work with, so yes, clearly we have views and we would certainly want to be consulted in terms of any future franchise changes, but, in a sense, we are sensible and pragmatic in that context.

**Q80 Mr Martlew:** The final point, and I think this is probably the most important one, is that we are going into a recession. You, gentlemen, won your franchises when there was growth predicted in the business and in fact, if you look at all your models, it is all growth and those models may be looking a bit sickly at the present time. The franchising agreements that you have with the Government actually allow you, with a small financial penalty, to walk away from those franchises if they are not making the money that you predicted they would do and if you are making a loss, and we saw that with Sea Containers in actual fact. Is that the fault of the franchising system? Should we have a system whereby, when you are making more profits, then you pay more money to the Government other than through taxation and, when you are hitting hard times, you actually pay less? Should the franchises be more flexible? How many of you are predicting that you will not have to go back to the Government within the next two years?

**Mr Morgan:** I cannot go back to the Government because Hull Trains is not a franchise.

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**Q81 Mr Martlew:** But National Express is.  
*Mr Morgan:* Yes.

**Q82 Chairman:** Just to pursue Mr Martlew's question a little more, there have been reports that a number of you have actually been back to the Government, complaining that you think the recession is going to impact on your passengers and on your revenues, so what did you ask the Government for and what did you get?

*Mr Mapp:* Certainly collectively, and I cannot speak for individual train companies clearly, we have not asked for any kind of financial services-type bail-out at all.

**Q83 Chairman:** You have not been part of a delegation to meet ministers and spoken about the concerns you have to do with the recession and the impact on your passengers and your revenues?

*Mr Mapp:* Well, if you are referring to the meeting with the Secretary of State on 20 January, is that what you are referring to?

**Q84 Chairman:** I am referring to the meeting that was in the press. Has there been such a meeting of the nature I am describing?

*Mr Mapp:* Yes, in what is a fairly regular series of meetings with the Secretary of State towards the end of January.

**Q85 Chairman:** Did you make the points I am suggesting you made? Did you talk about your concerns about the impact of the recession on your passengers and your revenues?

*Mr Mapp:* That meeting covered three areas. It covered a discussion on—

**Q86 Chairman:** Did it include what I am talking about?

*Mr Mapp:* No, it did not include that.

**Q87 Chairman:** You are denying that you made representations to the Government about your concerns relating to the recession?

*Mr Mapp:* We provided an update on trading conditions for the Secretary of State and we made it clear to the Secretary of State that the train companies were willing to play their part in measures to re-stimulate the economy. We did not ask for any kind of bail-out of the industry.

**Q88 Chairman:** Did you express concerns about the impact of the recession on your passengers? Let me ask the individual companies. Virgin, did you express concerns?

*Mr Leech:* No, we did not, and we have not had any bilateral discussions of that nature either.

**Q89 Mr Martlew:** The question I asked was: could the franchising be more flexible, ie, if you are doing well, you pay more and, if you are doing poorly, you pay less, and, two, do any of you think you will be

going to the Government within the next two years, threatening to hand back your franchises?

*Mr Leech:* We certainly do not.

*Mr Furze-Waddock:* There is already a mechanism in the franchise agreement that, as I have said, there is a revenue share, a revenue support—

**Q90 Mr Martlew:** But is it big enough, is it good enough?

*Mr Furze-Waddock:* That is arguable, and it will remain to be seen, but I can confirm that we have not been back to the Secretary of State, asking for any bail-out for our franchises. We continue to monitor developments, keeping an eye on what is happening to revenue this year, and we will continue to do so. We would not be managing our businesses properly if we did not do that.

**Q91 Mr Martlew:** So you do not expect to go back to them?

*Mr Furze-Waddock:* We do not expect to go back to them.

**Q92 Mr Clelland:** Are any of you on the Government's red light list? No one has any idea about that?

*Mr Leech:* Not that we know of.

*Mr Mapp:* Well, we were interested to hear about the red light system in the press last week. The DfT did not make it clear which, I think it was, five train companies, they said, which were categorised as being red light, they did not actually specify which train companies those were, and we honestly do not know which five train companies those are.

**Q93 Chairman:** Can I just get this clear. Were you present at that meeting?

*Mr Mapp:* I was not, no.

**Q94 Chairman:** Are you aware of what ATOC said at that meeting?

*Mr Mapp:* I have been debriefed on the content of the meeting.

**Q95 Chairman:** Are you saying that there were no representations made to ministers concerning the impact of the recession on passenger growth and revenues?

*Mr Mapp:* Well, we presented an update on trading conditions and we highlighted the fact that passenger growth was slowing, which it is.

**Q96 Chairman:** And was that expressed as a concern?

*Mr Mapp:* Well, I think it would be rather strange, in the context of a very severe recession, if we did not express some concern about—

**Q97 Chairman:** Well, why then can you not answer the questions in a straightforward manner instead of my having to get it out of you in this roundabout

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manner? You are now agreeing that there were concerns expressed at that meeting, and possibly subsequent meetings, to do with the impact of, what you call, a “deep” recession on passenger growth and revenues?

**Mr Mapp:** Well, let me be clear. I was not present at the meeting, but my understanding of the exchange of views was that we provided an update on trading conditions, pointed out that growth was slowing and clearly said that economic prospects were extremely uncertain at the moment, but that was not in any way the precursor to requesting government support, it was not the precursor to asking for any kind of bail-out of the rail industry and it was not the precursor to asking for any other specific initiatives.

**Q98 Chairman:** Was there a request to reduce services—

**Mr Mapp:** No.

**Q99 Chairman:**—which had been prescribed in the franchise—

**Mr Mapp:** No, there was not a request to reduce services.

**Q100 Chairman:** Were any of our witnesses here today present at that meeting?

**Mr Leech:** No, but I can say that we have no plans to reduce services or to request to do so.

**Q101 Sammy Wilson:** Just a couple of days after the meeting then, DfT officials briefed the Public Accounts Committee, indicating that five of the franchises had got red light status, that that was covering 25% of the network and that there actually were concerns about the viability of some of the franchises. Were they being unnecessarily alarmist or does that reflect what you are seeing within your own companies? Of course, there is then the additional information in the note from JP Morgan, the investment bank, about National Express and the East Coast franchise and the long-term difficulties there. All of that information, you are saying, was unnecessarily alarmist and you are not expecting that some of the franchises will be in trouble within the next year?

**Mr Mapp:** Well, we do not know what criteria the DfT are applying when they say that a franchise is in trouble, so it is very difficult for us to comment on that, nor do we know which franchises the DfT were referring to.

**Q102 Sammy Wilson:** Do they make this up? Before they make this assessment, presumably they must have some discussion with the franchisee to ascertain whether they are in trouble or not. I cannot imagine that there is a red light flagged up for a particular service without any discussion at all with the people who are providing it.

**Mr Mapp:** Well, we have a fair proportion of the train operating community represented on this table

today. When we spoke about this matter prior to today’s committee meeting, none of the train operating companies here had been informed by the DfT that they were on this red light list, so there has not been discussion.

**Q103 Sammy Wilson:** Well, would it alarm you then that officials in DfT make this up, come along, give this information, albeit they do not name the companies, but they give this information to the Public Accounts Committee which, in turn, must have some impact on your businesses and on the staff who work for you? Does it alarm you that this is being done without any discussion with you at all?

**Mr Mapp:** Well, clearly it is within the DfT’s gift to make public whatever information they think is appropriate. I am not sure that we can comment any further on it. We do not know which train companies are on the list which the DfT talked about. As far as the witnesses here are concerned, and I will ask them to contradict me if it is not true, none of the train companies they represent has been in discussion with the DfT about this list or indeed DfT concerns about the viability of their businesses, so I am really not sure I can comment any further on the matter.

**Q104 Mr Clelland:** But you represent all of the train companies, do you not?

**Mr Mapp:** Yes, I do.

**Q105 Mr Clelland:** So, so far as you are aware, it is not likely that any of them is going to be in trouble as a result of the recession and you have not had any discussions with any of them about that?

**Mr Mapp:** At the moment, I have no information at all that any train company is in financial difficulties.

**Q106 Graham Stringer:** If I were a trade organisation and the Government said that five businesses had got red lights, and you have this financial relationship with them where, over the next two or three years, a lot of your members will have to pay out a great deal of money, I would ask the Government who was red-lighted or red-flagged. Have you asked them?

**Mr Mapp:** Please could you repeat the question.

**Q107 Graham Stringer:** Have you asked the Government who has got a red light?

**Mr Mapp:** We have not asked them that. In the information that only came out very recently, I have no doubt the individual train companies—

**Graham Stringer:** It was in *The Guardian* on 22 January and it had been at the Public Accounts Committee prior to that on 21 January. Even if the Government are saying that five of your members are in trouble, you have had sufficient time to pick up the phone to Mr Mitchell or to somebody else and say, “Can you tell us which of the companies, you think, are in trouble?” I would expect a trade organisation to want to defend them.

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**Q108 Chairman:** I presume that you saw the press cutting, that it was drawn to your attention?

**Mr Mapp:** Yes, we are aware of the press coverage. As far as I am aware, ATOC has not discussed that matter with the Department for Transport. I would not be surprised if individual train companies had sought reassurance that they were not on the list. Now, I do not know if those discussions have taken place and, if so, what the outcome was, but, as I say, we were not aware of the announcement by the DfT prior to the DfT making it and we are not aware of the criteria that the DfT have applied in assessing which train companies may be, in their view, at risk. I am not sure that I can comment much further on this.

**Q109 Graham Stringer:** I hope you can comment on other things because that is what we are here for really. In the same report in *The Guardian*, it says that there was a memo circulated among railway bosses before the meeting with Geoff Hoon which focused on the rail issues, which the DfT have agreed to discuss, and it lists a number of contingency plans for the industry, including the shortening of trains, the Government shouldering a greater share of losses on contracts, state-funding of an extra 1,000 jobs on the network and an easing of borrowing restrictions on contracts. Was that a real memo?

**Mr Mapp:** Well, I am not really prepared to comment on leaked documents.

**Q110 Graham Stringer:** Not even whether it exists or not, even though it has been published in *The Guardian*?

**Mr Mapp:** I am afraid, I am not prepared to comment on leaked documents.

**Q111 Graham Stringer:** What are you trying to hide from us? What are your members trying to hide from us about the future? Why do you come to this Committee and tell us, bare-faced, that you are not prepared to comment on whether a memo reported in *The Guardian*, a reputable paper, is real or not? You have just been telling the Chair of this Committee that at this meeting with the Secretary of State none of these issues was brought up, apart from in those general terms, and yet more than a week ago we had a report of a memo which you will not acknowledge.

**Mr Mapp:** Well, I am quite prepared to reiterate on the record that the specific issues that were mentioned in that *Guardian* article were not raised with the Secretary of State. The discussion was of the more general nature that I described earlier in these proceedings.

**Q112 Graham Stringer:** Well, that is not quite the question I am asking now. I am asking whether this document is real and those are your genuine concerns. According again to this article, and I do not want to read the whole of the article out, it also says that you are worried a great deal about the other question, and I cannot remember who asked the question now, about the possibility of fares being

forced down because of the RPI-1 formula, and you did not seem to be that concerned about that, yet this memo, reported in *The Guardian*, says that you are worried about it. Why will you not explain your concerns to this Committee who are representing the public?

**Mr Mapp:** I think the position in regard to the meeting on the 20<sup>th</sup>, as we made quite clear, is that that meeting did not discuss the specific issues that *The Guardian* article—

**Q113 Graham Stringer:** I want to focus on this memo which was circulated amongst rail bosses. Clearly, those are the concerns you are concerned about in private, and I would be surprised, quite frankly, if you were not, but why will you not share them with this Committee? There is a huge amount of public money going into the railways and we want to know whether it is being used wisely and what is going to happen next. Why will you not tell us what your thoughts are on this matter?

**Mr Furze-Waddock:** I do not know if I can help or speculate, I was not at the meeting, I was not party to it and I have not seen the note, but, as I would understand it, it would be highly unusual if there were not a briefing note prepared for a high-level chief-executive-level meeting with the Secretary of State, briefing them as to what issues may or may not come up.

**Q114 Graham Stringer:** It should not be like this, but do you know if this is a real note or are you just guessing that a note might have existed? That is all we are trying to find out.

**Mr Furze-Waddock:** I am afraid, I honestly do not know.

**Q115 Graham Stringer:** So you are guessing. Does anybody know whether this is a real note?

**Mr Mapp:** Well, as Paul highlighted, it is not uncommon for briefing notes to be produced before meetings of this kind. I cannot comment on that particular leaked document that *The Guardian* quoted, but what I can reiterate on the record is that the specific issues that were in that *Guardian* article were not raised with the Secretary of State in the meeting and that the more general discussion that I described earlier did take place.

**Graham Stringer:** You keep coming back to the meeting and I keep going back to the issues, that there is a memo, or maybe there is not a memo, going round the bosses of the rail industry that it is very worried and it seems that that memo indicates that you might be going to ask for higher fares than the agreements warrant, more public subsidy, worse train services and shorter trains, and, if that is in your plans, why will you not tell this Committee?

**Q116 Chairman:** Let us ask people individually because this is an extremely important matter. Let me ask National Express: Mr Bunting, are the items referred to in the memo, which has been referred to

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by Mr Stringer, items which have a resonance with you? Are these matters of concern which have been raised?

**Mr Bunting:** Madam Chair, I have not seen the memo. However, we have no plans to cut services, so I know for a fact that that is not the case.

**Q117 Chairman:** But are you aware of the concerns as expressed in the alleged memo?

**Mr Bunting:** Actually I have not seen the memo, so I cannot comment.

**Q118 Chairman:** But you have heard what is in it and are those matters which are familiar to you as matters of concern?

**Mr Bunting:** All I am going off is what Mr Stringer says, the edited extracts. We are still growing, we have seen year-on-year growth, we are still planning to work with the Government for the expansion of our services and to increase frequencies, so it does seem to be at odds with the long-term plan we have got for our businesses.

**Q119 Chairman:** You say that you are just listening to extracts from Mr Stringer, but I find it pretty incredible that a news item of this importance would not be relayed to you through your organisation. Surely, you are looking at what is reported of a significant nature in serious newspapers.

**Mr Bunting:** And what I am saying is that our plans are for expansion, our plans are for growth and we are still seeing growth in the business; fact.

**Q120 Chairman:** Mr Leech, can you enlighten us on this?

**Mr Leech:** I say the same as I said before, that we have no plans for reducing services and no plans for shortening trains. All of our energy in fact at Virgin Trains is devoted to making a success of the expanded services that we have just introduced.

**Q121 Chairman:** But are any of the items in that memo familiar to you as matters of concern expressed by Virgin?

**Mr Leech:** No, because, speaking for us, those are not a concern for us and we have no thoughts of needing to go asking for additional support.

**Q122 Chairman:** Mr Horton, what can you tell us?

**Mr Horton:** Again, I was not a recipient of the memo and I have not seen it either. I do not know if it exists and I just have not been party to that. In terms of our franchise, we have particular challenges here because this year is one of significant development in growth for us and we are in the midst of leading up to the new high-speed service on our franchise, boosting capacity by 10%, so that is what we are focusing on and that is where our attention and effort are at the moment.

**Q123 Mr Clelland:** I know we should not always believe everything we read in the newspapers, but with reputable newspapers there is generally something behind the story. I wonder if Mr Bunting

has seen this morning's *Newcastle Journal* which has an article about projected problems that there might be with the franchise of the East Coast Line, suggesting that Richard Branson might have an interest in taking it over. Where has that story come from?

**Mr Bunting:** I think Mr Branson gave a personal view which his company have refuted, so I think we will just put that one down to Richard's style. I have spoken to the author of the *Newcastle Journal* article this morning, but he has not shared with me exactly what is in there. No, it is just a little bit of mischief-making there, I think, from our friends at Virgin, or our friend at Virgin.

**Mr Furze-Waddock:** From FirstGroup's point of view, we are not talking about cutting services either. Indeed, as I said earlier, we are actually bidding on the three UK or English franchises. We are bidding for additional capacity in First Capital Connect, TPE and Great Western, and we are looking for additional trains, additional resources, and we are actively doing that at the moment with the Department.

**Q124 Graham Stringer:** We are in an incredible situation, are we not, that we all accept that we are running into a recession, there are real difficulties, and we get a Panglossian response from the witnesses that we are sort of in the best of all possible worlds. Let me ask you specifically, Mr Mapp, again referring to this *Guardian* article, and there are lots of ways of reading articles, it points out that South West Trains have to pay the Government at least £1 billion over the next decade. Do we really think that £1 billion is going to come out of South West Trains in what might be the deepest recession this country has had since the Second World War? Do you think South West Trains is one of these red-lighted companies?

**Mr Mapp:** Well, I cannot really comment on this list of red-lighted companies because we simply do not know anything about it.

**Q125 Graham Stringer:** Do you think South West Trains will be able to pay £1 billion?

**Mr Mapp:** Well, the franchising bidding process is a highly competitive process, but it is also, I think, a process that the train companies which are bidding for franchises think extremely carefully about. I do not think that the train companies submit bids lightly and I do not think that they take undue risks either in submitting those bids. Clearly, the competitive element means that it is the most economically advantageous bid that wins, but I do not think that the train companies would submit bids that they did not think they could then deliver on.

**Q126 Graham Stringer:** The whole of the economy is full of companies that try to make the best decisions for their shareholders and members and lots of them are going to the wall. The rail industry, which I know moderately well, is relatively closed at the top of it and everybody knows everybody else's business

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because you move from train company to train company, from Network Rail to the Strategic Rail Authority and through. Are you saying that there is no gossip, there is no real understanding of which five train operating companies are at risk when companies are going to the wall all over this country?

**Mr Mapp:** Well, I can honestly say that I am not aware of any train companies at the moment which are in financial difficulties and I am not aware of the five train companies on the list.

**Q127 Ms Smith:** I just want to carry on from what Mr Stringer just asked to ask for a straight yes-or-no answer. Do you believe that the current franchising system encourages over-optimistic forecasts in terms of what they can return to the Government, to shareholders, et cetera?

**Mr Mapp:** Sorry, could you repeat the question?

**Q128 Ms Smith:** Do you believe that the current franchising system encourages over-optimistic forecasts?

**Mr Mapp:** Well, clearly the fact that it is a competitive bidding process means that the companies are incentivised to make their best offer, but I think there is sufficient maturity and experience in the train company community now to mean that the bids are tempered so that undue risks are not taken, so I think, in answer to your question do I think forecasts contained within bids are generally over-optimistic, the answer is no.

**Q129 Ms Smith:** A number of companies are believed to be on the verge of announcing a number of redundancies, including South West Trains itself, National Express and Southeastern Trains. As a trade body, you must be aware of this rumour that is circulating at the moment. Is there any truth in it?

**Mr Mapp:** Well, I think some of those train companies have in fact made announcements about those reductions publicly. Any business heading into an economic downturn has to take prudent action to make sure that its costs are under control, and the sorts of reductions that you are talking about have been focused very much on back-office support areas of businesses. The train companies affected have been very careful indeed to protect front-line services and services to customers, so I do not think that you should read too much into that. It would be an imprudent industry and an imprudent business that did not take sensible measures to cut non-essential costs in the context of an economic downturn.

**Q130 Ms Smith:** Well, you cannot blame us, surely, for thinking, because of this kind of news reporting, that the payments to the Government which Mr Stringer referred to may be at risk.

**Mr Mapp:** I cannot blame you, no, but nor can I control news reports, and ours is an industry that seems to be of constant interest to the media. I think all we can do today is try and allay the kinds of fears and concerns that those news reports generated.

**Q131 Sammy Wilson:** I have just one last question which, I suppose, is to Mr Bunting because there has been this speculation about the five red-lighted companies, but there has been specific speculation about National Express and the ability which they have in a declining market or in a very tight market, first of all, to meet the £1.4 billion requirement for the repayment on the franchise and that those repayments, according to the investment bank, JP Morgan, really require 10% growth in volume each year. Now, I think we have already in the discussion accepted that that is not likely to happen certainly during the next year, so is there a likelihood that National Express are going to find that the franchise which they have for the Eastern service is going to come under pressure?

**Mr Bunting:** We are in a closed period at the moment, so a lot of that is commercially sensitive, so I am not able to say anything further on that.

**Q132 Mr Leech:** I would just like to pick up one of Mr Mapp's last comments. He was saying that in an economic downturn companies need to be looking at tightening their belts or cutting costs, but is that not somewhat at odds in comparison to what everyone has been saying for the last hour and a half about how well all the companies are doing?

**Mr Mapp:** Well, British Petroleum this week announced profits of, I think, £18 billion and they also announced a cost reduction programme, so healthy businesses keep their costs under control, and it is a constant battle for all of us. I think the fact that it is more in the public eye now is because of the general economic context, but you should not, I think, infer from the fact that we made sensible reductions to non-essential costs that the rail industry is in collective financial difficulty, or even in individual financial difficulty for that matter.

**Q133 Mr Leech:** Is it not the case though that everyone has been saying that they are looking towards growth in the rail industry rather than actual cutbacks?

**Mr Mapp:** Yes, and that is still our focus. With the timetable introduced in December 2008, there are 250,000 additional train services this year, so yes, we are still focused on growth, and there are two ways to get through a recession. One is to reduce costs, and we are doing that in a sensible and prudent way that does not impact on customer services, and the second is to grow revenue, and that will certainly be a very, very strong focus for us this year.

**Chairman:** Thank you for answering our questions, and I am sure that your answers will be considered fully in the coming weeks and months. Thank you very much.

*Witnesses:* **Mr Colin Foxall**, Chairman, and **Mr Mike Hewitson**, Head of Policy, Passenger Focus; **Ms Sharon Grant**, Chair, and **Mr Tim Bellenger**, Director, Research and Development, London TravelWatch; and **Mr Richard Rowson**, Business Development Director, thetrainline.com, gave evidence.

**Q134 Chairman:** Good afternoon. I apologise for keeping you so long, but I hope you have found the wait informative. You have made many criticisms of the level of fare increases based on the information figures last July. What do you feel the Government could, and should, do about that?

**Mr Foxall:** I think we would say, from Passenger Focus's side, that these increases are excessive, given the current economic situation. We have said to the Government really that, in the light of the economic circumstances, we think that the policies which have been adopted ought to be reviewed, not only in relation to what directly comes out of the franchises and the agreements that have been reached in relation to the headline figures, but also in relation to the mechanics that sit underneath, which have been referred to earlier, which allow average fares to be struck or average increases to be struck, but then provide for quite a wide range of fares that actually can be charged. In that context, perhaps I might remark that, although inflation rates might fall, say, to 1% or less in the summer, and that might govern the increases that take place in January next year, there would still be scope under the existing system, as I understand it, for some fares to increase by multiples of that figure, providing the average was not more than of course 1% or RPI plus 1%, so 1% plus 1% or 0% plus 1% and so on, so that is the basic thing we have said to the Government and that is our basic conclusion in relation to what the train companies have announced.

**Q135 Chairman:** Does anybody want to add to that?

**Ms Grant:** I think we would share that view. We think there is certainly a perception of unfairness about what has happened this year. Clearly, the RPI plus 1% is calculated in July, but not implemented until January when, in the meantime, inflation has gone down, and the perception is one of great unfairness and we need to be looking at the mechanism to see what can be done about that. There are concerns about affordability and there are concerns about value for money. I think the evidence that we have is that people feel that they are paying more, but they see no improvement in issues like overcrowding and customer services.

**Q136 Chairman:** The railway companies told us that people were satisfied. Are you disputing that?

**Mr Foxall:** Perhaps I could answer because they are quoting my statistics or Passenger Focus's statistics, and of course they are right. They are right about performance. Their passengers are telling them through our surveys that they are broadly satisfied with performance, by which we mean punctuality, reliability and so on, and that is a very important driver in all of these things, but they also tell us that their view of value for money is much less enthusiastic, with a figure of around the 40% mark higher for some long-distance operators and lower for commuter operators, so there is a very big disconnect between those two figures. Madam Chairman, can I just say at this point that, as I think

you are aware, we are due to produce two fairly substantial reports on this subject of value for money and on comparisons with European fare levels very shortly. Now, they have not yet been delivered to the Secretary of State who commissioned them and I, therefore, cannot draw on them very heavily today, but it is my plan to publish them before, I think, you are due to interview ministers later in the month, so I hope they will be available to the Committee at that point to assist you in your conclusions.

**Q137 Chairman:** When do you expect them to be ready?

**Mr Foxall:** I would not like to commit myself to a hard date, if you do not mind, Madam Chair, but I hope to do so in about a couple of weeks.

**Q138 Mr Hollobone:** There have been some staggering fare increases around the network. The biggest one which has been brought to my attention is for travellers from south-east London, the Belvedere, Bexleyheath and Sidcup area, who saw their fares go up by 13.5% in January 2008, they were promised that the increases would be mitigated in 2009 and in 2009 they have gone up another 11.6%, so the fares have gone up over 26% in a two-year period and yet many of those travellers this week will have got on and off their trains at these stations with the platforms not cleared of snow. In your view, representing passengers as you do, how can a quarter increase in the fares over a two-year period for no change in the service be in any sense acceptable at any level?

**Mr Foxall:** Well, it is unfair. What, I think, aggrieves us about the present system is not that the fare increases exist because, if they are reasonable, they have to take place whatever, but there is a kind of randomness about this process, so, because we have this fares basket concept, it could be that someone at one station gets a 0% increase, even possibly a cut, and someone a little bit further along the line suddenly finds himself the recipient of the kind of examples that you have mentioned. I think it is extremely difficult to justify a system like that for a public service. It is random, it feels random, it feels like you are singling out groups of passengers, and I do not think it is sustainable.

**Q139 Mr Hollobone:** To use an example affecting my own constituents, I am regularly emailed by my constituent, Christopher Thompson, who has the misfortune to be a daily commuter from Kettering into London St Pancras and, very kindly, he keeps me regularly updated about the poor service which he experiences. Now, on the Midland Mainline, the new franchisee, East Midlands Trains/Stagecoach, took over the operation last year, the fare increases have been 7% both in 2008 and 2009, yet for many of my constituents, especially travelling back home from London in the evening, they are having to stand for 40 minutes on the train until people get off at Bedford. Now, I know that in the franchise



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agreements there is no requirement that, if you buy a ticket, you get a seat, but people do expect on long journeys to be able to sit down. To stand up for more than 20 minutes, I would have thought, is completely unacceptable. What are your views on that?

**Mr Hewitson:** I totally agree. Twenty minutes has been roughly the rule of thumb from BR days and, for anything over that, you should get a seat, you should be able to sit down as part of the basic product. I know that with the walk-up-and-go system, in the sense that everyone can turn up for the same train with season tickets, it is very hard to guarantee. For longer-distance services, you need to plan capacity to match the numbers of people. One of the things our research shows us about the drivers of satisfaction is punctuality, value for money, it is getting a seat; it is the core product that passengers value and it is the core product that they judge the industry by.

**Q140 Mr Hollobone:** What effectively can you, as consumer organisations, do to train companies in reflecting the concerns of the rail passenger because certainly a lot of my constituents are feeling that there is nothing that they can do, that there is no alternative train provider and they either come to London on the train or they drive basically, there is no competition, the fares have gone up and the service for many has actually got worse? What can you do with regard to getting this across to the rail companies and forcing a change?

**Mr Foxall:** What we can do is we, firstly, produce the research, so that actually produces the hard evidence. If you are going to get people to listen to you, in my experience in this business, you need to be useful, so you produce evidence which actually illustrates to them what they have to do and then you seek to negotiate with them to get those improvements. Now, good companies do actually respond. One has to say that on the performance side, and there are exceptions, there are issues like the crowding and capacity issues that you have described, but on the performance side, companies are very keen now to work with Passenger Focus to improve their scores on the National Passenger Survey. I do not think that is an examination or a test for a better score, but actually they want to drive those scores up, so publishing how satisfied or dissatisfied passengers are with various aspects of the service in an objective and strong way is a great incentive to them to get it right. Judging by the telephone calls we get as soon as they see the figures, which urge upon us sometimes to take into account what a bad day they had in the middle of the survey and things of that sort, it is very clear to us that they think they are important things that they want to score well on for their passengers, for themselves and, frankly, in some cases, for their own bonuses and performance pay.

**Mr Hewitson:** There is another area as well. It is trigger points, such as a new franchise, about trying to influence the Department for Transport's invitation to tenders to try and get the franchising process to take more account of the issues we are raising, such as lowering the sort of range by which

fares can increase, offering new products, Carnets, for instance, the sort of new regular commuter-type products that many passengers would value, but which are not catered for now. We have tried to work with the Department on the new South Central, the new Southern franchise, to try and get the passenger's voice into the franchising process, and to some success in some areas, but we need to see how that pans out in terms of the consultations, but I think that longer-term we can target those points as well.

**Mr Bellenger:** Can I illustrate what my colleagues have actually been talking about in terms of an actual example of an alternative franchise model and that is the model that was adopted by Transport for London for the London Overground network. We have consistently argued that the standards that London Overground have put in on their services are passenger-friendly, and the results from the National Passenger Survey in the last quarter show that London Overground is one of the most improved operators there. Crucially, in the area of value for money, they are actually now among the top train operating companies for value for money scores. In fact, they increased their overall percentage increase in value for money which went up by something like 15%. Now, that was on a very, very low base, but it has actually put them now top of the London commuter train operating companies and it is up there now amongst the likes of Mersey Rail and Northern. Now, London Overground is a different type of franchise in that it is operated under the auspices of the Mayor. In this case, the Mayor actually has control over the fares, so the Mayor could actually choose to either reduce fares or to increase them, depending on the economic circumstances. The Mayor is not bound by a formula of RPI + 1 and he does have an ability to vary that according to the circumstances, and the train operator, because the franchise is actually very, very tightly specified, can purely concentrate on delivering the service and they do not have to worry about what the effect of that is on the fare levels.

**Q141 Sammy Wilson:** Can I just take you back to the point you were making about RPI and the fact that it was determined on the July figure and, therefore, by the time we get to January, for example, this year, it is well out of date. Providing there is consistent application though from one year to the next, is it not a case of swings and roundabouts and is there not a danger in moving the month in which the figure might be based and, therefore, is your criticism of having the set month every year not really a valid criticism?

**Mr Foxall:** Well, not really. It is not a question of the month, I think. My criticism is that we have entered a new era. This whole thing has been constructed during a period of exceptional growth, great stability and increased ridership on the trains. We now, by common consent, are entering a very difficult period and the policies that were adopted during the previous period clearly, in my view, need to be re-examined if we are going to go through a different

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sort of period, so I am not really arguing that you should choose one month over another, that is not what I am saying.

**Q142 Sammy Wilson:** The impression I got was that you were saying, "Look, because inflation is now falling, we should really be looking at choosing a different month rather than July".

**Mr Foxall:** No.

**Q143 Sammy Wilson:** So what would your alternative be then? If it is going to be RPI plus something, are you saying that that formula should no longer be used? Do you not accept that, if we go for a formula where you move the base month around, equally the train companies could argue that they want it moved to a month which is advantageous to them?

**Mr Foxall:** I am not arguing that. Sorry, if that is the impression I gave you, it is not the impression I intended to give you. We are making no proposal to move the month during which RPI is scored, that is not what we are saying. What we are saying is that, since we are entering a different period, the presumption that you can have the sort of increases that you had in the past and the kind of construction that you had in the past needs re-examination. In particular, I am looking at this business of having a basket and being able to charge fares within an average which actually can vary quite widely. I think that is a very particular point and, as I say, has a particular bad impact on people, so I am not suggesting that you choose a particular month. Incidentally, it is very difficult to do anything about this; this is a construct of the system. We have several franchises all with somewhat different arrangements in relation to fares, they will run over quite a long period of time, they are going to be renewing at different times, they are contracts with the Government and, to change this, you would have to re-negotiate, so what I am really saying to the Government is, "Look at this. Look at what impact it is having on passengers and look at the signals you are giving about the price of travelling on the railways".

**Q144 Sammy Wilson:** Will you also accept, since price is really a signal to consumers and will have an impact on demand, that simply the managed demand on popular lines, et cetera, to use pricing as a rationing device, if you wish, it is essential, and it is perfectly acceptable, that where companies identify, "There's a popular line. We don't have the capacity. We've got to ration the places on those trains", you go for higher price increases there? It may be tough on the passengers on those lines, but, if prices act as a single new mechanism, is that not an appropriate way of using them?

**Mr Foxall:** Clearly, what you need to do is tackle capacity, so we had best put that on one side for a moment. I think what you need is a transparent process. If these price increases were being used in a sane way, a transparent way so far as the customers are concerned, to shift patterns of commuting or to shift patterns of travelling, that might be worth an

argument. I am not saying that we, as passenger representatives, would think that would be a great thing to do, but I am saying that it might be worth inspection. What is happening at the moment and what it feels like from the passengers' side is that randomly I get a very large increase of the kind that we have just had described and it affects me, it affects my ability to travel to work and it is a significant sum of money, particularly if you are commuting in the South East and as large or getting to be as large as your mortgage. It is the second-largest thing you probably pay out as an annual bill and, if it, therefore, has to randomly increase in price, that is very unsatisfactory. If we want to use it as a different sort of mechanism, then let it be a transparent one, let us agree on it and let us understand what is going to happen so that passengers have a chance in making choices and judgments.

**Q145 Sammy Wilson:** So how would you see that transparency being achieved?

**Mr Foxall:** Well, fortunately, I do not run the railways and it is not my job to make government policy. What I am doing here is drawing attention to the problems the existing system has thrown up and how more acute they are at the present time as we go into a period of recession. That is my job.

**Q146 Sammy Wilson:** Yes, but you are also representing passengers and, if you are saying, "Look, the problem is that we don't have transparency", I think that there probably is some onus on you to say, from the passenger point of view, "This is what we believe should be done to ensure that that transparency is achieved".

**Mr Foxall:** We will have some proposals in the report that I referred to earlier on which we will publish shortly, and the Committee will have an opportunity to see those proposals, but I am not in a position this afternoon to run through them in detail.

**Q147 Mr Martlew:** Nobody, for example, is in favour of putting prices up, I think, so you have got an easy job to that extent. You all accept that the subsidy has gone up from, I think, just over £1 billion ten years ago to about £5 something billion now, so there is a massive amount of public money going into the railways. My constituency, unlike the South East, has a public transport system that is based on the buses and probably a lot of my constituents in a year will not travel on a train whatsoever, although £5 billion of public money is going in. We are talking about spending, is it, £11 billion on Crossrail, goodness knows how much on Thameslink and we are hopeful for a new high-speed line and we are talking about putting that to Heathrow. If the money does not come from the fares, where does it come from? Does it come from my constituents who do not use the trains at all, or do we actually not raise so much money and hold back on these major infrastructure developments that we need?

**Mr Foxall:** That is an exceptionally fair point and it is the reason why, in previous years, we have not argued strongly about the regime that has existed in

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terms of deciding what went into the fare box and what came from passengers because that is a decision that gets taken here in Parliament effectively. What I am saying is that we now have a crunch point, that is all, we have a change of circumstance.

**Q148 Mr Martlew:** You can over-exaggerate that though. If presume that there was not, what is the answer to my question? Presume that there has not been a change of circumstance, what is the answer to my question? Do we take more out on the taxpayer and keep fares low, or do we actually stop development on the railways?

**Mr Foxall:** I think it is an extremely difficult question for me to tackle.

**Q149 Mr Martlew:** You can try to answer it.

**Mr Foxall:** I will try to answer it, but, in a sense, simply representing passengers, the passengers' position is this: that they are prepared to pay for what they regard as a value-for-money service and they tell me, in their surveys, that they are not getting value for money. I am telling the Government, and I am repeating to this Committee, what they tell me. It may well be that you have a very valid point by saying that we should not subsidise the railways, but that is a decision that—

**Q150 Mr Martlew:** What I am saying is that there is a massive subsidy going in and what appears to be being said by yourself is that there actually should be more.

**Mr Foxall:** No, can I correct you. I am presenting an argument which comes from passengers. I think the Government has to decide what it wants to spend on the railways.

**Q151 Chairman:** Does anyone else have a view on who should pay?

**Ms Grant:** I think Colin is quite right, that that is a political decision that has to rest with the Government of the day.

**Mr Martlew:** That is a cop-out.

**Q152 Chairman:** Do any of you want to say what your decision might be?

**Ms Grant:** I just want to concur with Colin's point, that in the short term we are stuck with this system that we have of franchising and it is a system which is currently under pressure and we are beginning to see signs of pain in the system in London, and in our area we are beginning to see ticket office closures, really quite drastic cuts in the opening hours of ticket offices by First Capital Connect and South West Trains recently and we are starting to see shorter trains which is going to mean more overcrowding, so it is a question of who really bears the brunt of this pain in the system. Is that going to be borne by the passenger in terms of higher fares and reduced services, is it going to be borne by the taxpayer through increased subsidies or changes in franchises, or the third area, which I notice members of the

Committee were pressing earlier on, is whether or not the companies should bear some of the pain in terms of some reduction in their profits in this period of extreme strain? I think there are issues about the transparency with which the travelling public and indeed the taxpayer are able to find out about the level of those profits and what shareholders are taking out of the system. I think, from the passengers' point of view, this is all very opaque and people do not understand, and I think there must be a suspicion that passengers are being asked to pay to maintain the profitability for shareholders and for the train operating companies.

**Q153 Mr Leech:** I would just like to come back to a point you made before about more flexibility with fares and having a basket of fares being a fairer way than the RPI + 1. Would that not lead to a lot more confusion if there were a whole host of different fares and not necessarily better transparency on fares for passengers?

**Mr Foxall:** When I was referring to a 'fare basket', what I was talking about was the way in which the train operating companies are allowed to calculate the increases that they apply, and that is how the average applies, it applies to a basket of fares, so I was not proposing that we should have a new fare system. We have some views in that direction which we will be producing in the report, but I did not propose that we have a range of different fares in my answer, I was merely describing the existing system where the average increase is spread across many different individual tickets and prices are allowed to vary so long as an average is maintained.

**Q154 Mr Leech:** What would you think about the RPI figure being based over a 12-month period rather than just an individual month?

**Mr Foxall:** In the long run, I am not sure it makes a huge amount of difference. You get aberrations from time to time, but I am not sure that this particular one was an aberration. We have a disconnect, we have a change, that is all I am saying, between where we were in terms of inflation and where we are going in terms of inflation, and that makes a difference to all of the presumptions that are built into these franchise systems.

**Q155 Mr Leech:** So you do not think it would make much difference at all?

**Mr Foxall:** I do not think it would make a huge amount of difference, no.

**Q156 Mr Leech:** In terms of keeping fares low, would we not be better just extending the number of open access operators and increasing competition?

**Mr Hewitson:** I think competition can make a real difference to fares. It is quite hard to find genuine examples, but certainly when Grand Central set its fares, we saw moves by National Express East Coast, and where you have genuine competition; where passengers have a genuine choice, you still see increases but the rate of the increases is probably

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different. The issue sometimes with open access is how you dovetail it into a system so that the passenger has as seamless a journey as possible so that they do not have to have a red ticket for a red train and a blue one for a blue train. That sort of inter-availability and an ability to just jump on the next train is important. It is important that that flexibility does not come at a huge premium. That is where open access needs to be dovetailed into a system of co-ordination as much as competition, and balancing those is very difficult.

**Q157 Mr Leech:** Is there any evidence, though, in the recent price increases that there have been lower increases on specific journeys where there is direct competition?

**Mr Hewitson:** I would have to have a look, I am sorry I do not know that.

**Q158 Mr Leech:** Does anybody else have any comment on that?

**Mr Bellenger:** We would have to come back to you on that.

**Chairman:** I think it might be helpful if you could look at that. I think it is an important question. Sir Peter?

**Q159 Sir Peter Soulsby:** Could I ask you the same question I have asked the operating companies which is about the argument that seems to be accepted, at least to some extent, in the Department for Transport about moving towards different ways of pricing tickets, particularly the so-called airline ticket pricing. Do you think that there is some scope for a significant increase in that or is it always going to be just soaking up some of the additional capacity on a rather limited basis?

**Mr Rowson:** Perhaps if I start off on that one. For those of you who are not aware, the primary focus of our business is retailing tickets over the internet. About 80% to 90% of the tickets we are selling now follow the airline model in terms of single leg pricing, advance purchase, valid on the specific train that the customer has nominated. Our market perhaps makes up around 16% to 17% of the non-season ticket market. It is clear that that particular sector is now dominated by the airline-style model.

**Q160 Sir Peter Soulsby:** You say that it has reached about 16% at the moment. How far do you think that can go?

**Mr Rowson:** It is a difficult one to answer. Rail is very different to perhaps the air industry where an airline is probably targeting getting itself 80% or 90% of sales on-line. We should not forget that in the rail industry a big part of the value proposition of rail is the ability to turn up at the station and travel without having to pre-book and pre-arrange your journey. We have seen 100% growth in on-line in the past four years. I would hope to see the same again over the next four years. Obviously it reaches a point where that will plateau. It is probably, in part, being driven at the moment by fare increases in the flexible

tickets, which is what a lot of the headline discussion has been about today, and those average prices, which is encouraging people to plan ahead and hunt out the £5 Birmingham to London or the £8 Manchester to London fares.

**Q161 Sir Peter Soulsby:** Do you think compared with the sort of deal that you are able to offer people that those who just turn up and face either a booking clerk or, worse, a machine, get a pretty poor deal and do not get the full range of options that you would offer them on-line?

**Mr Rowson:** It is not so much a case of whether it is on-line or face-to-face; it is merely down to the time when the customer makes the transaction. If the customer chooses to go to the station the day before they are travelling, they would get offered exactly the same fares that we can offer them on-line. What there has been a definite move towards is continuing to reduce that advance purchase horizon. On some routes it was up at 48 hours a few years ago. It has largely come down now to midnight the night before. Some of the train companies are talking about ten minutes prior to departure still being able to purchase the best value advance fares.

**Q162 Sir Peter Soulsby:** Perhaps some of the other witnesses can comment on whether in fact those who turn up and try and use the machine get the full range of options that one gets through either of the other mechanisms?

**Ms Grant:** Our evidence is that machines are not always as effective as they might be in giving people the best value fare. This is one of the reasons why certainly at the moment we are deluged with complaints about the current proposals to close ticket offices and increase reliance on machines. I do not know if Tim might be able to add more detail to that.

**Mr Bellenger:** I have often said to friends that in terms of ticket vending machines what the railway industry has done is they have taken an operating system which is suitable for a trained booking clerk and they have literally just dumped it on a machine and said to the public, "Get on with it, you, the great untrained public, can now access your tickets in the same way that a trained booking clerk would be expected to do." For most customers that is actually quite a daunting prospect. I am amazed when I go to a ticket vending machine with a group of friends how often I have to physically teach them how to use a machine, about where they can find rail card discounts for example, or whether they can get a discount travelling as a group.

**Q163 Chairman:** Has any of this improved?

**Mr Bellenger:** I think the answer is probably not at the moment.

**Ms Grant:** There are certainly some ticket machines that we are aware of where you cannot actually buy a ticket to all destinations. We have a case in point at the present time, do we not?

**Mr Bellenger:** Yes, we do. In the case of South West Trains, they offer on their ticket vending machines only a range of what they call the 900 popular

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destinations. On the national rail network of course there are over 3,000 destinations. The interesting thing about what South West Trains do is that in a number of examples, in fact, another train operator actually runs trains from a South West Trains station to another station but that other station is not on that ticket vending machine's list of acceptable destinations.

**Q164 Sir Peter Soulsby:** I wonder if you have any suggestions as to how that can be dealt with, particularly these machines, which do seem to be the worst possible deal for the passenger. Either on-line, I think probably being the preferred one, since you can get all of the options there, or face-to-face, seems to be the advice to give to any passenger?

**Mr Hewitson:** Certainly the research we have done looking at the barriers to using ticket machines is that for relatively short distance journeys, where there is no real choice of tickets, you can navigate your way through the system. It is the more complicated journeys that require face-to-face contact. You can replicate some of that on the internet but it can be very confusing working out the times you are going out and the times you are coming back. That is a difficulty. In terms of getting round some of the points you mention, the ticket-on-demand facility, whereby you can use the internet to do the queries, to work out the journey, purchase it and then pick it up from the machines, so the machine becomes a retailer, just a vending machine as opposed to a purchasing means, that can sometimes help. However, people tend to trust people. Particularly now with revenue protection increasing, that sense of being caught without a ticket or the right ticket and as well the huge costs you can sometimes pay by being on the wrong train with the wrong ticket, that is a barrier, it is a worry to people.

**Q165 Mr Martlew:** Just on that point, very often the cheapest ticket to buy, say for example if I am coming from Carlisle to Manchester, is a ticket to Preston and then one from Preston, but the machines do not tell you that, do they?

**Mr Hewitson:** No.

**Q166 Mr Martlew:** Very often the booking clerks will not either because they are instructed not to, very often that is the case?

**Mr Hewitson:** It is a classic case where if you know the system you can sometimes find some good savings. There are conditions attached to that combining of the ticket. The train has to stop, et cetera. If you know your way around the system you can save an awful lot of money at times.

**Q167 Sir Peter Soulsby:** Obviously we are very keen that there should be wider knowledge within the travelling public that there are options, and I just wonder who you think should take responsibility for making sure that the public has that awareness, that either doing it with a booking clerk or doing it on-line is likely to produce options and some better value?

**Mr Foxall:** It goes back really to what I was saying earlier that what we are looking for in many of these systems is greater transparency. There is a duty on the industry, but I think there is a duty on people like Passenger Focus to encourage the industry to do that, and we are doing that. I think there is also a duty on the Government to see that it gets written into the franchises, and that they use their own influence to achieve those things. I agree with you that ticket retailing is going to change, it is going to become more electronic, but we are in a shoulder period where we have got various systems in operation and we have to cope with them as they are. The other remark that I would like to make is that you should understand that if you go for a majority book-ahead system, you will change the nature of the railway. A turn-up-and-go railway is still an important railway and people who book and commit themselves to a particular train, as my colleague said, find themselves exposed to no flexibility, very possibly, depending on what sort of ticket they have bought, and if they end up on the wrong train, for whatever reason, not necessarily for any malicious reason but simply because they miss a train and they have got to get the next one, and they have therefore sometimes thrown away that whole ticket, that is a penalty, and it is not something people know about, so we have to think much more openly about how that is managed.

**Mr Bellenger:** Could I just add to what Colin has said there in that in answer to your original question the airlines model has its limits particularly for commuter railways. Commuters invariably want to have that flexibility, and that is why they pay the much higher up-front costs. I think there are limits to the extent to which the airline model can be applied to local travel particularly.

**Q168 Sir Peter Soulsby:** Really just to wind this up, what is your perception of how the changes and standardisation of names and the simplification of the ticketing system has been for the passenger?

**Mr Foxall:** I think we are in a halfway house. It was never seen, despite the way some represented it, as the magic solution to everything. The idea was to make a movement forward. We did a certain amount of research on names, to help in choosing the names, and they got a better recognition than the previous names, but it is the first step in a series of changes that has to be made in the rail industry, dealing with issues like flexibility, perhaps undertaking always to sell the cheapest ticket to you when you ask for a journey and so on, which the industry is working on with our encouragement. There are numerous things we have to do. There is not a magic bullet to change the whole fare system overnight; I wish there were.

**Q169 Ms Smith:** Would you defend the practice whereby passengers can still jump on trains and buy tickets on the train? Do you think that at the moment they pay a penalty for doing that and do you think that is an unfair penalty?

**Mr Foxall:** In principle, yes I do. Clearly it is a bit difficult to be absolutely blanket about it because it depends whether you think people are trying to

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evade fare paying. Where we are convinced they are trying to evade we are very strongly in favour of revenue protection operating. That is the kind of flexibility that I was really talking about earlier on that I think ought to be in place. I do not see why train companies should treat passengers as though they are recalcitrant prisoners or whatever. They are customers and if they are travelling on a train and they do not have the right ticket maybe, yes, there should be an administration fee, or some such, if you want to upgrade, but it should not be excessive and it should not be unreasonable. I think there should be some reasonable presumption of innocence instead of the huge presumption of guilt before we start. It is up to the train companies and all of us to work in trying to prevent fraud and so on.

**Q170 Ms Smith:** I ask this question partly because, in Sheffield, East Midlands Trains are wanting to put barriers up so that nobody can get on a train without a ticket. I am one of those who unfortunately regularly jumps on a train because I have decided at the last minute that that is a particular train I want to London; I do not have time. Barriers would work against what is at the current moment a public access from communities in the Park Hill area of the city into the city centre. There is a huge dispute about this and I just wonder about Passenger Focus's view on that kind of impediment to public access to stations and platforms.

**Mr Foxall:** I think in general, as a piece of policy, we are in favour of gating simply because it ensures revenue protection. What has to go along with that is proper, quick, reasonable and simple access to tickets. Dealing with your point, I think what needs to go along with it is reasonable flexibility, and having bought the ticket, if it turns out not to be absolutely the right one, you can change it on the train or change it when you get off the train without there being a penalty, so a more customer-focused kind of approach to dealing with the problem. I think it is difficult to argue against gating because it has big revenue protection improvements. Answering earlier points about who pays, that ensures the passengers do pay their share, and that is an important thing.

**Q171 Ms Smith:** Gates at platforms perhaps rather than whole stations?

**Mr Foxall:** Possibly so.

**Mr Hewitson:** We have general support for the concept of gates but it has to be on a "horses for courses" basis. It has to suit the station in question. That is an important caveat; it has to suit public access to a station, and in many places railway stations are cut across the line and they are as much about getting through the station rather than using the trains, and that has to be factored in. Can I go back to one point where we talked about ticket queues as well. I think ticket queues are a particular issue, being penalised for having to stay five, ten, 15 minutes in a ticket queue and then if you jump on the train you are punished by way of penalty fare or higher fare. That is one aspect where, yes, you should be able to board a train and buy a ticket with no

penalty. If ticket gates are being introduced, then there needs to be a very active and very carefully managed programme of monitoring the ticket queues. I think that is an area that the Department in its franchise monitoring should really focus on in that sense, and be a condition almost of the gates.

**Q172 Ms Smith:** Just one further question, you have said previously that we need to look closely—this is a different issue—at establishing a fairer link between fares, investment and satisfactory performance. How do you think that a fairer link would actually work? I think this is a really interesting issue and one I was exploring earlier with the operators. How do you think this would work?

**Mr Hewitson:** We used to have one. There used to be a link between performance and fares. There was a long gap between, again, this July point and December, so a good performance in July would lead to high increases in fares in January. Meantime between July and January the performance had dived and you had this disconnect again, so I think there is always a risk. What we would say is that it is more than just punctuality. There is a whole other range of service quality issues that somehow need to be factored into the assessment of which line get a 5% increase, which line gets a 10% increase, and which line gets nothing at all. We had some examples in the previous January with First Great Western whereby some routes had nought, some had five, some had ten. The 10% increases were going in on the routes that were triggering compensation for poor performance and some of the 0% increases went in on routes that were performing reasonably well. It is harnessing that type of disconnect. I do not have a formula, I am afraid, but I think there needs to be one, that factors passengers' experiences in to what they then pay.

**Q173 Chairman:** What types of tickets are being affected by the downturn? Mr Rowson, can you help us?

**Mr Rowson:** Perhaps I am best placed on this. I suppose the summary of what we have seen over the past three to six months has not been a noticeable drop in volume of tickets but certainly some shifts within those figures. One of the key areas has been a noticeable step down in the number of customers buying flexible first-class tickets and, at the same time, an increase in the number of customers buying, as you describe, the airline-style first-class tickets. The actual total proportion of first class versus standard class has stayed pretty neutral. There has been a shift certainly within the first-class sector from flexible tickets to the airline-style, train-specific tickets. A couple of other figures that come to mind: the average price a customer is paying this year with us, this January, is 0.3% higher than they were paying with us last January. That would suggest that at the same time train companies are increasing their prices 5% to 6%, there is an element of downshifting between the types of products people are buying, and we are coming out at a fairly neutral overall position.

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**Q174 Mr Martlew:** Does that mean people are travelling in standard class instead of first class?

**Mr Rowson:** No, there has not been a noticeable change in it. What we have seen in our passenger base has been a steady increase over the past five years from about 8% first-class bookings to around 16% to 17% first-class bookings, and that has stayed pretty static for the past six months. The shift has been inside that 16% where people have traded down from fully flexible tickets to specific train only tickets or off-peak tickets.

**Q175 Chairman:** The train operating companies this afternoon have assured us that they are not making cuts; they referred to “sensible economies”. The written evidence that we have had from all of you suggests something rather different. I take it that you stand by the written evidence that you have submitted? Is there anything additional you would like to say? Ms Grant, you did refer to the closure of booking offices earlier on in your comments.

**Ms Grant:** Certainly we and Passenger Focus talk to the TOCs regularly and we have meetings on a fairly confidential basis. It is in everyone’s interests that there is a degree of confidentiality, but I think if the impression was given that there is not concern about ridership and revenue and all those issues, I do not think that is the right impression. Certainly the impression I have got is that there is a concern. They are watching very carefully, for example, the number of people who are buying the annual season ticket this year. A lot of people clearly may not be because they might be worried that they will not have a job for the next 12 months, so they will be buying a monthly or whatever. I think certainly the impression that I have is that there really is concern about the effect of the recession, the revenue, and there is concern to cut costs on their part. I do not think there is any other explanation for some of the things that we are now seeing.

**Q176 Sammy Wilson:** How do you marry that with the evidence that you have given and the companies gave that there are rising levels of customer satisfaction in all the customer surveys?

**Mr Foxall:** First of all, we have to bear in mind that the latest survey was the autumn survey, which has just been published by us, so some of this has not really hit yet. It is not always very clear that fare rises necessarily follow directly through to performance. Performance is the key driver—does a train turn up on time, do I get a seat, et cetera—those are the big things that hit the performance headline and that is what passengers go for. Clearly there is a low level of

discontent—not so low if you see the postbag—with the changes to ticket office opening hours. South West Trains has been mentioned and there are two others in the pipeline at the present time for various kinds of changes. We may see some of this come through in the next wave of research in relation to fares and a bit further on maybe in relation to ticket offices. It is difficult for us because I think we have to take a slightly difficult position here. If the companies have to make sensible economies (those are ones that do not directly impact on passengers, or do not overly impact on passengers) perhaps that is not unreasonable given the recession, because there are things happening everywhere. What we have to make a judgment about is do they cross a particular line and do you start to seriously affect services and seriously hurt passengers—is it more difficult to get tickets, do the ticket queues lengthen, are the services really not being carried out properly, or are their maintenance issues, or not. Those are things that I think we have to pay a lot of attention to and we will pay attention to in the coming period. At the same time if we have got to accept train companies may have to make some changes, if ridership falls for example, it will be quite hard to argue that perhaps they should not reduce train lengths for a variety of reasons including environmental ones, but we will want to watch that that does not mean people are being crowded and unable to get on trains or that there are unacceptable levels of overcrowding throughout the country.

**Q177 Chairman:** This afternoon the companies also denied that they had been to the Government with a begging bowl or with a request to reduce service standards. If circumstances arose where some of the TOCs did go to the Government with either a begging bowl or a request to reduce service standards, what do you think the Government should do? Would anybody like to give a view?

**Mr Foxall:** One of the easier questions to tackle! I think the answer is that we have experienced situations before where the franchisers have been in difficulty and have in some measure or other been taken over or been taken into some form of care. That on the whole has not wholly worked against passengers’ interests, so provided it actually looked as if it was going to work in passengers’ interests I think we would encourage the Government to take a positive attitude. In terms of reducing services I think we would be much more sceptical and want to look much harder at that whole issue.

**Chairman:** Thank you and, on that note, I think we will conclude, and thank you very much for answering our questions.

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*Witnesses:* **Mr John Leach**, President, National Union of Rail Maritime and Transport Workers (RMT); and **Mr Gerry Doherty**, General Secretary, Transport Salaried Staffs' Association (TSSA), gave evidence.

**Q178 Chairman:** Good afternoon, gentlemen, I apologise for keeping you so long. I think you both realise that we have been overrunning, perhaps given the importance of the issues we have, but I apologise to you. Could I ask you to identify yourselves, please, for our record.

**Mr Doherty:** I am Gerry Doherty and I am the General Secretary of the Transport Salaried Staffs' Association.

**Mr Leach:** Good afternoon. My name is John Leach and I am National President of the RMT.

**Q179 Chairman:** Thank you very much. What changes do you think should be made to the current system of fares regulation?

**Mr Doherty:** First of all, can I say, Chairman, that we certainly welcome the Committee's interest in this issue. It is not the first time that you have heard from the trade unions in the railway industry that we think privatisation has been a disaster, for just about everyone, except the private train operating companies, and indeed others within the industry. Our view is that the system of funding of the railway industry, regardless of the current economic circumstances (and they are exceptional at the moment) and we think that the current franchising model is inappropriate, does not work, and in fact is not fit-for-purpose even when times are good. If I can try and explain what I mean by that, Chairman. If you are bidding for a franchise, you obviously have to understand your competitors. They have been through the same process as you. You understand them and, as I understand it, something like 90% of the costs of running a franchise are fixed costs, so you have only got a 10% variable anyway to play with, so you are bidding for a franchise, you are looking at what you can get from revenue, you are looking for what you can get from the Government in terms of subsidy, and you recognise that the legislation says that you can increase fares by RPI plus 1%. Regardless of what RPI is (let us forget the 5%), if you construct your bid without maximising the revenue from fares then you are undercutting yourself as opposed to your opponent in the bidding process, so the natural reaction of everyone is that they will maximise the fares, and once you have maximised the fares and you have made the bid and you have won the bid, unless you then activate that, then you are putting yourself at a disadvantage in terms of how you actually perform as a company. The system itself, even in economic good times, is completely flawed and, frankly, is not fit-for-purpose. That is why we welcome this investigation. I am sorry it has to come in such economic circumstances, but we have always said that this system would at some stage hit the buffers. What we are seeing now is we have not even reached the buffers but the wheels are coming off.

**Q180 Chairman:** If the current franchise system is retained, and clearly it is here for the short term, are there any changes in the rules about permitted fares increases that you would like to see, and that you think could be put into place?

**Mr Doherty:** That is a given that we are going to continue with the current system. If the system was wrong, if people were taking risks, for example in order to ensure that they won the franchise, how much different was it from the bankers who were taking risks and giving out toxic loans? They were taking risks on the economic circumstances. The whole industry was questioning the bases of some of these franchises. For example, when GNER handed back the keys and then National Express came in with an even tighter financial bid, certainly the whole industry, certainly the people I was talking to within the industry, were questioning how that was going to stack up. Mr Bowker at the time, I recall, was saying that they had factored in if a recession came in. Well, the chickens have come home to roost now. If the word is right within the industry, then National Express are certainly one of the train operating companies that are talking to government. I do not think the system can work and therefore I do not think you can tinker with it. I do not think there is anything you can do; you have got to change the system.

**Mr Leach:** Similarly, we would take a view that the system was flawed from the outset. We repeatedly made those views loud and clear to the entire industry. The whole system needs completely replacing. It might seem ambitious, it might seem that we are talking with larger expectations than most people are used to, but that is where we think the solution lies. As Gerry has already said, tinkering with it will not solve the problem. What I would also say is that we live in very interesting political times. All kinds of things that would have seemed completely off the radar up until very recently are very much on it, and we believe that now we are seeing, as already has been said, chickens coming home to roost, and it is only a matter of time before some of these companies are in serious difficulties. We only this afternoon have been told that another 180 redundancies will be taking place with South West Trains. I do not know if they were here earlier. Our officials have been meeting with management representatives, along with the TSSA this afternoon, and that is what we have been told, and they cannot rule out compulsory redundancies. That is not only in South West Trains; these developments are unfolding throughout the industry, and we believe that the only solution to it is a radical overhaul, and that includes the fares and financing system for the railway, and we believe that renationalisation is the solution to the problem.

**Q181 Chairman:** Mr Doherty, RMT have said that fares increases will be converted into bumper profits fuelling dividend increases of at least 10% and as high as 33%. What is the basis for that statement?

**Mr Doherty:** That is RMT, I cannot speak for RMT, Chairman.

**Mr Leach:** Sorry, was that question directed to me?

**Q182 Chairman:** Sorry, Mr Leach, this was RMT's figures.



**Mr Leach:** Yes, they are.

**Q183 Chairman:** I am sorry about that. What is the basis for those figures?

**Mr Leach:** We have gone and had a look at the published information and we have seen, for example Chairman, I believe this note was sent over to you all in good time, we call them the big five, were doing very well up until the end of last year. This is the six months ending on 30 June 2008, okay, so it is a little while ago now, but Arriva Group had dividends paid to shareholders in the region £33.9; First Group, interim six months ended on 30 September 2008, a dividend of £55.5 million paid during the previous period. We have provided this information to the Committee and we get it in the normal way.

**Q184 Sammy Wilson:** Were those figures for the transport company as a whole or were they paid specifically to shareholders from profits from rail? I think the difficulty is that the figures, as far as we can see, and we have asked for the information, have not been disaggregated, so those could actually be distorted because it does not take into consideration the fact that some of those dividends were based on profits earned on activities other than railways.

**Mr Doherty:** When the big public transport operators publish the figures, you are quite right, Mr Wilson, they do not disaggregate between profits by buses, essentially, and profits by rail, but you only have to look at their annual statements, and their rail businesses are the ones that are providing higher growth in terms of profits. First Capital Connect, for example, had almost £50 million for the first six months, and yet they are still making cuts just now. You are absolutely right that you cannot disaggregate, but what they do say is that rail businesses have performed exceptionally well, and that must transfer into the dividends they pay.

**Q185 Sammy Wilson:** We will get the information from them but they were saying they are getting 5% or 3% returns on the basis of the revenue that is brought in and the costs that they had, which did not seem to me to be exceptionally high in relation to the amount of capital that they have invested.

**Mr Doherty:** I am only quoting from the annual accounts that I have seen and the commentary in those annual accounts. They are very bullish about how their rail businesses are doing vis-à-vis the bus business in the UK.

**Q186 Sammy Wilson:** This is where I am at a loss to understand your position, because you have been telling us that you expect some of these franchises to have to pull out or to go belly-up within the next year. You have been painting a fairly bleak picture for us.

**Mr Doherty:** I am not sure that we have said that. I think that we have said that they are in difficulties and there are a number of options that are available to them. One of them is going belly-up, one of them presumably will be that they will go back and look for what they term as “flexibility” in their franchises

which the department seems to be holding its face against. One of them could be that the dividends that are being paid are no longer available in the future. They will have to make their choices based on what their options are. It is not a case that they will go belly-up. If everything stays exactly the same and they want to continue paying the dividends that they have been paying then something has got to give in this equation.

**Mr Leach:** That is right and I would just come back to your original point: my colleague Gerry Doherty is right that it is not exclusively rail profits, and we have not said that they were, but they are a large part of the companies, and we think we live in a particularly difficult period, and perhaps a freeze on dividends and profits at the moment would not be out of place. We are a trade union and we have got members being faced with compulsory redundancies. We have not faced that for generations, all through privatisation and before, and therefore profit at the moment is a nice debate to be having about what part of the industry it is in, but, at the same time, we are facing bleak, uncertain futures for our members. South West Trains are telling us today that compulsory redundancies are knocking on the door, and that is why I would present a bleak picture.

**Sammy Wilson:** It is not just a “nice debate”. We are examining whether or not the companies are earning abnormal profits as a result of fare increases. You are telling us that they are earning abnormal profits and giving huge dividends. Now you are telling us that you do not actually know if that is from the rail side or the bus side or the other transport side. I suppose for it to be useful information to us we need to have it disaggregated in that particular way. It is not just a debate, that is the point I want to make, it is important that we should have accurate information. If we go down the route that you are suggesting where we interfere in the dividends paid, and we interfere in the prices that they are allowed to charge, and we interfere in how the companies are allowed to adjust their cost base, is that a realistic picture for the role of government in any industry? A firm could not exist with that degree of interference. It does not add up.

**Q187 Chairman:** I appreciate that your policy is for this to be done in a different way, under public ownership, but under the current system as it is, I think Mr Wilson is putting quite an important point to you. Do you think that that degree of involvement from the state would work in the system that we have at the moment?

**Mr Doherty:** Can I answer that. The state then has to consider what the options are. The state has got a stake in this as well, particularly the taxpayer, because the taxpayer is funding this industry. Whatever way you look at it, there is smoke and mirrors in it, but it is the taxpayer funding these private companies. At some stage, the taxpayer has to take an interest in it when it is paying as much money as it is. If you just take a hands-off view and say we will continue ploughing this amount of money in, which, by the way, is about four or five

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times as much in total into the industry as when it was in public hands, and you have heard that said from the trade unions before, but if you are going to continue doing that and you are going to continue doing that on the basis of propping up dividends, and you are going to continue not to make any intervention in it, then the corollary is that you are actually funding private industry's profits, and I do not think that is the role of the state.

**Q188 Mr Martlew:** I do not disagree with where we should be, but we are where we are, gentlemen. You paint a very gloomy picture but the reality is different. We actually carried more passengers on the railways last year than we did for 60 years. We have got massive investment, most of it public money, and we would agree with that. Over the last few years the number of people employed on the railways has probably gone up and we have the most modern rolling stock in Western Europe. That is a picture that we have got that you have not really mentioned. I admire the way that the trade unions have been able to get a good deal out of the management for their members. I come from a railway family, three generations of my family worked on the railways, and the unions have done a very good job getting reasonable conditions for the workers. I appreciate that, but if we have not got profits in the present system, that is not going to happen, is it?

**Mr Leach:** Under the current system the way the industry has been constructed and refined in recent times, it all does seem to hinge on profits, but where we are at, and the phrase has been used "we are where we are", we are in a very different place today than we were three months ago in the railway industry.

**Q189 Mr Martlew:** I suspect, Mr Leach, that the statement you would have made to this Committee would not have been very different three months ago.

**Mr Leach:** I would not have been talking about compulsory redundancies.

**Q190 Mr Martlew:** No, but you would have been talking about the doom and gloom.

**Mr Leach:** We have consistently been against the privatisation of our industry.

**Q191 Mr Martlew:** Precisely.

**Mr Leach:** We do not think that it is the most efficient way of operating it, and we think that the current difficulties that the industry is rolling into will make matters worse. I cannot really come away from that point with regards to my own organisation.

**Mr Doherty:** Can I just answer some of the points that you made. Yes, we have been arguing this consistently, even in the good times, even when the profits were rolling in, because we do not think it is the proper way to run a railway industry. No other government in Western Europe runs a railway system in the way that we do. No other government puts as much public money into running their railway. None of them does. No other railway

system in the world, and I heard your debate earlier on about rail fares, none of them, we have got the dearest rail fares, certainly the walk-on fares in Europe, and I think fares was one of the issues that you wanted to talk to us about, but it is quite true that the industry is carrying more passengers than it was prior to privatisation; so are the roads, so are the airways. More people are travelling. We have been living in an economic boom.

**Q192 Mr Martlew:** Mr Doherty, that was not the case. What was happening was passenger numbers were going that way, they were going up on the roads and down on the railways. We have come back, and I think we have actually started to put more people on the railways. It had been declining for probably half a century. I think the unions should take some of the credit for that.

**Mr Doherty:** That is not true. Railway patronage went up and down in times of economic boom. All you have to do is to look at the reports of the British Railways Board. It was always the case that in economic boom railway patronage went up and in times of decline it went down.

**Q193 Mr Martlew:** Why are we carrying more passengers now than we were in the 1960s, because that was a boom time?

**Mr Doherty:** Because more people are travelling now. More people have more money, it is more accessible; people are richer these days. I am richer than my parents were and they were richer than my grandparents were. Everyone has shared in the economic boom and part of that is there has been a boom in travel. I accept that the railway has shared in it.

**Q194 Mr Martlew:** Can I just come back to the franchise and the way that it affects your members. It must be very disruptive to find out that one day you work for one company and the next day you work for another company and maybe, if they have the franchise back, you work for somebody else.

**Mr Leach:** Absolutely.

**Q195 Mr Martlew:** I was commenting earlier about the Virgin franchise, which I think treated staff reasonably well. I know quite a lot of them because I travel regularly. Do you think that the employment record of the companies putting in a franchise should be taken into account when that franchise is given?

**Mr Doherty:** Is that in terms of the way they are treating their employees, is that what you are talking about?

**Q196 Mr Martlew:** Yes.

**Mr Doherty:** You mention Virgin. Our experience is that some franchises, in fact some groups, treat their employees better than others. You mentioned earlier on that trade unions have got a good deal for their members and that is true for some. I represent for example railway engineers. Railway engineers under privatisation have done exceptionally well because their skills are at a premium. I also represent booking

office staff, who have had a raw deal out of privatisation, on the whole, and you could go round all of the different aspects of jobs within the railway, some of it good deals, some of it bad deals. Some of the employers have been good employers, as such, putting money into training, et cetera; some have been paring back. It usually depends on how their profits are doing. That is purely from an arm's length perspective. I have not done any examination or analysis into that. Our experience has been mixed; there have been winners and there have been losers within privatisation. I will tell you who the losers have been without any doubt—the fare-paying passengers.

**Q197 Mr Martlew:** The question I asked, Mr Doherty, is do you think whether a company is a good employer or not should be taken into consideration when the franchise is given?

**Mr Doherty:** Yes.

**Mr Martlew:** Thank you.

**Q198 Mr Leech:** I start from the position where I have some sympathy about having nationalised railway systems, so I hope that you do not think that my question is necessarily coming from the opposite view. You have argued that we should not be subsidising private companies. Surely that is an argument then for higher fares? If we are going to take away the public subsidy, surely, we are going to get higher fares for passengers?

**Mr Leach:** That is an explanation to me as to the illogical nature of the privatisation of railways because we do not want higher fares either.

**Mr Doherty:** If you retain the current system yes, that is what will happen. We are saying change the system.

**Q199 Mr Leech:** Let us assume that the system is not going to be changed, because it does not look like there is any current prospect of the system changing. If private companies are running the railways, and I understand you think they are making excessive profits, what would not be an excessive profit for a private company running a franchise?

**Mr Doherty:** What would not be an excessive profit?

**Chairman:** You mean what would be a reasonable profit?

**Q200 Mr Leech:** What would be a reasonable profit?

**Mr Leach:** My union believes to its bottom core that profit and the railway are incompatible and that it is a public service. You are asking me to put that to one side for a minute; we are where we are, in the big real world, it is going to remain privatised. My answer to that is, as President of the RMT, we will continue to argue against privatisation. We will not want to make it work; we believe it is incompatible with running a safe, efficient and proper railway.

**Q201 Mr Leech:** Private companies outside of the railway network are expected to make a profit, and some companies might make excessive profits, some companies may make very small profits but, surely,

let us assume we are talking about a different industry, what would be a reasonable profit for a company to make?

**Mr Doherty:** I am not a trained economist and I do not know what anyone that has invested in a company should expect in terms of a return. I do not know what the average is, is quite frankly the answer. I agree with John. Look, we believe that there are certain things that are the responsibility of the state—health and education are obvious ones. We believe that transport and the provision of transport should be the responsibility of the state, as it is in every other Western European country.

**Q202 Sammy Wilson:** But even when they were nationalised there was an expectation of a return on capital. Whether you call that profit or return on capital or whatever, do you accept that there should be a return on capital invested, whether that comes back to the state or goes to the private company and, if so, what do you believe is a reasonable return?

**Mr Doherty:** As I say, I am not an economist and I do not know what you could expect to get in private industry for a return on your investment. I just do not know, Mr Wilson. I would be guessing at it.

**Chairman:** Ms Smith?

**Q203 Ms Smith:** We have had a lot of questions today, particularly to the operators, about potential job losses and about whether or not some of the operating companies are running into trouble, whether they are being put on a red light list, et cetera, and whether costs are being cut. I would like your view on that. First of all, you have already mentioned job losses. How deep do you think the job losses could potentially be? I know that is a difficult question to answer but what evidence have you got that there are going to be severe job losses in the railway industry?

**Mr Doherty:** Let us just give you one example of this. South West Trains consulted on quite drastic closures or cutbacks in ticket office times. They did an extensive consultation and we ran a campaign on it. There were a number of representations made, including through the passenger representative, and Lord Adonis, when he looked at the evidence, decided that 80% of the proposed cuts were not justified and he said you cannot do it. The day after that South West Trains announced 480 redundancies. From our perspective, it was if we cannot make savings in that direction, cutting services to the passengers, we will cut it from jobs. Only this afternoon, as John has said, as I was on my way in here, my officer had another meeting with South West Trains to be told, on top of that 480, there is another 180. I do not know where it finishes up. South West Trains employ around 5,000 people so you can guess what 660 is as a percentage of 5,000. Where does it finish if all they are doing is at the bottom line—and I can understand from a private company's position—the bottom line is to protect their shareholders and investors. That is what they are there for. I understand that. That is why we say the system is flawed. Where does it end up?

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**Q204 Ms Smith:** Are you hearing of any other potential job losses in other companies that so far have not surfaced?

**Mr Doherty:** First Capital Connect on 22 December announced that they intended to cut back ticket office opening hours by a total of 750 hours. The franchising agreement says that they have to give a minimum of 28 days' notice whenever they intend to change booking office hours. It says that is a minimum. I would suggest to you that that is when there is a slight change being intended. They announced it on 22 December. With the best will in the world, for two weeks over Christmas and New Year, nobody is going to do anything. The closure was 3 February—yesterday. And that effectively is 28 days, if you take the two weeks out over Christmas and New Year. We are having other companies follow suit. I would suggest to you that what they are doing is they are going through the hoops here and they are not properly consulting with the passengers who are going to suffer the service decreases. I was at Luton last week, one of the biggest commuter stations on the First Capital Connect line; there is one notice up about the changes—one notice that you have to look at to find. That is what they deem to be consultation on the regulations.

**Q205 Chairman:** It would be helpful to us if you would like to submit any further evidence on the cutbacks and redundancies because we did put these questions to the train operators and they denied that most of this was happening. It would be helpful to us if you could follow up whatever you say now.

**Mr Doherty:** We certainly will.

**Q206 Sammy Wilson:** Can you outline for us what is supposed to be required when a ticket office is being closed?

**Mr Doherty:** It is Schedule 17. The legislation says that there is a minimum of 28 days' public consultation. As I say, I would suggest to you that is when it is a minor change, but when you are talking about 750 hours that is the equivalent of 23 full-time jobs, and we do not know what the effect of that is going to be but that is what it is, it is the equivalent of 23 full-time jobs. Some of these stations are now going to close at the weekends and there will be no service open. We have been talking about things like it attracts anti-social behaviour, et cetera, et cetera. If there are graffiti artists, et cetera, that is when graffiti artists turn up, when there is no-one around. We are told about security, do not worry there is closed circuit television in there. Closed circuit television does not stop a vandal. It might detect them afterwards but it does not protect the passenger who is put off, the women travelling late at night and the elderly.

**Q207 Chairman:** We would welcome some additional information.

**Mr Leach:** We will definitely do that and we will provide that very, very quickly for yourselves. I just

want to come back, to date—and these are not all necessarily train operating companies but they are related to this industry: EWS 580 jobs lost, although that is now owned by Deutsche Bahn Schenker; National Express East Anglia, 300 jobs; South Eastern, 300 jobs. To answer your question, we believe that there are going to be more and more and more. It is not just because we are doom and gloom merchants; it is just from our own analysis of the way the system is funded, they are going to need to make savings pretty soon. This is, regrettably, where they have come time and time again; the wages bill.

**Q208 Ms Smith:** I can appreciate that. You must be monitoring quite carefully any cutbacks in terms of maintenance, not just in terms of the mechanics of the trains but in terms of the maintenance of the catering services and the whole service?

**Mr Doherty:** Maintenance is the responsibility of Network Rail. Network Rail have told EWS, one of the freight companies, that their renewals for next year will be cut back. There were 8,000 train movements last year for EWS. EWS moves things like ballast around whenever Network Rail are doing work on the infrastructure.

**Q209 Ms Smith:** I was talking about the rolling stock as well.

**Mr Doherty:** This is all part of the industry. It is just to give you a flavour as to when one part of the industry takes a decision, what happens. Network Rail, as you probably know, have had a spat with ORR over control period four for the funding. There has been a settlement now, but the result of that is that Network Rail have cut back on renewals for next year. They have said to EWS that their train movements next year will be cut in half. EWS have taken a view on that and they have now announced, as John said, something like 580 redundancies to take account of that. Everything that happens in one part of the industry, in the way that it is funded, has a knock-on effect through the whole industry. It is very difficult, yes, and we are trying to monitor it, to try and get a grip of this has happened up here and the cause and effect, and what is the actual effect on the ground, be it in terms of jobs, be it in terms of service levels, be it in terms of fares or anything else. It is a moving feast the whole time and it is very difficult to get our hands on it, particularly in these turbulent economic times.

**Q210 Ms Smith:** Your overall impression is what, that the levels of maintenance and all the rest of it are being cut at the moment? Am I being unfair in summarising it as such?

**Mr Doherty:** Certainly the renewals have been cut back for next year, probably because of the control period four settlement. I do not have any evidence to say that maintenance is cut. I would hope and I would expect that Network Rail would recognise the safety implications of cutting back on maintenance.

**Q211 Sir Peter Soulsby:** Can I just return to the assertions that came from the RMT about the level of profits that the train operating companies have

got and might expect to get out of this and just look at the figures. I think you were suggesting a dividend increase of at least 10% and as high as 33%. That is in sharp contrast to what ATOC were saying. They said that it is a small proportion of the total cost of their profits, being somewhere in the region of 3% of the costs of passenger train services. I acknowledge the difficulty in getting at the actual figures because, for the most part, these are groups that operate in quite a number of different activities. Have you as a union or are you aware of anybody else who has done any realistic studies of what their finances look like to back up what you are anticipating might be what they can get out of this?

**Mr Leach:** Normally we would do all of this ourselves. We have a very vibrant and effective research department who are employed by our own organisation. I am not aware of us using any outside source directly to do the work for us, no.

**Q212 Sir Peter Soulsby:** Have you actually produced and put into the public domain any studies of the finances of the companies in general, or particular companies, that might actually help us to get a picture of the balance between their costs, their investment and their performance?

**Mr Leach:** There is not something of that nature currently available although we most definitely could do it, and as the ever changing situation develops, I am sure we will need do.

**Sir Peter Soulsby:** It would be very useful to us as a Committee to actually see what one would expect to be quite a well-informed study of quite how those elements of the finances of train operating companies break down, as I say, particularly the elements of what they really have to put into investment, what their costs are, the various elements of those costs, and what the profits might be as a result of that. In the public domain we have already got the bit of the fares that they are charging and we have a fairly good idea of the subsidies that they might expect as part of the franchises that they have entered into. It is the other bit that is far less transparent. I would, through you Chairman, encourage the two unions, if they are able to provide us with further information to follow up the evidence they have given us to today on that issue.

**Q213 Chairman:** That would be helpful.

**Mr Leach:** Chairman, we may well have already sent stuff over but, if I am honest with you, I am not absolutely certain, but we will double-check and, if we have not, then we shall and, if we have, we will send it again.

**Q214 Ms Smith:** Is it also fair to say that the bus operations that are part of these big groups are often also heavily subsidised by the state, by the local passenger transport executive?

**Mr Doherty:** There would be a subsidy but I am not sure what the level would be, for socially desirable or economic reasons, I would imagine. Our experience over the years, outside of London, of the way the buses are organised, which is not completely

dissimilar to the trains now, is that fares have increased and services have reduced where they are uneconomic. That is a general statement.

**Q215 Chairman:** What should the balance be between how much the taxpayer pays and how much the travelling passenger pays?

**Mr Doherty:** That is a difficult question to answer. It depends what you want from your railway industry. Where do you start? Do you want your railway industry to be a contributor to the economic success of the country, and therefore do you say that is going to be an overriding given, and therefore whatever it costs to run that, because of the economic contribution that it makes, will be borne by the taxpayer? I do not know what the balance should be. What I do know is—and I did listen to some of your earlier contributors—as far as fares are concerned, on simplification, I see the posters that there are three types of fares. I have got an executive committee member who is a booking clerk who asked me to guess how many different types of fares there were between King's Cross and Edinburgh, the capital of England and the capital of Scotland. After simplification, there are 35 different types of fares. 35! If that is simplification, I would hate to see what complication looked like. This same guy is telling me that when he is serving a passenger it takes about ten minutes to try and get out of the passenger exactly when they are travelling and how flexible they are going to be on the way back, so that he can gauge what the appropriate ticket would be. And, by the way, a machine cannot do that because a machine does not ask questions. I heard what you were saying about machines. Then there is the anomaly of anybody that is travelling long distances, it is almost invariably cheaper, if you know how to do it, to buy a split ticket. Just as an example, the cheapest fare available on the day from a ticket vending machine for the 0800 hrs from Bristol Temple Meads to London is £74.50. However, you can buy a single from Bristol to Didcot for £21.30 and a single from Didcot to London for £24.00, and you save £29.20, or 39%. How many people actually know that? In fact, if people did get to know that, how many people would start using it, which would reduce the fares revenue to the companies and then the companies would have to react in some way because they have to protect their fares revenue because of the bid they have put in to get the franchise.

**Q216 Chairman:** Are you suggesting some of the confusion may be deliberate?

**Mr Doherty:** Let me give you one instance. Your predecessor, the last time I was in front of this Committee, I was saying that the fares that were advertised were simply not available. Any time that we had gone in we could not find them and your predecessor asked me what we had done about it. I said I had asked Ruth Kelly to look at it and in her inimitable way she said to me, "Mr Doherty, surely with a proud trade union like yours you can find out for yourself." Let me tell you what we did; we did find out. We checked with one company on a specific weekend, we knew when the fares were getting put

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on, we knew what they were advertising as the cheapest fare because our members were the people who put those fares on. We put people into booking offices to buy the cheapest advertised fare. It was not available. We went on to the internet. The cheapest advertised fare was not available for the whole of the weekend. We publicised that and we put an embargo on the statement that we put out. The company, before the embargo was lifted, brought our members back in to put those cheap fares back on the system so that they were available. When our embargo was lifted they said that was not true because they had sold fares and they sent me a letter threatening me with libel. We refuted that and said, "Bring it on." I have not heard anything from them since. This is what the train operating companies are doing and it was your predecessor who suggested that we find out ourselves.

**Q217 Chairman:** Could we ask you when this incident took place?

**Mr Doherty:** Last May.

**Mr Leach:** Can I just come back to answer the question that you directed to my colleague. We believe in low fares; we believe in encouraging people onto the railway; we believe in a social railway; we believe that it should be funded by the taxpayer through progressive taxation and that it should be fully integrated. We want people on railway trains and off roads for all the environmental reasons that everyone understands, so that is where we stand on that one.

**Q218 Chairman:** If the train operating companies go to the Government and plead for either extra help or permission to reduce services because of problems caused by the recession, what should the Government do?

**Mr Doherty:** My view certainly—and we have had this argument and we know we have got a difference—is that I do not think the system works. I think they should say to them, "You signed up, you took the risk that any private company should take and that means that you have to assess the environment in which you are working." Mr Bowker, as I understand it, said that he had specifically factored in the possibility of a recession when he made his bid. If that is the case and he was correct, I am sorry they made a wrong judgment, but like any other private company they will have to suffer the consequences. We would be saying quite clearly to them: you abide by your franchise agreements or else you give us the keys back and government starts running the franchises in the public interest and not in the interests of private shareholders. I think at some stage that issue is going to have to be faced by government.

**Q219 Chairman:** Mr Leach?

**Mr Leach:** Ditto: no renegotiation. You cannot have it both ways. If that is the way it has got to be, then it should be back in public ownership, where we believe it rightly belongs.

**Chairman:** Gentlemen, thank you very much for coming.

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## Wednesday 25 February 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland  
Mr Philip Hollobone  
Mr John Leech  
Mark Pritchard  
Ms Angela C Smith

Sir Peter Soulsby  
Graham Stringer  
Mr David Wilshire  
Sammy Wilson

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*Witnesses:* **Lord Adonis**, a Member of the House of Lords, Minister of State for Transport, **Mr Bob Linnard**, Director Rail Strategy and Stakeholder Relations, and **Mr Michael Dollin**, Manager Fares Ticketing and Passenger Benefits Team, Department for Transport, gave evidence.

**Chairman:** Good afternoon, gentlemen. I would like to welcome you to our Committee. I am sorry we are starting just a little late. I would like to start by asking members if they have any interests to declare.

**Mr Clelland:** I am a member of Unite.

**Graham Stringer:** A member of Unite.

**Q220 Chairman:** Louise Ellman, a member of Unite. Any others? Thank you. Could I ask our witnesses to identify themselves, please, for our records?

**Lord Adonis:** I am Andrew Adonis, the Minister of State at the Department for Transport.

**Mr Linnard:** Bob Linnard, Director of Rail Strategy at the Department for Transport.

**Mr Dollin:** Michael Dollin, Fares, Ticketing and Passenger Benefits Manager, DfT.

**Q221 Chairman:** Thank you very much. I understand, Lord Adonis, you want to start with an opening statement but, before you do that, I must say to you there is extreme concern in the Committee that today there was extensive reporting in the media about what it is alleged you were going to say to the Committee this afternoon. Looking at the reports, there is not a direct quote from you but there is a statement attributed directly to the DfT and "a DfT spokesman said". These are very specific statements. It also refers to what you are going to tell the Committee. This really is out of order. When witnesses come to committees, the committee wishes to hear what they have to say first. It is not normal and it is not in order for witnesses, including ministers, to make statements to the media about what they are going to say to a select committee before they have actually arrived here. We are extremely concerned about that and I would like to ask you how this came about and would like to hear an apology for what happened. Could we perhaps deal with this issue first?

**Lord Adonis:** Can I first apologise, Chair, if there is any disrespect felt by the Committee about the stories this morning. I will be quite frank. Until your clerk contacted my Department this morning it had not occurred to me that there would be an issue since what we indicated that I was going to be doing was the restatement of existing government policy. As you will see from the story that appeared in *The Times* and other newspapers, we simply made it clear that I would be restating existing government policy

on fares. We felt the need for that to take place because there have been commercially sensitive stories in the press recently that we might be considering changing our policy. It is not the case that we are considering changing it and had I not been appearing before the Committee today we would still have had to make those public statements given the stories that were running in the media. Given that the statement is couched in the form of remarks I was going to make to the Committee, I do accept that disrespect has been felt and I apologise for that. As I say, the explanation is that it is a restatement of existing policy and we would have had to make a public statement of the same kind at this point in any event.

**Q222 Chairman:** As you say, Lord Adonis, it does refer specifically to what you are going to say to the Committee and this was released on the morning of the Committee so we do have to connect it to that. You have apologised and I think we would like to have that in writing if you would do that.

**Lord Adonis:** I am very happy to do so.

**Q223 Chairman:** Thank you very much. It is important that witnesses do respect the Committee and the Committee hearings.

**Lord Adonis:** Indeed.

**Q224 Chairman:** I understand that you wish to make a general statement.

**Lord Adonis:** If it is convenient to you, Chair, I will make a few remarks to start with about the issue of fares which I hope will help your deliberations. About 60% of rail journeys are made using regulated fares. The point of regulation is to protect the passengers, especially commuters and others, who have little choice but to travel by rail. The average amount by which regulated fares are allowed to increase each year has changed twice under the present Government. We inherited an annual cap equal to RP and from 1999 we changed that to RPI -1% and from 2004 to RPI +1%. The overall effect is that regulated fares in 2009 are about 5% higher in real terms than they were in 1997. In the same period, disposable income has gone up by more than 20% in real terms. On average, people spend less of their income travelling to work by rail now than they did in 1997. Nevertheless, the National Passenger

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Survey shows that while four out of five passengers are satisfied overall with their journey, only two out of five think that it offers good value for money. Last year we asked Passenger Focus to examine fares further, including European comparisons. The Passenger Focus report reveals a mixed picture. Our commuter fares are clearly more expensive than elsewhere, but it is also true that many of our advance purchase fares are cheaper than anything comparable in other countries and we score highly on factors such as train frequency. Why do we have higher commuter fares? Partly it is about public subsidy. In an earlier report, your Committee quoted figures showing that in 2001 the public subsidy to French railways was €7.5 billion compared with 1.9 billion for British Railways. By 2003 the figure for France was 8.4 billion and for Britain 5.6 billion. Bear in mind that French railways only run 14,000 trains a day compared with 20,000 in Britain, so that appears to be a higher subsidy level elsewhere. It is also about levels of investment. We are in the middle of the largest and most sustained programme of railway investment since Victorian times, more than £15 billion over the next five years. Recent increases in investment have been almost entirely funded by the taxpayer and the current policy of allowing fares to rise by an average of 1% a year above inflation is intended to ensure a reasonable balance of funding between the taxpayer and the fare payer. We could, of course, change that policy and hold fares below inflation, but every 1% off fares would add another £50 million a year to the tax burden or take the same amount off the investment programme. To bring our fares down to the European average identified by Passenger Focus would cost about £500 million. That is, I am afraid, not a sum of money my Department has available to increase the public subsidy without cutting investments. However, beyond simply increasing public subsidy significantly the Passenger Focus report makes a number of other recommendations which the Government is considering. I can tell the Committee that we propose to accept one of the main Passenger Focus recommendations. Although the average fares cap is RPI + 1% a year in most areas, many people face higher increases in regulated fares because operators have freedom to increase some fares by up to 5% above the average increase. Passenger Focus have recommended that restrictions should be placed on this flexibility and I am happy to tell the Committee that the Government proposes to do just that. In a time of economic stringency I do not think it acceptable for individual commuters to face significantly above average fare increases. The Government's intention is, therefore, that in future the cap should apply to individual regulated fares, not just to the average of each fares basket. My officials will talk to the train operators about the practical implications of making this change, but we are determined it should take effect from this coming year's fare changes. Thank you.

**Q225 Chairman:** Thank you. I think we would want to know a little more about that. One of the problems that commuters are experiencing at the

moment is that most people are paying perhaps seven times the current rate of inflation, some fare increases have gone up by 10% or 11%. You have spoken about changes coming in this year, does that mean the people who are paying 10% more now than they were last year are not going to have to be paying as much during this year?

**Lord Adonis:** We are not going to be changing any of the fares that came in this January, it would not be reasonable for us to change fares retrospectively. In any case, according to the formula, those fares are regulated by the rate of inflation as of July 2008. All of the changes, Chair, that I have announced will take effect from next year's fares round. Of course, two different aspects of the policy will then apply. The first is that the overall increase by which the fares baskets are set will reflect the rate of inflation prevailing at this July. The consensus of independent forecasters is that in this July inflation will be significantly negative. If that is the case then applying the RPI + 1% formula, which applies to most train operating companies, would see the average fares in the fares basket fall.

**Q226 Chairman:** Would it be possible, Lord Adonis, for fares to be cut next year?

**Lord Adonis:** Yes, it would be.

**Q227 Chairman:** So that could happen?

**Lord Adonis:** Yes.

**Q228 Chairman:** We put this question to ATOC at our last Committee hearing, the Association of Train Operating Companies, and they appeared very unhappy with that idea. You are now telling us that it is possible that fares will be cut next year?

**Lord Adonis:** Let me make it absolutely clear to the Committee that we stand by the RPI + 1% formula as it applies to most TOCs. If RPI + 1% would lead to a fall in fares we will carry through a reduction in fares next January.

**Q229 Chairman:** Many of the franchises that the train operators run are based on passenger numbers increasing. The current evidence we have got is while those numbers are increasing, they are not increasing at the rate that was expected, so how are you going to deal with that? Are you going to allow the train operators to reduce services?

**Lord Adonis:** Service levels are fairly stringently set in the franchise agreements. There are service level obligations set in each of the individual franchise agreements. We will expect the train operating companies to continue in full to honour the service level obligations that they have in their franchise agreements.

**Q230 Chairman:** You will be monitoring that? What about things like booking offices staying open and not being staffed?

**Lord Adonis:** There are also requirements in respect of booking offices in some franchises and there is an agreement about ticketing arrangements which are entered into between the Government and the



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Association of Train Operating Companies<sup>1</sup>. Significant changes to, for example, ticket office opening hours or decisions to staff ticket offices do require our agreement.

**Q231 Chairman:** Would you be giving that agreement?

**Lord Adonis:** As you may know, Chair, we have had one request for significant changes of late from South West Trains who proposed significant changes to ticket office arrangements in 114 stations and we declined to agree a significant proportion of those proposed changes. In making our decision on that, we also established a benchmark for what we regard as widespread and easy access to rail products, which is the term used in the agreement with the train operating companies on ticketing arrangements. We set that benchmark at about 12 transactions at a ticket office per hour and it was on that basis that we disallowed a significant proportion. We would intend to adopt a similar approach to any future requests.

**Q232 Chairman:** Dr Mike Mitchell, from your Department, told the Public Accounts Committee on 21 January that there were a number of train companies who were in the red light category. What does that mean and what can you tell us about that?

**Lord Adonis:** The Government obviously monitors the state of franchises; we would be in dereliction of our public duty if we did not since we have a responsibility for seeing that the train service is continued. It is very important we have some understanding of how we think train companies are likely to be doing because our payments in terms of revenue support depend upon the state of their business. We do monitor performance of train companies. However, as I am sure you will understand, Chair, this is highly commercially sensitive information and I would not feel in a position to give details of individual train operating companies to the Committee, and nor did Dr Mitchell to the Public Accounts Committee. What he described was the monitoring regime which applies, which involves officials in my Department keeping a close eye on the performance of the train operating companies and their likely future prospects.

**Q233 Chairman:** You said in your opening statement that the Government was maintaining its policy. Does that mean that if train operating companies are coming to you, as we understand they have done, and saying they cannot carry out their obligations, they want to drop services or perhaps not run the franchise, would you apply Government policy there? If they withdraw one franchise, do you make it that they have to withdraw all the franchises they have?

**Lord Adonis:** Let me make it very clear. No train operating company has come to the Government and said it believes it will be defaulting on its obligations.

**Q234 Chairman:** But they have expressed concerns, have they not?

**Lord Adonis:** They have told us that they expect growth to slow, as you said a moment ago, but no train operating company has said that they expect to default on their obligations. Were a train operating company to default on its obligations then, as we have had to do in the past in respect of GNER and Connex South Eastern, we would have to put alternative arrangements in place. No train operating company has come to us and said they expect to be defaulting on their obligations set out in their franchises.

**Q235 Graham Stringer:** Can we go back to the traffic lights? Can you explain what criteria switch the red light on?

**Lord Adonis:** We look at the general financial health of the franchises and any issues to do with the performance of their obligations on the contract, their obligations in respect of providing capacity and so on, and we expect those obligations to be honoured. If there are signs that those obligations are not being properly fulfilled, as for example was the case with First Great Western a year ago when we had to enter into serious discussions with them about radical improvements in service, then they would be a matter of concern to us.

**Q236 Graham Stringer:** So you are saying it is the specific performance of the franchise, that they are not running the trains they should be running, the trains are not running on time, or is it an assessment of their finances? I was not clear from that answer.

**Lord Adonis:** It is both.

**Q237 Graham Stringer:** It is both. In terms of assessing their finances, can you give us some more details about how you do that, whether it is profitability, a dip in revenue? How do you do it? With respect, you are talking in generalities and I would like a better understanding.

**Lord Adonis:** The main issue of concern to us in respect of the finances is what the state's obligation is going to be to support revenue because, as you know, after generally four years of a franchise train operating companies are eligible for revenue support if their revenue dips below levels set out in the franchise agreement. Equally, there is a revenue sharing mechanism if the revenue goes above. Monitoring what we think is likely to happen in that area is of acute concern to the Government because, of course, the Department is liable for paying revenue support if a train operating company is likely to fall short of its revenue. Our first and prime concern in looking at the financial performance of a train operating company is what our own liability is likely to be for revenue support or, indeed, what the gain is that we might make which has an impact on the overall finances of the Department in terms of

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<sup>1</sup> Note by witness: Technically the TSA is a train company agreement, over which the department has change control and a direct role in some processes.

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revenue sharing. That is the most important exercise that we undertake but, of course, we also more generally seek to form a view on the financial health of train operating companies.

**Q238 Graham Stringer:** So in terms of the five franchises that have red lights, does that mean that you are expecting a contribution from the Exchequer if their revenue falls below the 6%? I cannot remember the exact figure.

**Lord Adonis:** It is 2%.

**Q239 Graham Stringer:** Is the red light telling the Treasury that there is going to be a contribution that was not expected when the franchise was given out?

**Lord Adonis:** No. I am anxious not to get into the discussion of specific train operating companies, which is commercially sensitive, but the issues of concern to the Department are not simply our liability for funding, they are also the service performance of the train operating company if it is likely to lead them to default on their obligations and also, of course, if their wider financial health is in jeopardy because, as I set out to the Chair a moment ago, we have operator of last resort obligations. It is important that we have some awareness of what might be coming and are not blindsided by dramatic developments.

**Q240 Graham Stringer:** Can you help the Committee by telling us what percentage chance there is when a franchise gets a red light of either an Exchequer contribution or a franchise failure? We know there are red lights, but I do not know whether, and I will come on to why I think it is important in a second, this is a very early warning system that can be put right easily or whether it is we are heading pretty quickly for more sleepless nights for the Chancellor of the Exchequer and more bad journeys for the travelling public. I would like to know as a percentage, the easiest way you can tell us what the risk is likely to be.

**Lord Adonis:** If I can take the two questions point by point. A large number of train companies are in receipt<sup>2</sup> of revenue support and that is as we would expect, a number of the franchises will always require subsidy and we thought it always likely that there would be revenue support obligations. What I do not feel in a position to tell the Committee is what our assessment of their financial health is because that is very sensitive market information which it would not be right for me to express views in public on, except to say, and I do stand by this, that I think we would be in dereliction of our duty if we were not forming a view inside the Department of any financial issues relating to franchises. Equally, it is not a reasonable thing for us to make public such names.

**Q241 Graham Stringer:** I understand the commercial sensitivity and I also understand the official told the Public Accounts Committee which the five franchises were in private.

**Lord Adonis:** Actually, to be fair, he did not. The chain of events was he was unwilling, for reasons of commercial sensitivity and confidentiality, to give the number in the public session. He did give the number to the Committee in private session but he did not identify the companies<sup>3</sup>. I do not think it would be in any way reasonable for us to identify the companies. Insofar as your question about how many we think could be at risk, we have only had two companies that have fallen over, so simply because there are issues of concern to us in one or two of the franchises the prospect of a company thereby going into default and the franchise agreement ending is clearly very small. We have only had Great North Eastern and Connex South East. Though it is absolutely right and in the public interest that we have arrangements in place to take over franchises if they were to fall over, the prospect even of a franchise which there are issues of concern about falling over is clearly small.

**Q242 Chairman:** You could have a company not wanting to go ahead, could you not?

**Lord Adonis:** Of course with one of the two companies that fell over that was effectively what happened.

**Q243 Graham Stringer:** I understand the use of historical precedent but there are three franchises each of which have to fork out more than £1 billion in the relatively near future. I would speculate in the current state of the economy they are going to find that pretty difficult. Share prices of the companies indicate that that is the market sentiment at the moment. It is not that relevant, is it, saying that you were expecting subsidy to go into this when they are going to pay the Exchequer more than £3 billion?

**Lord Adonis:** Just to reiterate, no company, including companies which are liable to make the government substantial premium payments, has indicated to us that either it is unable to meet its franchise commitments or that it is likely to be unable to meet them. We are not in a position at the moment where any company, including any company liable for substantial premium payments, is indicating to us that it is not going to be able to meet its obligations including, I should stress, its obligation to make the government premium payments.

**Q244 Graham Stringer:** You are clearly concerned about the companies that have been red lighted, even if they are not concerned themselves in coming to you. Have you indicated to those five companies that you have red lighted them and explained to them the criteria by which you have red lighted them?

**Lord Adonis:** I do not myself deal direct with the companies. I cannot say what they have indicated in their particular category. However, in respect of the issues of concern, of course we discuss issues of concern with the train operating companies which will include many of the issues which come into the red light category all the time. It is absolutely right

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<sup>2</sup> Note by witness: Technically while many train companies are eligible for revenue support only a few will be receiving it.

<sup>3</sup> See supplementary memorandum from the Department RFF 05a

that we do so because of course our responsibility is to the public to see that the commitments within franchises are firmly honoured. I do not know if there is anything more that Mr Dollin can add on the categories of concern.

**Mr Dollin:** That is purely an internal monitoring mechanism. It is our best view based on the available evidence of the health and performance of those companies.

**Q245 Graham Stringer:** It is privileged and secret to the Department for Transport as to which companies have this red light?

**Mr Dollin:** Exactly so.

**Q246 Graham Stringer:** Do you not think it would be sensible to tell them that they have been red lighted? When there has been discussion in the press. Would it not be fair to them to know?

**Lord Adonis:** A TOC where there are issues of concern will know that there are issues of concern from us because these will be the matters which my officials discuss with them week by week. I think the point Mr Dollin is making is that we do not tell a company that, for our own internal monitoring purposes, they might be in one category rather than another but we have a highly expert team that does engage week in, week out with the franchises on their performance, including their honouring of their franchise commitments. It will be pretty clear to each TOC whether or not we have concerns and what the nature of those concerns is, which is what you would expect from us. We are absolutely rigorous with them about that.

**Q247 Chairman:** We are in unprecedented economic circumstances. Would you feel as a matter of principle that if Dr Mitchell can talk about this issue to the Public Accounts Committee he ought to be willing to come to the Transport Select Committee and give us the same information?

**Lord Adonis:** I have not given you any less information than Dr Mitchell gave in his open session. He did then give a number of train operating companies that were in the particular red category in private session. That figure was then promptly in all the newspapers the day after. I would not have anything to add to that figure in any event. I am deeply respectful of the Committee. I am not declining to give any information that he gave but equally I think you will fully understand why I cannot get into our assessment of each individual company, because that is highly commercially sensitive information. What I think the Committee can rightly expect of me and I am saying in terms is that we have not had from any company, either in public or in private, any indication that they will not be able to meet their franchise commitments. I pass that fact on to the Committee because it is of acute public interest.

**Q248 Sammy Wilson:** If you have not received from any company an indication that they cannot meet their franchise commitments, what is the value of a red light indicator which you have indicated in your

explanation to us is an alert within the department that you have serious concerns about the company? Does this mean companies are acting in some kind of wonderland world where they do not realise the difficulties themselves which you have identified or are we failing to point out to them the concerns which we have?

**Lord Adonis:** I hope I made it clear in my response to Mr Stringer that, because we are discussing week in, week out the performance of the train operating companies with them and their meeting of their franchise commitments, we believe it would be very clear to them if we had concerns and what the nature of those concerns is, including all of the issues which are covered by the internal monitoring process. Only two companies have fallen over so far. The fact that we have concerns about a company emphatically does not mean that we expect, let alone predict, that it is likely to fall over. On the contrary, we would not be fulfilling our public obligations if we entered into franchise commitments in the first place if we had any expectation that a company would not be able to meet those franchise commitments.

**Q249 Sammy Wilson:** A red light is not really a sign of complete alarm within the department?

**Lord Adonis:** No, I would not use those words to describe it. It is a sign that we are monitoring performance intensively which is our job. No, we do not expect that, simply because a company is in the highest category of concern, we think it will therefore be likely to default on its franchise commitments.

**Q250 Sammy Wilson:** On the last part of your statement to the Committee, which I think many rail passengers will welcome, you intend from this year onwards to apply the formula not to a basket of fares but to individual fares. Much of the evidence that we were given was that, in order to maximise revenue, companies may well apply small rises to the less popular routes, higher than normal rises to the more popular routes and in that way they increase their revenue but still stay within the formula. If it is now going to be applied across each individual fare, have you made any assessment as to what that is likely to do to the revenue of companies?

**Lord Adonis:** We believe it will have no impact or a minimal impact on their revenue because the whole purpose of having the basket is that their revenue on regulated fares should reflect the increase permitted within the basket as a whole. The reason I have made the change is not because I believe that they can game the basket, as it were, though I know some people suggest that there are ways they could do so because it is historic weighting for the basket and so on. The reason why is that Geoff Hoon and I, having looked at this thoroughly, including the evidence that has been given to the Committee, have taken the view that particularly in a time of economic stringency it is no consolation to a commuter whose individual fare has risen significantly above average that other fares have gone down. Individual passengers on their individual routes generally have very little choice about the journeys that they make.

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We do not think it reasonable in this time of economic stringency to say to commuters, after several years when train companies have been able to adjust individual fares to take account of historical anomalies, that they can increase an individual fare by more than the average in the basket simply because a fare elsewhere has gone down. That was the reason why we made this judgment. It reflects a recommendation in the Passenger Focus report, which recommended we took away that flexibility. I know that Passenger Focus made this argument to you when they appeared before you recently.

**Q251 Sammy Wilson:** I know it is difficult to distinguish between an increase in numbers of passengers and an increase in revenue due to the fact that adjustments have been made for individual fares on popular routes as opposed to very low increases on less popular routes. Correct me if I am wrong: the increase in the RPI + 1 was not to indicate what should happen to total revenue; it was to indicate what should happen to average fares. Is that correct?

**Lord Adonis:** Yes. Of course, it is a maximum as well. There is no requirement on the train operating companies to go up to that maximum.

**Q252 Sammy Wilson:** The evidence we have been given so far is that that device was used to increase revenue by putting the bigger increases on the popular routes and the smaller increases on the less popular routes. If you are now introducing a formula where you are saying that the increase has to be applied to individual routes rather than across the basket, is that not bound, since it is a change in the way the formula is applied, to have an impact on the revenue of the companies? What assessment has been done on that?

**Lord Adonis:** We do not believe so for this reason: there is a weighting given to each fare within the basket which reflects historic traffic flows on that route. Therefore, the issue, to use your language, of more popular and less popular routes is taken account of within the basket. It should not be the case, unless a train operating company is making assumptions about likely future developments in traffic flow, which they may be doing for them to be able to game the system as it was before this change to maximise revenue. Our concern was simply that in a time of economic stringency for an individual commuter or passenger on a regulated fare to face increases significantly above the average on their routes is something which we do not think should continue during the downturn, even if there are corresponding savings or indeed fare reductions on other routes.

**Q253 Chairman:** That is a point that this Committee has consistently made. Passengers are not interested in overall averages and what happened in the past. It is what it costs them to get to work or wherever.

**Lord Adonis:** Yes. The RPI + 1 will therefore in effect be a cap. It is not a requirement of course that a train operating company goes up to that level.

**Q254 Sammy Wilson:** Most have.

**Lord Adonis:** I am glad to say that is not always the case. I would firmly express it in the form of a cap and not an average increase.

**Q255 Sammy Wilson:** If the revised application of the formula, as I suspect it will do, does have an implication for revenue on regulated fares, have you any fear that companies may try to recoup some of that by simply increasing the unregulated fares?

**Lord Adonis:** The reason why fares are regulated and unregulated is significantly related to whether they have captive or non-captive markets for passengers. It is because of the captive nature of the market, particularly in commuter land, that we regulate the fares that we do. Any train operating company that sought to significantly increase other fares would be operating in a market and would find it more difficult to attract customers. They are working in sensitive market conditions and of course those market conditions are even tougher in a period of economic stringency.

**Q256 Sammy Wilson:** Given the economic stringency, you have indicated that in your assessment we are much more heavily subsidised than, say, French or German railways. Is there any intention to look at the level of subsidy and the amount of revenue from government and taxpayers as opposed to the amount of money which is raised from fare payers?

**Lord Adonis:** The government has made clear that in the five year control period between 2009 and 2014 we are providing £15 billion-worth of government support. That £15 billion-worth is before the commitment which we subsequently made after the 2007 White Paper to taking forward Crossrail, so it is 15 billion plus Crossrail. We never committed ourselves to a target for the proportion of government subsidy. We said that historically, in the early to mid nineties, it had been significantly lower than it had become three or four years ago. What we did was to make clear what the level of government subsidy would be, which is the £15 billion plus Crossrail, which has been announced since and that the additional funding requirements of the railway would have to come from fare payers. That is how we expressed it. It is not a firm commitment to a given level of subsidy. I think it highly unlikely that the Chancellor will grant us significantly additional funding over and above that £15 billion. It was a heroic achievement, if I can use those words, to get both the £15 billion and also to get a commitment to Crossrail afterwards, which is an enormously important project, not just for London but for the wider south east and all those people who come into London from outside and use it. However of course, discussions will take place in due course about the following control period from 2014 to 2019. When those discussions start, we will have to form a view then as to what we think is the appropriate balance between fare payers and taxpayers.

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**Q257 Mark Pritchard:** Last year the Office of Rail Regulation fined Network Rail £14 million for failing to complete the engineering works at Liverpool Street. I think the public are still waiting for a full explanation as to why that occurred. You will know that Network Rail have also had problems with regard to the £8 million upgrade of the west coast mainline, overhead lines coming down and massive delays to thousands of people, £3 billion-worth of subsidy each year from the taxpayer to Network Rail. Given a lot of the problems—just two I have outlined—is it right that the chief executive, Mr Coucher, and co-directors Peter Henderson and Ron Henderson will be receiving bonuses of £600,000 and £400,000 respectively? Is it not the case that this is rewarding failure for the best part? It is offensive and obscene to many of the taxpayers that I and others on this Committee represent and it is no longer a case of the fat cat but, when it comes to Network Rail, the fat controller.

**Lord Adonis:** No decisions have been taken about bonuses. I have seen the same story in *The Evening Standard* that I think you are referring to. No decisions will be taken on bonuses for 2008–09, which is the period in question, until May. The story in the paper was entirely speculative. As I understand it, it was extrapolating from a letter that had been sent to members of Network Rail which did not give any particular figures. On the issue of bonuses related to performance, can I make it absolutely clear that bonuses for Network Rail directors are determined against key performance indicator targets set by the independent Office of Rail Regulation in accordance with condition 28 of Network Rail's network licence. The term of Network Rail's management incentive plan can only be modified with the Office of Rail Regulation's consent.

**Q258 Mark Pritchard:** You are the Minister of State. It would be extraordinary to think that that performance related pay in no way reflected one of the largest rail investment projects in our nation's history. That is, the west coast main line £8 million project. We are having problems with that. Will you support a bonus for the directors that I have just named or will you be dropping it or having a say? The Prime Minister says we have to stop this culture of excessive bonuses. This is a Network Rail which has £3 million-worth of state subsidy. The Prime Minister is the head of the government. You are a minister of state of the government. What is the government's position?

**Lord Adonis:** The government does not set bonuses at Network Rail. Nor do I as a minister.

**Q259 Mark Pritchard:** Do you have a view?

**Lord Adonis:** We do not set bonuses. That is a matter for Network Rail following the requirements which are laid upon it by the independent Office of Rail Regulation. However, I tell you absolutely categorically that I expect bonuses to reflect performance. Where performance has not been very high, we would expect bonuses to reflect that fact.

**Q260 Mark Pritchard:** Do you think the performance has been high or low with regard to Network Rail?

**Lord Adonis:** The year in question has not finished yet. The bonuses are set in May on the basis of performance in the 2008 to 2009 year. I do not think it is fair for me to express a view on the year as a whole. Let me be absolutely clear. I do expect that bonuses should be based firmly on performance and that, where performance has not been of the highest standard, bonuses should reflect that.

**Q261 Mark Pritchard:** I am grateful that you have expressed a view and that you have made reference to high performance or perhaps something else. Given that we will eventually get by definition, day by day, to the end of the year, can we expect you to have a view on the last day of the year?

**Lord Adonis:** I will certainly continue to express the view that the bonus must be related to the performance. The ORR will itself have a view on performance of Network Rail in 2008–09.

**Q262 Mark Pritchard:** Can I move on to ROSCOs, rolling stock operating companies? Do you think there is enough competition in the United Kingdom given that there are only two or three ROSCOs in this country? Secondly, do you think where possible ROSCOs should try and use United Kingdom manufacturing to build that rolling stock, whether they do it because they are altruistic or want to support the government in manufacturing an industrial strategy and/or because they are the best looking products? If they are not prepared to, do you think the train operating companies should look to ROSCOs to try and source rolling stock from British companies?

**Lord Adonis:** There are European Union procurement rules which we have to abide by. We do not have discretion as to whether we abide by those rules. We are required to abide by them and therefore I certainly do not think that either rolling stock companies or the government can act outside those procurement rules. However, I am glad to say that we do have a thriving rail manufacturing sector in this country and I very much hope and expect that that will continue.

**Q263 Mark Pritchard:** Were you disappointed to hear just a few weeks ago that some of the new orders for rolling stock will be sourced from outside the United Kingdom when we need to see a renaissance in British manufacturing? One way of doing that with increased rolling stock is to try and source rolling stock from UK companies.

**Lord Adonis:** I would not in any way run down our fantastic domestic suppliers. Some of our orders are being sourced, following EU procurement rules, from domestic suppliers, some from overseas suppliers. In the case of the super express train, where two weeks ago we announced our intention to proceed with a preferred bidder, one of the key partners in that consortium is a Japanese company which has announced that it intends to set up a manufacturing plant in Britain, which will create

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jobs here too. There is not a straight either/or between domestic suppliers and overseas suppliers. We do already have a strong domestic rail supply industry. It is doing well. It has future orders and I would expect it to continue to thrive.

**Q264 Mark Pritchard:** Given the economic climate, would you be prepared to look at those EU procurement rules and at least have discussions in Brussels in order to give some hope to those people perhaps facing the loss of their jobs in UK manufacturing?

**Lord Adonis:** There is plenty of hope for those people in the British rail manufacturing industry because there are so many rail orders coming down the line, not merely the super express programme that I referred to a moment ago. In the Pre-Budget Report, the Chancellor when he was discussing this package announced an acceleration of a large rolling stock order for diesel multiple units. We are currently close to identifying a preferred bidder for those multiple units. We will soon be moving to secure more than £2 billion-worth of trains for the Thameslink routes. That is one of the largest rail orders in history and there are British companies that are bidding very strongly for those orders too.

**Q265 Mark Pritchard:** Given the director general of the security services warned, along with the Metropolitan Police, about active terrorist cells in this country, 200 or 300, are you confident that the current security arrangements for trains, particularly inner city trains coming into London, are secure with regard to access to train driver cabins, given that there are hundreds of people on those trains. You have a cabin with a single driver in it. Are you confident that the security is sufficient to prevent anybody entering those cabins and bringing about quite a significant terrorist attack?

**Lord Adonis:** The Chief Constable of the British Transport Police who I have met regularly since being in the post—and I have spoken to him specifically about terrorist threats to the railway—has not raised any such concerns with me about the security of train cabs. He has a highly professional counterterrorism team within the BTP and I know that they have been looking at issues, including the one that you have identified. I would be very happy to raise the specific point that you mention.

**Q266 Mark Pritchard:** Are you confident as Minister of State, having had those discussions, that the travelling public are secure in the context of what I have just outlined?

**Lord Adonis:** Yes, I am confident on the basis of the assurances I have been given by the Chief Constable of the BTP.

**Q267 Mr Hollobone:** As Minister of State, how often do you travel by overground train?

**Lord Adonis:** Every week, because I am out and about on the railways, as you would expect me to be. Indeed, I was passing through your constituency on a train last Friday on the way to Derby to visit Bombardier, one of our excellent train

manufacturers. I stopped at East Midlands Parkway to see what was going on there. I know you have raised issues about crowding on trains south of Kettering and I was keen to see myself the experience of passengers on that line. I then travelled on the Trans-Pennine Express across from Manchester to Leeds. I have been very keen to see the quality of trans-Pennine services, which of course is a very big growth market for the railways. I came down on the National Express east coast. Every week I am on the railways. At weekends I am on the tube as well and often on the buses, so I think I see quite a lot of the transport system at first hand.

**Q268 Mr Hollobone:** When you went through Kettering, did you do so at high speed or did you stop at the station?

**Lord Adonis:** We did not stop at Kettering, no.

**Q269 Mr Hollobone:** That is one of the problems that my constituents face. The number of trains northbound from Kettering to Leicester has been precisely halved since the start of the year. My constituents' train fares have gone up 7% this year on top of 7% the previous year. To what extent are you looking at adjusting the rail franchising pricing system to take into account severe reductions in services?

**Lord Adonis:** There is not a severe reduction in service if you take Kettering as a whole. Most passengers from Kettering travel south, not north. I have looked in detail at the Kettering timetable because I have looked at the questions you have asked people sitting in this seat before. The service from Kettering has significantly improved in the last ten years. Before ten o'clock in the morning, there are now 15 trains which go from Kettering to London. In 1996–97 there were eight. Your constituents, no doubt due in part to the work of yourself and all those who are responsible for promoting Kettering's rail services, have a better service. On the issue of services north, as you will understand—I know you have had this discussion in the House with the Secretary of State—this is to do with stopping patterns on trains to see that we get the fastest possible services linked to the demand for those services. In terms of the big commuter flow from Kettering which is of course south to London, your service has been steadily improving over the last ten years. I do accept, because I have seen the figures on crowding, that there is a particular issue about people getting on your trains, getting off at Bedford, going north and this is leading to serious crowding. It is precisely to deal with those crowding issues that we are investing £5 billion in Thameslink. With the transformation in the Thameslink service that will take place with the new, longer trains, this will very significantly enhance capacity on the Bedford route in stages up to 2015–16. That benefit will also be felt by your constituents who will therefore have less crowded trains going on to Kettering.

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**Q270 Mr Hollobone:** My constituent, Mr Christopher Thompson, who helpfully emails me every week with his travel diary, has the particular pleasure of travelling on a six o'clock train out of St Pancras back to Kettering and regularly has to stand for 40 minutes outside the standard class toilets all the way to Bedford. Are you telling me that I can tell him, "It is all right. By 2015, you will have a seat"?

**Lord Adonis:** More capacity is coming on board sooner than that. The Thameslink project of course is taking place over a number of years. You asked me am I concerned about service quality and capacity. I am very concerned. Day by day we are looking at issues to do with service quality. It is not enough for me to say I am concerned. We are actually doing something about it. The five billion Thameslink project will bring about a transformation in capacity on the London to Bedford line. As that additional capacity becomes available, it will start with new trains coming into service over the next year. The trains are lengthened too because of course, as you will know, the plan is to move towards 12 car operation on the Thameslink service. As those changes come through, there will be a transformation in capacity on the London to Bedford line which will be of great benefit to your constituents travelling on to Kettering, including on the six o'clock train in the evening.

**Q271 Mr Hollobone:** Surely there is plenty of scope to refine this price mechanism system. It is meant to be a proxy for competition when none exists. There is no alternative train service from Kettering. Passengers have to use East Midlands trains. In the opinion of many of them who travel from Kettering to London and back again, the service times have got longer. There are fewer peak time services from St Pancras back to Kettering in the evening. In terms of their daily journey pattern, their service this year has got worse; yet their regulated fares have gone up 7%. Is there not scope to refine this system to better reflect deteriorations or improvements in train services?

**Lord Adonis:** There are a lot of different issues raised in that question. Over the last ten years, the service from Kettering to London has very significantly improved. I gave you the figures a moment ago. I have not done the comparison—but I will, following this Committee, and I will write to you<sup>4</sup>—about the precise changes in this timetable compared to last year. I know that coming from Kettering to London the fact that you now have one service that stops<sup>5</sup> at Corby and comes through, which is a main commuter service, will be a huge benefit to your constituents who are much more likely therefore to get a seat because it is not serving major stations before. There has been a benefit there. In terms of the quality of services, we do of course monitor that. We commission Passenger Focus to do regular passenger surveys. They show that on the East Midlands franchise customer satisfaction with services is slightly below national average. That is a

matter of concern to me and I know it is a matter of concern to the train company. I know that your views on that are made very clearly apparent to them. There is a set of penalties which they face for unreliability, including the new delay repay system where trains are severely delayed. Punctuality on that route has been improving and we do expect the train operating companies to be able to demonstrate continuing improvement. If you take all these aspects in the round—the monitoring of performance, the expectations we have on punctuality, the investment we are putting into improving the infrastructure and the track, because as you will know we are improving the track north of Bedford where a significant amount of relaying of the third track that was taken up some years ago is taking place, plus the ordering of new trains and the lengthening of station platforms—all of those aspects together are significantly improving the quality of service which your constituents are receiving in return for the higher fares that they are paying. I do think we are mindful of the balance between what they are paying and the service they are receiving.

**Q272 Mr Clelland:** Do you exercise any influence at all over how the train operating companies spend the revenues they raise from fares?

**Lord Adonis:** Of course we expect them to absolutely fulfil their franchise commitments and that takes up the great bulk of their revenue.

**Q273 Mr Clelland:** Do you monitor the profits of these companies to see if they have been making excessive profits, as opposed to the investment they are putting into improving the quality of service?

**Lord Adonis:** Our concern is not about their specific profit level. It is that they are fully meeting their franchise requirements. Of course, those franchise requirements are extensive, including specifying in some detail the service level they are expected to provide on each of the routes in the franchise. Your routes to the north east are specified in great detail in the franchise along with what the service level obligation is on the operator, which of course is what they have to do before they are able to make any profit at all.

**Q274 Mr Clelland:** Do you have any comment on the RMT's claim that fare increases are fuelling dividend increases of between 10 and 33%?

**Lord Adonis:** It is not for me to determine profit levels of companies, except to observe that of course in a time of boom they were doing very well. This is not a time of boom at the moment so they will be under some pressure.

**Q275 Mr Clelland:** You are satisfied that the balance between revenues, profits and improvement in services is satisfactory?

**Lord Adonis:** The whole purpose of having the franchising system with competitive franchises is to get the best possible deal for the taxpayer and the travelling public. I am absolutely accountable to you and Parliament as a whole for the value we provide

<sup>4</sup> See supplementary memorandum from the Department RFF 05

<sup>5</sup> Note by witness: delete 'stops' insert 'starts'

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to the taxpayer and the service we provide to the passenger. We have highly competitive franchising arrangements which the National Audit Office looked at and said it thought were working extremely well, including on your franchises. As you will know, recently when that was up for competition and we think we are delivering the best value we can for both the taxpayer and for the passenger. It is not for me of course to determine profit levels over and above that for individual companies.

**Q276 Mr Clelland:** Overall, your observations of the performance of the east coast line, for example—I am not necessarily concerned specifically about that—and the overall performance since the franchise was let is an improvement in the quality of service and passengers are reflecting that with their comments.

**Lord Adonis:** The Passenger Focus study of passenger satisfaction showed I think, from memory, a four percentage point improvement in passenger satisfaction on National Express east coast. Punctuality has also risen appreciably in the last year. On the independent measures that we have both of train performance and passenger satisfaction, they have been improving. As I always used to say in my last job at education and I say in this one, my middle names are “no complacency.” Do I think there is room for further improvement? Undoubtedly. I know that the train operating companies are aware of that. They never hear from me any statement that I am satisfied with how things are at the moment. I expect them to continue improving.

**Q277 Sir Peter Soulsby:** You reminded us earlier on that broadly there are two streams of income into the train operating companies, the subsidy and the fares. You also remind us that there are two broad outgoings. One is the day to day operation of the companies and the other is their investment programme. What you did not draw attention to then is what David Clelland has drawn attention to, which is of course the profits that they get. The RMT were very clear in what they said to us, which was, “Converting fare hikes into bumper profits should lead to a dividend increase of at least 10 and as high as 33%.” Does that reflect your understanding or the department’s understanding of what is happening? Do you have the equivalent of a red light system for excessive profits that you suggest you have for when they are in financial difficulties?

**Lord Adonis:** We do not believe the profit level for each individual company is a matter for us. We do believe though that it is absolutely a matter for us that the train operating companies perform to the specification set out in their franchise. I would simply observe that the profits that you refer to were made in periods of boom on the railways. Just as they made profits of a high order in that period, we expect them to continue in full meeting their franchise commitments when the going is tougher as it clearly is at the moment.

**Q278 Sir Peter Soulsby:** You would dispute the RMT’s interpretation of the current situation?

**Lord Adonis:** I think the answer I have given you is one of not commenting on it in that I do not think it is a relevant matter for me what their profit level is, provided both in times of boom and of much less growth in passenger numbers they fulfil the commitments they have given in their franchise commitments.

**Q279 Sir Peter Soulsby:** You do not think it would be a matter of concern for the government if hikes in fares were being converted into profits and dividends rather than into investment in service quality?

**Lord Adonis:** They must fully fulfil their obligations under their franchises. That is a matter of concern to me. We expect them to do that when there is above expectations growth in passenger numbers but also when there is below expectations growth. In that sense they must take the rough with the smooth.

**Q280 Sir Peter Soulsby:** It would not concern you if the levels of fares were excessive so long as the services were okay?

**Lord Adonis:** The levels of fares by definition cannot be excessive where we regulate them, because we regulate them in such a way to ensure that they are not excessive. The train operating companies have no power in the regulated sector, which is 60% of fares including the captive market in fares, to increase fares over and above the average set for the fares basket. As I indicated earlier, we have taken away the flexibility to increase fares above the average in the basket.

**Q281 Sir Peter Soulsby:** I would suggest to you though that what the department considers to be excessive is clearly significantly different to what many fare paying passengers consider to be excessive. If the RMT are right that a significant proportion of those fare increases have been in the recent past converted into dividends and profits, I would have expected that you might have felt that that was inappropriate at the very least.

**Lord Adonis:** It is not for me to determine the profit levels of companies. I was simply observing, on the basis of what they have been saying publicly, that those profit levels are unlikely to be as high in the period ahead as they have been in the period just finished.

**Q282 Sir Peter Soulsby:** I am surprised. Ought you not to have a similar system for red lights or however you might define it for excessive profits as you have for a situation where they are in difficult times and, as a result of that, perhaps having the potential not to fulfil their obligations?

**Lord Adonis:** My concern is that they provide the best possible value to the travelling public and the taxpayer, which is why we have highly competitive franchising arrangements. Beyond that, it is not my public duty I believe to seek to determine profit levels of individual companies. Equally, they may do well when traffic growth is above expectations. We



equally expect them to fulfil their franchise commitments when traffic growth is less than expected.

**Q283 Sir Peter Soulsby:** I would suggest that the fare paying passenger may take a very different view from the one you have just expressed to us.

**Lord Adonis:** I note that comment.

**Q284 Graham Stringer:** I am impressed and I am sure the whole Committee is impressed with your professorial knowledge of timetables, Minister. I am not convinced however when you say that the taxpayer is getting the best deal out of the system. If we take a ten year look at railways and what the expectations were prior to Hatfield and the other accidents, we were expecting zero subsidy and not quite as many passengers. We now have a situation where there is £24 billion-worth of debt locked up in Network Rail, £5 billion to £6 billion of subsidy going in a year to the railways with these record numbers of passengers. When it comes to freight, you have twice the level of access charges to the rail system as the industry best practice, which is probably the United States. That huge quantum of money is going into the rail system and we have just got back to pre-Hatfield levels of punctuality and reliability. Can you explain that conundrum: all this extra money going in through the fare books, all the extra money going in through the taxpayer? Is that an efficient use of taxpayers' money?

**Lord Adonis:** Can I take your question in two parts, the franchising arrangements between operating companies and Network Rail? In respect of the franchising system for train operating companies, all I can do is quote the judgment of the NAO in its own independent report last year who said, "The department's approach to rail franchising produces generally well thought through service specifications and generates keen competition. This approach has delivered better value for money for the taxpayer on the eight franchises let since the department took over from the Strategic Rail Authority. The department has negotiated commitments to improve the quality, reliability, accessibility and security of passenger services—for example, through station refurbishment, investment in rolling stock." As I said earlier, I am not complacent. I would simply observe that the NAO itself, having looked at this exhaustively, has given us a green light.

**Q285 Graham Stringer:** The NAO is comparing franchise to franchise. What I am trying to do is compare the current system which is getting, depending quite how you measure it and how you count the Network Rail subsidy, between five and ten times the level of subsidy that British Rail was getting in real terms. Punctuality and reliability are about the same now.

**Lord Adonis:** We think they are significantly higher, much higher than under British Rail and significantly higher than they were before Hatfield. We have the highest levels of punctuality at the moment.

**Q286 Graham Stringer:** My reading of the stats is they have just passed the pre-Hatfield situation. For all that extra subsidy and extra income from the fare box, not comparing franchise to franchise, comparing system to system, all the different franchises, Network Rail and the Office of Rail Regulation and ROSCOs, which is the current system compared to one system, how can you say that all that money is good value for the taxpayer? What extra is the taxpayer getting for that huge increase in subsidy?

**Lord Adonis:** The quality and volume of rail services have dramatically increased in the last ten years. If you look at the investment that has gone in, it has produced very significant increases in the quality of train services. You mentioned rolling stock; we have one of the youngest rolling stock fleets now in the world. Punctuality has improved. In this new timetable alone since mid-December there has been a 7% increase in the number of services, a very significant improvement in services. However, do I think there is sufficient further efficiency that can be secured? I do. The ORR itself said in its determination in respect of Network Rail that it expects to see a further, very significant improvement in the efficiency of Network Rail, taking the next period together with the last period. Over a ten year period, it expects a roughly 50% improvement in the efficiency of Network Rail. I am absolutely 100% behind the determination of the ORR to see significant, year on year improvements in the efficiency of Network Rail. It is very much an analysis shared between the government and the ORR that the process of privatisation and the terrible experience of Railtrack introduced serious inefficiencies into the management of the track authority. We have been seeking to improve that since including, in the case of ORR, as you will be aware, international benchmarking work comparing the efficiency of Network Rail with other track operators internationally. It is that benchmarking, which does not show Britain in a favourable light, which has led them to set these very tough efficiency targets for Network Rail over the period ahead. As you will know, Network Rail were not at all content with those targets that were being set. The ORR when it reviewed them again stood by the requirements it imposed and I note that Network Rail has not sought to challenge by an appeal to the Competition Commission the efficiency targets that have been set. I do think there could be and need to be very significant improvements in efficiency. I am passionate about seeking to increase the size of the railway. This is efficiency not simply in maintaining the existing network but the efficiency with which we build new rail capacity as well. High Speed 1 is a fantastic achievement. I am very mindful of the fact that it appears to be the most expensive piece of railway built in the world. I want to see High Speed 2 developed so that we can actually start to match the advances in rail technology and performance that we have seen in other European countries. We are not going to be able to do that unless we can build more cost effectively additional rail capacity in the future than we have done until now.

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25 February 2009 Lord Adonis, Mr Bob Linnard and Mr Michael Dollin

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**Q287 Graham Stringer:** Do I take that comprehensive answer to mean that, taking the rail system as a whole, you accept the premise of my question, that there are huge inefficiencies left on the system?

**Lord Adonis:** Yes.

**Graham Stringer:** You said earlier in your answers it was a heroic achievement to get investment in Crossrail. You have just said you are committed to High Speed 2 and the new interchange at Heathrow. Billions and billions of pounds of extra expenditure is good for the rail system potentially but looked at from a northern constituency it is all in the south east. How can a Labour Government justify putting that huge amount of investment into just one part of the country?

**Q288 Chairman:** Can you assure us that that well deserved investment will not be at the expense of investment in the north?

**Lord Adonis:** I can certainly make that assurance. In respect of the investment that has gone in so far, it is not the case of course that it has just gone into London and the south east. The £8.8 billion upgrade of the west coast main line has been a huge benefit both to Manchester and Liverpool. Manchester and Liverpool have their best train services to London in history.

**Q289 Graham Stringer:** I accept that. When we are fighting for a mere billion for a few trams in Manchester, to see what the mayoral candidates in the London election described as 40 million going into London over the next few years seems just an indication of regional unfairness.

**Lord Adonis:** I would simply point out in respect of the future investments that High Speed 2 will, by definition, connect cities across the country. The whole purpose of having a high speed line is to provide fast rail connections across the country. We have indicated that, in setting up High Speed 2, we wish the company to come forward with a plan for a line from London to the West Midlands but, even if in the first stage that were to be the extent of the new line, this will provide very significant benefits to destinations beyond, including Manchester, Liverpool and other destinations on the existing west coast main line.

**Q290 Chairman:** I will have to stop you there. This is very important. We may well call you back on this whole issue of regional investment and high speed rail. We would be pleased to take further evidence from you specifically on that. Thank you for coming to answer questions on fares and franchising. We inevitably strayed into other areas and we will be coming back to you.

**Lord Adonis:** If there is further information I can provide before you complete your inquiry, I would be very glad to do so.

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## Wednesday 17 June 2009

Members present

Mrs Louise Ellman, in the Chair

Mr David Clelland  
Mr Philip Hollobone  
Mr Eric Martlew  
Ms Angela C Smith

Sir Peter Soulsby  
Graham Stringer  
Sammy Wilson

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*Witness:* **Rt Hon Lord Adonis**, a Member of the House of Lords, Secretary of State, Department for Transport, gave evidence.

**Q291 Chairman:** Good afternoon and welcome to our Committee. Could you identify yourself for our records and I understand that you want to start by making a statement.

**Lord Adonis:** I am Andrew Adonis; I am Secretary of State for Transport. Would you like me to say just a few brief remarks?

**Q292 Chairman:** Yes please.

**Lord Adonis:** My principle of action as Secretary of State is to be resolutely on the side of the travelling public and to do my best to prepare Britain for the future by ensuring that we take the decisions about long term infrastructure which are essential to our future economic, social and environmental prosperity. Being on the side of the travelling public means promoting steadily more passenger focussed public transport, including better value and more reliable rail services, as we are discussing today. Obviously we have to work within allocated budgets but on that basis I want to seek the best possible deal for the passenger. As we are focussing principally on rail today I would stress that there is also a major rail dimension to future infrastructure planning. Passenger and freight traffic on the railways has grown by more than 50% since the 1990s and we expect it to grow rapidly as we come out of the current recession. Extra rail capacity is therefore essential and in addition to the investment plans already in place for the next five years we are examining in particular the case for further rail electrification and the case for a north-south high speed rail line. As the Committee will be aware, we have set up the High Speed Two company to prepare plans for such a line and it will report by the end of the year.

**Q293 Chairman:** Thank you very much. I am sure that you are aware that Network Rail have deferred major parts of their renewal programme to the end of the next spending period. Does that give you any concerns in terms of safety and job losses?

**Lord Adonis:** The key issue in respect of the renewals work is that the Office of Rail Regulation is satisfied that the re-profiling of the work does not raise any safety concerns. The ORR is so satisfied therefore I, as Secretary of State, have no reason to be concerned about any safety aspects of the re-profiling of the work. Of course the re-profiling is itself part of the Network Rail strategy to achieve the very considerable efficiency gains which the ORR is

requiring of Network Rail to achieve, 23% efficiency gains over the next five years, over and above the 31% that they were required to meet in the last five year period (which of course Network Rail did not meet, they only reached 27%). The other point I would make in respect of this is that, although, as you say, the renewals work has been re-profiled and is being re-profiled so that more of it comes at the end of the next five year control period, total Network Rail spending, including their work on enhancement, is about the same this year as last year because of the larger amount of enhancement work that is taking place. Although of course I fully understand the concerns in parts of the industry which depend upon renewals work, that work has been re-profiled. Total Network Rail spending is, as I say, about the same and therefore the amount of work that they are able to support in total is therefore also about the same. I know that for those who depend upon the renewals work that is not much consolation.

**Q294 Chairman:** You had a very successful rail tour of the country yet soon after you returned ATOC increased the All Line Rail Rover which you used so successfully by 15%. Is this symptomatic of the way in which price increases are levied without consideration for the passenger?

**Lord Adonis:** As I said when I came back, I was very surprised that they had increased the ticket by 15% since nobody seemed to have heard about it before and I had a one-man publicity campaign not only for this ticket but for greater use of the railways. It is not a regulated fare so therefore neither I nor the department had powers to stop them increasing it. However, even with the 15% increase, it is still good value for money so I would still encourage people to use it because for a little over £400 it gives one week of unlimited use of the British rail network and that is a great deal. I still strongly encourage people to take it up but I think it is a pity that once this ticket came to be well known the first thing that ATOC did was to increase its price.

**Q295 Chairman:** Do you think it is an indication that unregulated rail fares will increase in a very big way if more controls are put on the regulators?

**Lord Adonis:** If you look at the pattern of increases in unregulated rail fares there is no reason to believe that that would be the case, and of course they are in a highly competitive market for unregulated fares

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because those fares are fares which are not on tickets which leave passengers little option but to travel, main commuter lines and so on. So they are in an intensive market. Their argument in respect of the Rail Rover was that it was such good value, particularly against other advance tickets that people who were travelling several times in one week on business, that they were slightly worried about it being abused. My response to that was that since so few people were using it, it might be a good idea to encourage more people to use the rover ticket itself and they could worry about abuse if the take off was so marked that they thought that people were being genuinely diverted from other advance tickets. I think it is a pity that they increased the price but I do not see this as symptomatic over a wider fares policy.

**Q296 Chairman:** When you came before this Committee last time you gave a commitment on two things. First, you said that the formula for regulated price increases (retail price index + 1%) would remain and that would remain even if RPI was more stable or negative. Secondly, you said you would in practice abandon the basket of fares and that that increase—or indeed decrease—would apply to every individual regulated fare. Are you committed to those promises you gave us? Is it actually going to happen?

**Lord Adonis:** Absolutely. We stand by those two policy announcements. RPI is, at the moment, at -1.1%. I see that Oxford Economics estimate that in July it could be -2%. If it is indeed -2% then most regulated fares will fall next January. I gave that commitment to the Committee when I last appeared and I repeat it today. On your second point about the basket of fares and moving the flexibility with the basket, we stand by that policy change too and that will also be carried into effect next year, so there will not be the flexibility for fares to change within the basket as has been the case up to now.

**Chairman:** It is very reassuring to hear that stated again. Ms Smith?

**Q297 Ms Smith:** I will start by congratulating Lord Adonis on his appointment.

**Lord Adonis:** Thank you very much.

**Q298 Ms Smith:** I am not going to talk about the gating of Sheffield Station.

**Lord Adonis:** I was all prepared!

**Q299 Ms Smith:** There is a broader question, nevertheless, related to that difficulty, to the controversy at Sheffield which is the policy which is embedded in franchises related to the gating of stations. There are many potential rail users out there who probably hop into the car rather than using the train because of last minute decisions made to travel which they will not take in terms of using the railways because of the cost of those last minute fares as opposed to booking in advance. In other words, we make it very difficult for people to make flexible decisions relating to train use and in addition

to that, if you go on the internet, for instance I went to National Rail inquiries and was offered a £270 fare for a return journey; I went to another site and was offered £48 one way and £80 on the way back, resulting in a half price reduction. It is all very, very complex and I think it is really off-putting in terms of whether or not we are able to increase the passenger base. Is there not a case for a review of the gate extension policy given that it is in effect something which is predicated on people buying well in advance?

**Lord Adonis:** I do not see a relationship between the simplicity or otherwise of fares and gating because of course whether passengers buy their tickets in advance or they buy them at the station, they still require a valid ticket to get past the gates.

**Q300 Ms Smith:** Except in our case of course in Sheffield.

**Lord Adonis:** Yes, I do understand the Sheffield position. I do not see a link between those two. I should stress that I am well aware of the particular issues in Sheffield. We have talked about them and I have talked with other Sheffield members about them too and we are seeking to explore options in respect of Sheffield Station that might preserve a through route through the station for those who do not have rail tickets; we are exploring options there. I should stress to the Committee that almost all gating schemes have been carried through with very little controversy and indeed have often been welcomed by local communities partly because of the increase in the staffing of stations which often goes along side gating because of the requirement to have gates staffed whilst they are in use, but also partly because, in all my experience on my rail tour which you mentioned, I spoke to a lot of travellers and by and large travellers do not like fare evaders. They think rail fares are quite high enough at the moment without them being even higher because of fare evasion. The evidence is very clear that gating does have a significant positive effect on rail revenue. Where it is done well, as I say, it can usually be carried through with little controversy. To give the best recent example of that, Waterloo has been gated and I am told that is the largest gating project in Europe that has been carried through. There has been very little controversy about that. I have not had a single complaint from a Member of Parliament about the gating of Waterloo. On the contrary, a number of members and others have told me that they think it has improved Waterloo Station significantly partly because it has removed those terrible hoardings there used to be, so it has actually opened up the station very considerably, and partly because it means that there are more staff on the concourse than there were before, and partly because it distributes passengers much more evenly because of the way the gates have been positioned. It has also had a very positive impact on the revenue of South West Trains because before that there were significant levels of fare evasion. Gating as a general policy I think is entirely defensible and from what I can see, broadly supported by the public. There are particular issues at a few stations where there are

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established through routes. That is the case in Sheffield and I know it is with one or two other stations too. When it comes to the wider policy on fares I think it is very important that I get across to the Committee that it is not the case that there is a straightforward choice between paying a very expensive fare for travelling what in the industry they call “walk-on fares” (turning up at the station, buying your ticket and getting on the train) and only being able to get more economically priced fares in advance. On the Intercity network one of the principal regulated fares is what used to be known as the Saver fare, the off-peak return. The Saver fare, which is a regulated fare, offers good value for money. In respect of Sheffield, for example, the Saver fare—the off-peak return—is £62.50 as against the Anytime return—the peak fare if you turn up in peak hours—of £142. That £62.50 fare is very competitive with, for example, driving from Sheffield to London, so there is a good, economically priced option off-peak. In peak hours people have to expect to pay more if they are going to travel at the time which is busiest in terms of the capacity constraints on the railways. There is an economically priced off-peak fare which is a walk-on fare. There are even cheaper fares if you book in advance. I noticed the comments that were made by the Committee of Public Accounts on the availability of advance fares and the ability to purchase advance tickets at booking offices. The generality of advance tickets can be purchased at booking offices and it is my policy that that should continue to be the case. I am resisting any moves by train operating companies to limit the availability of the purchase of advance tickets at ticket offices.

**Q301 Chairman:** You say you are resisting any moves, can you stop them?

**Lord Adonis:** I can. I can stop them being able to restrict the current availability of advance tickets at ticket offices. There are some tickets, it is true, which are either only available on the internet or by phone or which are better priced, for example train operating companies that give further discounts on their own tickets if you go onto their website. I have considered this issue thoroughly because I have taken very seriously the comments that were made by the Committee of Public Accounts. The issue as I see it is this, if I were to say that those types of tickets had to be offered at ticket offices at the same price as on the web, the most likely result is that they would simply remove the discounts available for purchasing them on the web and by telephone and I do not believe that that would serve the interests of the travelling public. It is in the interests of the travelling public that the generality of advanced tickets should be purchasable at ticket offices, but I think where deals which are better value over and above that are available on the internet, were I to say that they could only be made available on the internet if they were also made available at ticket offices would, from the advice I have been given, most likely result in the removal of some of those fares.

**Q302 Chairman:** We do receive a lot of complaints about the complexity of the system and equal access to it, and the extent of the availability of certain tickets which may be advertised but available only in small number. Is that something that concerns you?

**Lord Adonis:** As I say, if the result of my action in seeking to restrict the availability of such tickets is that they are withdrawn, then the travelling public is no better off. A very substantial proportion of travellers on off-peak trains are travelling on advance tickets so there is a wide availability of advance tickets. It is the case that there are some categories of advance tickets which give a better deal on the internet and a small group which are only available on the internet. As I say, my concern is that if I were to say that such tickets could only be made available if they were also available in ticket offices and this led to the withdrawal of such tickets, this would not be in the interests of the travelling public. So far as the complexity of fares and the impact on the travelling public is concerned, I would simply note that in the period when there has been the greater diversity of fares offered—we have seen a greater diversity since privatisation, since the development of the franchising system and since the development of the web—that has gone hand in hand with the period of most robust growth in passenger numbers since Beeching. So it is manifestly not the case that the increased diversity of tickets on offer has had the effect of depressing the increase in rail volumes. On the contrary, the two appear to have gone hand in hand.

**Q303 Ms Smith:** I am sure there is some truth in that, Lord Adonis, but it could also be the case that that growth was predicated on other factors as well. I do not think I made the logical links in what I said earlier. Surely we need to understand the intellectual case for having a very diversified fare base for the railways as opposed to the fairly straightforward arrangements we have for other forms of public transport. For instance the tram in my city was failing very badly until we put in a place a hop on and pay on the tram arrangement, with a properly staffed tram system and the income and the passenger numbers have gone from strength to strength. It is now one of the most successful transport systems surely in the country. My key question here is, surely, we need a much more flexible railway system that allows people to make those very last minute decisions and allows them to get on a train sometimes and pay on the train in the same way that you may do with other forms of public transport. Surely we need to make intellectually the distinction between railways and buses and trams in order to justify the different paying arrangements.

**Lord Adonis:** As I said in my earlier remarks, we stand resolutely behind the right of passengers to buy tickets at the last minute and get on trains. That is the case. Gating does not affect that. It does mean that they have to have a ticket before they go through the gate which is, for the reasons I gave earlier, a reasonable requirement. However, it is absolutely possible both for passengers to buy tickets at the last minute and get on trains and to buy

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economically priced tickets off-peak and get straight on trains. So far as the issue about greatest concerns—I try to look at these issues as thoroughly when reports come my way from parliamentary committees, I think it is my duty to do so—I think it is true that there could be no or little relationship between the big growth in passenger numbers on the one side and the much more aggressive marketing of a wider range of tickets on the other. It is possible that there is not a direct relationship between those two. I would note, though, that if you look at the statistics on increased rail traffic across Europe we do remarkably well. We are second only to Ireland in the growth since the mid-1990s of passenger journeys. The increase in passenger miles between 1995–96 and 2006 is higher in Great Britain than in a whole cross-section of other countries in Europe (42% in Great Britain against 41% in Ireland, 33% in France, 28% in Spain, 22% in Germany; I could carry on and I am happy to make these statistics available to the Committee). So we do appear to have got something right in encouraging people on the trains. I would like to encourage more on and if there are other policy steps short of a big cheque from the Treasury—which alas I do not have—to encourage that, I would be very glad to consider them and look forward to any suggestions you would like to make.

**Q304 Ms Smith:** I am sorry to go on about this, but I do not think you have answered the question about the distinction between gating access to railways and trains and having a hop on and ride and pay on the vehicle policy for other forms of public transport? Why not gate all access to transport?

**Lord Adonis:** It is much easier to police observance with fares policies on trams and buses than it is on trains.

**Q305 Ms Smith:** I am not sure it is, to be honest.

**Lord Adonis:** As a general rule.

**Q306 Ms Smith:** Do not get me wrong, I am totally opposed to fare dodging, but it does happen on the tram system—I know it happens—but Stagecoach do the best that they can. The trams are well staffed and the customers like it.

**Lord Adonis:** The statistics are that you get a several percentage point increase in revenue when you gate and that is a straightforward income which means that I can keep rail fares lower and have more money to invest in the network. We are accepting that in some cases this needs to be done sensitively.

**Q307 Mr Clelland:** Welcome to your post, Secretary of State.

**Lord Adonis:** Thank you.

**Q308 Mr Clelland:** I am not quite sure how helpful it is going to be having a Secretary of State who cannot be questioned on the floor of the House of Commons but that is not the question I want to pursue here today. Can you bring us up to speed—

if you will pardon the pun—on the current situation with the National Express East Coast franchise?

**Lord Adonis:** I cannot say any more than I said to the Committee before because of course discussions between us and train operators are commercially confidential. However, I can tell the Committee, as I said last time I appeared before the Committee, no train operating company has defaulted on its obligations and that continues to be the case.

**Q309 Mr Clelland:** Are you in talks with National Express?

**Lord Adonis:** We are in talks with all of the train operating companies and that includes National Express.

**Q310 Mr Clelland:** Are you considering a management contract for the franchise?

**Lord Adonis:** I simply cannot talk about matters which are commercially confidential between us and the train operating companies.

**Q311 Mr Clelland:** You cannot talk about any other franchise, about the terms of existing contracts or management contracts.

**Lord Adonis:** No, it would not be appropriate.

**Q312 Mr Clelland:** Who would carry the revenue risk if a monitoring contract was established either in the case of National Express or any other franchise?

**Lord Adonis:** It would entirely depend on the form of the management contract. There is not a single standard form of a management contract. Of course, if there were to be management contracts in respect of any franchise, the apportionment of risk would be one of the factors to be considered.

**Q313 Mr Clelland:** If a multi-franchise train operator defaulted on one franchise, what would happen to any other franchise?

**Lord Adonis:** The government has the power to cross-default, that is to default franchise operators in respect of other franchises that they hold as well as the one which led to the initial default. That is a power to do so. As I have said when asked about this in the past, we would need to look at whether to exercise that power on a case by case basis.

**Q314 Mr Clelland:** Without breaching any commercial confidentialities, what contingency plans do you have in place in the event of a multi-franchise failure?

**Lord Adonis:** As you know we have a statutory duty under section 30 of the Railways Act to ensure the continued operation of rail services and we can do that in one of a number of ways, as we have done in the past where train operating companies have been unable to continue operating the services on the previously agreed contractual basis. We could agree a management contract; we could run the service directly as we did with South Eastern Trains when Connex was unable to continue in service. There are a number of options.

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**Q315 Chairman:** Have you given consideration to running trains directly?

**Lord Adonis:** Yes.

**Q316 Chairman:** That is something that you would see as a possibility.

**Lord Adonis:** Yes, absolutely. We have done it in the past. We have a call off contract with an organisation called First Class Partnerships which could, at very short notice indeed, provide us with experienced rail managers enabling the department to take over the management of a train operating company in the same as we did with Connex South Eastern when we needed to do so at the end of 2003.

**Q317 Chairman:** When did you last discuss this with First Class Partnerships?

**Lord Adonis:** We are in regular dialogue with First Class Partnerships because of course we need to be satisfied that we do have the staff and the management capacity available to be able to act if we needed to do so. I should stress that this is sensible and necessary contingency planning on the part of the government; it does not pre-suppose that we face any particular challenges.

**Q318 Mr Clelland:** Would it be wise to keep at least one franchise in the public sector to use as a comparator to the private sector?

**Lord Adonis:** We do not believe so because we believe we get a good deal for the taxpayer from the franchising system. Indeed we have just got an excellent deal for the taxpayer from the franchise that we let last week in South Central, £534 million worth of premium payments over five years and ten months from a very intensely competitive franchise process before we let that franchise. Our view is that the public interest is well served. That is not just our view, it is also the view of the National Audit Office which, in its Report on the management of franchises last year—as you will be aware—concluded, “The Department’s arrangements for identifying and managing risks, including handling the failure of a train operator, are well planned and follow good practice.” The NAO also concluded, “The Department’s approach to rail franchising produces generally well thought through service specifications and generates keen bidding competition. This approach has resulted in better value for money for the taxpayer on the eight franchises let since the Department took over from the SRA.” The NAO, having looked in some detail at our franchising policy, concluded that it was delivering good value for the taxpayer and that conclusion, we believe, is further supported by the recent experience of franchising the South Central franchise and therefore we do stand by it.

**Q319 Mr Clelland:** Looking forward, we are in a recession and things are getting difficult; private train companies are driven by their concerns about their share price. How can we be satisfied that they will be more concerned about the long term investment in the railway than their short concern about their share prices?

**Lord Adonis:** The only answer that I can give to that is that we are now about a year through the recession and no train operating company has defaulted on its obligations even though, of course, their share prices have come under very considerable pressure in that time and the return they are able to make from operating rail services has diminished. The evidence so far is that the franchising system has continued to prove its worth.

**Q320 Chairman:** There is a great deal of press speculation about National Express.

**Lord Adonis:** That is speculation and I cannot comment further. We are a year through the recession and the only significant change we have seen so far in the franchising arrangements has been the letting of the South Central franchise which delivered a very substantial premium payment for the taxpayer.

**Q321 Chairman:** Should we be concerned about the reports about the National Express?

**Lord Adonis:** The legitimate issue for me appearing before you is that were there to be for any franchise—I am not talking about any individual one—a failure, have we, on behalf of the travelling public, got robust arrangements in place that would ensure the continuity of rail services and no disruption in service to the travelling public? I can say very clearly to you this afternoon that we have got such arrangements in place and were a franchise to default we believe that we could ensure that rail services are continued without any disruption to the travelling public.

**Q322 Chairman:** Would they continue without additional costs to the public purse?

**Lord Adonis:** It depends on the nature of the default.

**Q323 Chairman:** So the answer is that it might be.

**Lord Adonis:** It costs more to the public purse.

**Q324 Mr Clelland:** In relation to an increase in prices and the £2.50 reservation fee for instance that National Express are in favour of, does that tell you anything about their finances and their future?

**Lord Adonis:** Everyone knows that a number of the train operating companies are under some pressure at the moment because of the recession and lower growth in passenger volumes and revenue than they had anticipated but, as I say, no train operating company is in default of its obligations.

**Q325 Mr Clelland:** Are you confident that when you come before us next time you will be giving us the same answer?

**Lord Adonis:** The only thing I can be confident of is the answer I give you today. I never try to predict the future.

**Q326 Sir Peter Soulsby:** Lord Adonis, I would like to take you back to the initial statement you made about the capital priorities in the department. You

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mentioned particularly electrification and High Speed Two. In a very interesting and wide ranging article in today's *RAIL* magazine Sir David Rowlands points out the obvious which is that high speed rail is going to need some substantial public investment and if you put that public investment in it is public investment that could have gone somewhere else, or at least there are choices to be made. With that in mind I want to take you to the very interesting publication that ATOC have produced this week which looks at some comparatively modest schemes that could have quite substantial benefits. How do you intend to balance the very glamorous prospect of high speed rail against some of the other perhaps less glamorous but potentially very beneficial calls for investment in the department?

**Lord Adonis:** It is important that we look at that benefit cost assessments of all projects together. That would include schemes for further rail enhancement, for the restoration of lines which have been closed as well as High Speed Two. We need to evaluate them together; that is the only way that we can ensure that a properly balanced approach is taken.

**Q327 Sir Peter Soulsby:** Does that mean really that as High Speed Two progresses there will be an opportunity to weigh the feasibility of it as well as the benefits of it against other alternative opportunities for public investment?

**Lord Adonis:** Absolutely.

**Q328 Graham Stringer:** Going back to franchising again, I do not think you have updated us on your traffic lights. Are there any more red lights on your traffic lights since your last visit?

**Lord Adonis:** I fear I cannot get into the nature of the evaluations the department has made of particular train operating companies.

**Q329 Graham Stringer:** That is not a question about a particular operating company; it is just giving us a general idea. I think last time we had the number of red lights; I just wondered whether it is going up or down. That does not tell us anything about any individual franchise.

**Lord Adonis:** I cannot I am afraid get into the details of train operating companies. What I can say, as I said last time—we went round the houses on this one last time—we think it is appropriate that we do keep under constant review the financial and operating health of rail franchise operators and we are continuing to do that but I cannot get further into the detail of what those assessments are.

**Q330 Graham Stringer:** David Clelland was making the point of increasing charges on trains and that there has been some reduction in services because we are in the middle of a recession. There has been some speculation that the services would have deteriorated less or there would have been fewer charges if the franchises had been longer than they are, giving the train operating companies a longer

period over which they could have dealt with the financial downturn. Do you think there is a case for longer franchises?

**Lord Adonis:** I think there may be. We are conducting an assessment in the department at the moment of the arguments for and against longer franchises. As you know the typical franchise at the moment is seven to ten years but there are some, like Chiltern Railways, which are substantially longer and arguments are made and they clearly have some weight that longer franchises encourage a longer term mentality on the part of train operating companies and may also encourage longer term investments. Certainly that is the view of Chiltern Railways and the very strongly held view of its managing director, Adrian Shooter, who is a highly respected manager in the industry. I am keen to assess the arguments. The argument against of course is that because you test the market less frequently you get a less good deal for the taxpayer. There are arguments on both sides and I am keen to assess the relative merits of those arguments. I can see the strength of the argument for longer franchises and in principle it must be a good thing to encourage a long term investment mentality on the part of those who are operating train services. I do see a strong argument for longer franchises. The issue which we need to evaluate is whether that argument outweighs the benefits of testing the market more frequently in terms of getting the best possible deal for the taxpayer.

**Q331 Graham Stringer:** I want to avoid getting into a *Today* programme sort of discussion as the chancellor had this morning and various other members of the Cabinet have had over the last week or so. I want to understand what is going to happen to investment in the north of England in transport. It seems to me that given the amount of public expenditure there has been over the last year or so because of the credit crunch that public expenditure will decline and it will be in a difficult situation some time in the next 12 to 18 months. What worries me particularly about transport is that because so much investment now is committed in the south-east—Crossrail, Thameslink and transport to the Olympics—that when it comes to a reduction or even, if we are very lucky, keeping it static, the regions of this country will be disproportionately hit. I would be grateful if you could tell me that that analysis is wrong or, if the analysis is right, what you can do to reassure us.

**Lord Adonis:** In rail we have a five year planning horizon for rail investment. The High Level Output Specification to which we are operating at the moment covers the period from this year through to 2014 which means we have a longer planning horizon for investments than most other departments have in respect of their principal investment activities. The issue for us is what happens after 2014.

**Q332 Graham Stringer:** Not quite, because the HLOS only applies to part of transport expenditure. The regional allocations, for instance, are not



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covered by that. I can imagine a scenario where even the train investment is cut if the situation gets bad. It is much more likely to be the regional allocations that take the first hit.

**Lord Adonis:** I did preface my remarks saying that I was talking about rail investment. You are absolutely right that the regional funding allocation is not done on the same basis. However, of course, the priorities for regional projects are decided by the regions themselves so there is no unfair weighting between regions in that process. We are continuing with the RFA process and that includes of course projects that will take place in the north. The issue for us at the moment on rail is what our priorities are post-2014. Before 2014 the investment horizon is clear and, as I say, the RFA process is on-going as we speak.

**Q333 Graham Stringer:** That is the first answer that you have given us this afternoon that I find lacks a certain amount of credibility. If the chancellor is faced with having to cut back expenditure he will cut back what he can and what he has committed—whether it is via the Network Rail budget or whether it is by a commitment into the PPP in London or wherever—will have to go ahead. You say there is a fair allocation between the regions but it is what is left over that will be the total budget for the regions so there is likely to be a disproportionate impact on the regional budgets.

**Lord Adonis:** Referring to the *Today* programme this morning, the chancellor made clear that he has not set departmental spending limits for departments yet.

**Q334 Graham Stringer:** I do accept that.

**Lord Adonis:** At the moment there is no basis on which I could make any comment on what this might mean for transport.

**Q335 Graham Stringer:** It is how you would expect, in a situation that is likely where there is a reduction in expenditure, to protect the regional budgets against investment that is already committed primarily in the south-east of England.

**Lord Adonis:** It is a hypothetical situation.

**Q336 Graham Stringer:** Yes it is. It is hypothetical at the moment but it is not that unlikely, is it?

**Lord Adonis:** I would rather not comment on hypothetical situations because of course if one were in a position of constraints then what we would have a responsibility to do—what I would have responsibility to do as Secretary of State—is to look across the department at what the options were. We are not in such a period at the moment and, as I say, no departmental limits have been set going out beyond 2011 so it is entirely hypothetical.

**Q337 Graham Stringer:** Would you see it as a theoretical possibility in this hypothetical situation that if you had to look across the departmental

expenditure that you could dip into committed expenditure on Crossrail and Thameslink and some other projects that are committed? Do you have the power to re-allocate that should public expenditure go off a cliff edge?

**Lord Adonis:** As everyone knows who has looked at previous periods of public spending cuts, governments have the power to move in most any area but that is entirely hypothetical and we are not looking at such a situation at the present time.

**Q338 Mr Clelland:** Although you say that in the RFA processes the priorities are decided by the regions themselves, the priorities are very much dependent on the resources which are available. So that is not really an argument, is it? The priority in the north-east would be, given the limited resources, dualling the A1 from the north of Newcastle to Scotland but because of limited resources they do not get that priority otherwise there would be no money for anything else. So the priorities really are dependent on the resources.

**Lord Adonis:** That is obviously true, priorities are constrained by resources but, as I say, at the moment there are projects going on in all these areas. I will remember our meeting with business leaders in Gateshead and I know that the business leaders and you would like to see the A1 dualled north of Newcastle, however we are busy dualling the A1 south of Newcastle so there is a big project which will significantly enhance the A1 in the north-east at the moment. I think we have a good record and I am proud of the record that we have in terms of the significant infrastructure investment over the last ten years which is continuing in the period ahead.

**Q339 Mr Martlew:** Can we come back to the franchise? There has been no greater critic over the years of Virgin than I am on the west coast. I think it is admitted that they do a good job. They have provided a good service, the staff are good and if it were not for the failures of Network Rail they would have a much more reliable service. They are now coming to the end of the franchise; that means that they will not invest beyond that time. The system of franchising that we have which is a blind bid takes no account of the fact that any franchise company has done a good job. Is that sensible?

**Lord Adonis:** It is important that we get the best deal for the tax payer set against the requirements that we place in the franchise agreements. Although it is blind in the sense that of course no bidder knows what anyone else is bidding, it is not remotely blind in terms of the outputs that we require for the public. On the contrary; the specifications in the franchise are very detailed indeed and with each successive franchise we seek to improve the service on the previous franchise. The South Central franchise which we have just let will bring about a very significant improvement in the quality of service in the South Central area as against the one that was being offered previously. As it happened in the case of Govia (the company that was previously operating

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the franchise) won the bid for the new franchise and quite a number of the franchise competitions are won by the previous operator. I do not think it would be right for us to say that we should operate a policy of favouritism in respect of incumbents who are prepared to offer a less good deal for the taxpayer in return for delivering the same outputs as other people who have bid.

**Q340 Mr Martlew:** You earlier answer indicated to me that there were actually more red lights than before because if there had been only five you would have said there are only five. So it appears that the franchising system is teetering, to be honest. Have we ever thought of a system whereby you lay down the conditions of what you want on a line and you perhaps review it from time to time and instead of a franchise you just sell the service, you just put it up to the highest bidder?

**Lord Adonis:** Sorry, you mean the entire—?

**Q341 Mr Martlew:** Let us take the West Coast Main Line, you set what you want like you would on a franchise and you say that instead of a five year franchise or a ten year franchise, who wants to own it? We will tell you what services you have to run but you get to own it.

**Lord Adonis:** I think the problem there is that you would be seeking to tie yourself into just one operator for an indeterminate period and you would not get the opportunity then to test whether somebody else could come along and provide you with a better deal. The question as to what the periods of tendering should be is one we are considering, but tendering does produce a better deal for the taxpayer. The effect of doing that I think would be to produce a less good deal. To give the specific example of the South Central franchise, that is a franchise which at the present time, until the franchise changes at the end of the year, is operating in subsidy. We are subsidising Govia to operate the South Central franchise. With the new franchise they will be paying the government a premium payment for providing a better service. Clearly periodic tendering of contracts and therefore being able to carry out a competition between potential companies that could operate that franchise does deliver better value for the taxpayer than simply continuing for an indeterminate period with an existing operator.

**Q342 Chairman:** Will this South Central franchise be the pattern of franchises for the future? It does pay a lot more attention to passenger safety and passenger needs.

**Lord Adonis:** The enhanced requirement of the South Central franchise not only in terms of passenger safety with more CCTV, longer staffing hours in stations but also in terms of the provision of more care parking, better facilities for cyclists, enhanced capacity, all of those are areas where we hope we can apply the lessons in future franchises. Coming to Mr Martlew's question, I think the problem with the solution he is suggesting is that of course this would lock you in with an operator for an

indeterminate period and I do not think that would produce best value for the taxpayer as against being able periodically to invite rival bids for operating franchise. The question about what is in fact the best balance between stability, long term investment and commitment and testing the market is, as I said in response to an earlier question, one that we have got under review.

**Q343 Mr Martlew:** You will always have this problem when a company comes to the end of its franchise. In the case of a five year franchise they are not going to start putting a lot of investment into that particular line, are they? The reality is that it is short-termism. If you had a 30 year project you might as well sell it all.

**Lord Adonis:** It is not either/or because of course the franchise specifications themselves require train operators to make investments. So the South Central franchise to which you referred sets out a large number of requirements on Govia (the franchise holder) to make investments, including any issues I have just mentioned (CCTV, car parking, cycle parking). There is not a straight either/or here. That is a franchise that only lasts for five years ten months which is a shorter period than we would normally wish but this was set to coincide with the period before the completion of Thameslink. It is possible if we had a sophisticated franchise system to get significant levels of investment on the part of the train operating companies through franchises, even if they are shorter rather than longer term. However, you are clearly right to say that the willingness of train operating companies to make investments over and above those that they are required to do in their franchise agreements is reduced the shorter the franchise.

**Q344 Mr Martlew:** Turning to the issue of the extra carriage on the Pendolino, the decision on that was delayed in fact because Virgin were coming to the end of the franchise. It was delayed because Virgin would not do it under their franchise.

**Lord Adonis:** I am happy to say that we are ordering extra carriages for Pendolinos now so although it may have taken us a bit of time to get there, we did get there. Carlisle will be one of the beneficiaries.

**Q345 Mr Hollobone:** Congratulations, Secretary of State, on your appointment and also on your grand tour.

**Lord Adonis:** Thank you.

**Q346 Mr Hollobone:** When you were doing your extensive rail tour of the country did you always manage to get a seat?

**Lord Adonis:** No, I did not. I did have to stand a few times but that is the lot of the travelling public.

**Q347 Mr Hollobone:** I think the travelling public, whilst impressed with your rail tour of Great Britain, would probably say that in some respects you had experienced the little romance of rail travel that still exists, which is rather different from the daily grind

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of commuters to and from major cities in this country on the train, especially for commuters from Kettering into London where often they do not often manage to get a seat. There used to be a rule that a seat should be provided if your journey was more than 20 minutes and that rule seems to have disappeared. Do you think that rule should actually come back?

**Lord Adonis:** Can I first say that as somebody who lives on the Victoria Line and uses it frequently, including from time to time at peak hours, I am only too well aware of what it is like to travel on crowded trains. I can assure you that the Victoria Line going to Highbury and Islington is one of the most difficult trains to get on at peak hour of any in the country, including the trains going through Kettering. I am only too well aware for the need to provide additional capacity and of course it is our policy to provide very significantly enhanced capacity. That is happening on my Victoria Line; it is happening on your line too. Both directly and indirectly there is additional capacity that is being provided on the services through Kettering. There is also crucially for the capacity of services through Kettering the major upgrade of the Thameslink that will very significantly enhance capacity on the trains going to and from Bedford which will have the effect of freeing up capacity on the trains going to Kettering too. Whilst I absolutely accept that many of your constituents face standing and they regard that as unacceptable and want to be able to get a seat, it is our policy to provide significantly extra capacity so that they can indeed get seats on those trains.

**Q348 Mr Hollobone:** That is great. In negotiating these franchises have you thought that you might have a condition where it would be unreasonable for people to stand for more than 20 minutes?

**Lord Adonis:** When we negotiate the franchises we seek to match capacity with demand, subject to the availability of rolling stock. It is our policy to provide capacity which will enable as many passengers as we reasonably can to be seated. That is our policy but what I cannot do is to give an undertaking that franchises will in all cases be framed in such a way that a set proportion of passengers would always be able to sit because one of the constraints that we face, as you will be well aware, is the availability of rolling stock and train paths. You live on one of the railway lines that has seen one of the fastest rates of growth in terms of passenger volumes in the country and that has been one of the major constraints that we faced. As a result of that we have put in place both the Thameslink programme and the enhancements on the East Midlands services. We remain to carrying those improvements through. What I cannot do is to give commitments which I do not believe we would be in a position to meet within the capacity that is currently available.

**Q349 Mr Hollobone:** Given the constraints there are on the physical number of carriages—we all understand those difficulties—do you understand the frustration of commuters in standard class who

are forced to stand for more than 20 minutes, sometimes all the way from Kettering to London or back again, when there are a lot of empty seats in first class?

**Lord Adonis:** Yes, I do understand the frustration of passengers in this situation. I completely understand it.

**Q350 Mr Hollobone:** Can you direct train operating companies to re-adjust the proportion of seats between first class and standard class in that respect?

**Lord Adonis:** I do not have powers to direct them, no, but I would expect them to keep the balance between first class and standard class accommodation under review so that they can ensure that the interests of the travelling public are met as well as they can be.

**Q351 Mr Hollobone:** Can I ask you about the new Kettering-Corby link which has caused quite a lot of change to the travel patterns to and from Kettering and the capital? Do you have any preliminary figures as to the use of that new line and/or the subsidy being provided for it?

**Lord Adonis:** I do not have them to hand. I am sure my department does and I would be very happy to make those figures available to you. Of course the service has only been running for a short period of time so I am not sure how much data we will have, but any data that we have I would be happy to make available to you.

**Q352 Mr Hollobone:** Thank you. You mentioned electrification earlier on and the Midland Mainline has been identified, I understand, as one of the possible first routes to benefit from any early electrification. Is there any information you can give the Committee as to likely potential timetables for the introduction of that?

**Lord Adonis:** I cannot, I am afraid. What I can say to the Committee is that Network Rail is, at the moment, conducting a full cost assessment of the electrification of both the Midland Main Line and the Great Western Main Line. Very detailed costings are now being assessed for both of those lines and when we have those detailed cost assessments we intend to look at them in the near future and I hope I will be in a position to tell the Committee and the House more about the conclusions we reach later in the year.

**Q353 Mr Hollobone:** With regard to issues of longer distance travel it had been a concept that there would be non-stop train travel between the English regions and France using Eurostar and indeed there is a link at St Pancras that would enable that to be facilitated. Given that there are in the East Midlands—in Northamptonshire—a lot of distribution hubs because it is geographically very close to the middle of the road network in the country, there would surely be a strong case for having through freight services and indeed passenger

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services all the way through to the Midlands. Is that something that the department is pursuing strongly?

**Lord Adonis:** We could of course, under our franchising system, commission, with public subsidy through passenger services. We do not have the additional public subsidy to be able to do that so it would require an operator to come wanting to offer a commercial service which would not be a subsidised service. Neither Eurostar nor any other potential operator has done so although, as you say, there are the physical connections between High Speed One and the wider network and it would be possible for them to come forward with such proposals. I am not aware of any proposals which are likely to come forward. If we did pursue High Speed Two—the high speed line from the north to the south—of course that might make it much more attractive to offer through services because the journey times between provincial cities and European destinations would be a lot shorter than coming off the existing High Speed One and going onto the existing network. One of the issues that we have asked the High Speed Two company to look at is the potential for connecting any second high speed line with the first high speed line and assessing what the potential might then be for offering through services between English regions and the continent which of course was one of the original objectives of building the Channel Tunnel Rail Link but alas it is one which has not come to fruition. In respect of freight services, it is of course open to freight carriers (which already use High Speed One and the Channel Tunnel) to take their services further. I would expect to see more freight use High Speed One and the Channel Tunnel, including freight services that are going well beyond the existing High Speed One line.

**Q354 Mr Hollobone:** My last question is on High Speed Two. What is the possibility, do you think, of somebody coming forward on High Speed Two to offer to build it entirely with private sector money, no public subsidy at all?

**Lord Adonis:** Very remote indeed, but never say never. If there was somebody prepared to come forward and do that then all of my issues to do with public funding would vanish. If there is anybody willing to do it I would be delighted to hear from them but I think, given the international experience of building high speed lines and our own experience too, it is only a very remote possibility that long distance high speed lines can be built with no public subsidy whatever.

**Q355 Chairman:** If a train operating company held a number of franchises defaulted on one, what would happen to the other franchises it has?

**Lord Adonis:** As I said in response to the question from Mr Clelland, the department has a power to cross-default on the other franchises but, as we have said, as we are required to do under the franchise agreements, we would need to make a case by case assessment of whether it would be appropriate to exercise those powers.

**Q356 Chairman:** What would influence you in deciding whether to use those powers?

**Lord Adonis:** The circumstances of the case.

**Q357 Chairman:** Such as?

**Lord Adonis:** Such as the factors which had led the company to default on its principal franchise would be an issue which would have a significant bearing on whether or not the government exercised its powers to cross-default.

**Q358 Chairman:** Could you be a little clearer on that? In what sort of circumstances would you let the operator off the hook?

**Lord Adonis:** I fear I cannot be because this is very much a hypothetical situation. I would not want in any way—nor would it be in the public interest for me—to constrain our ability to cross-default. The point which I think I need to make is that cross-defaulting is not an automatic process. We are required to make a decision on a case by case basis and that is what we would do.

**Q359 Chairman:** If a franchise was run under a management contract who would actually bear the revenue risk?

**Lord Adonis:** That would depend upon the nature of the management contract.

**Q360 Chairman:** What would your intentions be?

**Lord Adonis:** We are not at the moment contemplating any management contracts so I have not had to consider that issue, but of course you could have a management contract which involves some revenue risk, you could have one that is done on a cost basis. There are a number of different options, some of which would involve risk being shared and some of which would involve financial risk.

**Q361 Chairman:** So you are not considering any management contracts at the moment?

**Lord Adonis:** No.

**Q362 Chairman:** You are not considering allowing people to re-negotiate the franchises.

**Lord Adonis:** No.

**Q363 Chairman:** You are quite clear; you are not doing either of those things.

**Lord Adonis:** Yes.

**Q364 Chairman:** What would be wrong with the government running the franchise indefinitely or for a long period of time to act as a comparator with the private sector?

**Lord Adonis:** That would be possible. As I say, we do not think it is in the public interest because our view is that the best return to the taxpayer is likely to come from franchising rather than managing services directly. That was the conclusion, as I said earlier, that the National Audit Office itself reached in the review it did of the rail franchising system last year.

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**Q365 Chairman:** There are increasing reports about numbers of people losing their jobs on the rail. Is that of concern to you?

**Lord Adonis:** Of course anyone losing their jobs in any circumstances is a concern to all of us because we want to keep people in their jobs. However, it is not for me to determine the number of people who should be employed by rail companies. That is a matter for them to determine subject of course to them fully meeting their requirements to provide specified levels of service to the public.

**Q366 Chairman:** Do you consider the current system gives the public value for money?

**Lord Adonis:** That was the conclusion which the National Audit Office reached. It said that the current franchising system delivers good value for money to the travelling public and to the taxpayer and that is the view that the government takes too.

**Q367 Chairman:** What were the figures for passenger growth underlying the recent contract you let, the Southern Central contract?

**Lord Adonis:** I do not have those figures immediately to hand but they do involve significant growth, hence the requirement on the new franchise operator to provide a very significant increase in capacity at peak hours going to and from London. They are predicated on significant growth. I do not have the growth projections immediately to hand but I would be happy to let you have them.

**Q368 Chairman:** Will you confirm again that the pattern of that contract with its extra support and protection for passengers will be the pattern of things to come?

**Lord Adonis:** Yes. I cannot say of course that specific things that are in the South Central franchise will be specifically set in new franchises but a number of the areas where we have sought improvements in the South Central franchise, including better facilities at stations and including enhanced capacity to meet projected increases in travel demand are ones that we would seek to replicate in other contracts.

**Q369 Chairman:** We are all pleased to see you here today as Secretary of State, but of course there is a slight problem in that you are in the other place. How can we be assured that you will always be available to answer our questions? We cannot ask you questions in the House as we can other Secretaries of State.

**Lord Adonis:** I am available to this Committee any time you want to see me. I have never in any way sought to duck any of your requests to appear up to now. As you know, I actually enjoy appearing here.

**Q370 Chairman:** That is encouraging to hear. I hope you will not regret making that promise to us.

**Lord Adonis:** In terms of my wider accountability, of course I have always made it a rule as a minister that whenever a member wishes to see me I will see them. I have never knowingly declined to meet a Member of Parliament when they wish to see me and I have regarded that as particularly important that I do so

because I am not in the House of Commons myself. I repeat that assurance today. I have an excellent team of ministers in the Commons who of course will be fully available to answer questions directly in the House, but if you wish to call me before you again or to have informal sessions where you wish to discuss particular issues with me either as a whole Committee or yourself or sub-groups of the Committee, I would be very happy to do that too.

**Q371 Sir Peter Soulsby:** We are here most Wednesdays!

**Lord Adonis:** I should also add that I answer a lot of questions in debates in the House of Lords; a lot of people are interested in transport there too.

**Q372 Sir Peter Soulsby:** We have talked about High Speed Two earlier on and I just wanted to link what we have been talking about today with air travel. Could you say a bit more about how important you think it is that a second high speed line should service Heathrow and if it is part of the priority, to what extent does it have the possibility of taking a significant amount of domestic air travel by train.

**Lord Adonis:** One of the issues we have asked the High Speed Two company to address is the case for—and also a proposal for if they believe there is a strong case for—a suitable interchange with Heathrow. I cannot pre-judge their work and they are looking at precisely the issues that you have identified, Sir Peter, including the likely demand for such an interchange, the likely impact on promoting public transport access to Heathrow which is of course a matter of government policy at the moment; 62% of passengers going to and from Heathrow do so by car or taxi and we regard that as an unacceptable figure and we wish to see a significant increase in public transport access to Heathrow). A high speed interchange might help promote such access. It certainly has done so in the case of Frankfurt which has a dedicated high speed station as part of the German high speed network and the significant enhancement that has taken place at Schiphol in the Netherlands of rail access has had the effect of increasing public transport access too. There appears on the face of it to be a good case for having such an interchange. That is why we have asked High Speed Two to examine the case and to make a recommendation for an option for an interchange if they think the case is strong, but I cannot pre-judge that work any further at this stage.

**Q373 Sir Peter Soulsby:** This links in some way to my earlier question about the potential benefits of High Speed Two. Can you say when you are anticipating and in what format you are anticipating publishing the outcomes of this review and what opportunity Parliament will have to debate them?

**Lord Adonis:** The High Speed Two company will itself be reporting to government at the end of the year. What we have said is that we will then consider the report in, I hope, a fairly short period of time so we can evaluate it and make a commitment on future policy in the early part of next year. I cannot be more precise than that. It will obviously require a

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17 June 2009 Rt Hon Lord Adonis

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reasonable period of time between the High Speed Two company reporting to us and our publishing a statement of government policy, but we certainly do not intend to hang around unduly. We do regard this as an important issue for the country. Since I became Transport Minister eight months ago I have looked at the high speed plans and developments of our major European partners and I have been impressed by how ambitious they are. They are not hanging about in rolling out high speed rail at all and I think we need, in a fairly short period of time, to assess the case for us developing a second high speed line. Obviously we cannot begin that process of evaluation until we have the report and that will not be until the end of the year.

**Q374 Mr Clelland:** Have you seen the maglev report which covers all the major cities covered by High Speed Two and Three on a single line?

**Lord Adonis:** We have looked at maglev and indeed before the 2007 rail white paper we commissioned consultants to look at maglev as an option. There are three very significant obstacles to progressing with maglev. The first is the cost; it is huge, it is many multiples higher than proceeding with conventional high speed rail technology. The second is the still developmental nature of the technology. At this moment in time no country is taking forward a concrete proposal for a maglev on a long distance high speed line. Several are considering the option but none has in fact got a plan for doing so. The third issue, which is one that to my mind is very important

for Britain, is that a maglev, by its very nature is not interoperable with the existing rail network. Since any high speed line would inevitably be built out in stages it seems to me a very important point of policy principle that the high speed line as it is built out is interoperable with existing rail network, which is precisely the policy that has been adopted in France and Germany, so that destinations which are not on the high speed line in its early stages of development can be served by high speed trains. In France a majority of the route mileage of TGVs is not in fact on the high speed lines, it is on the existing network with the TGVs going off the existing network onto destinations beyond. For example Bordeaux, the majority of the route mileage of the TGVs which provide the service to Bordeaux is on the classic network; the high speed line only runs as far as Tours. I am very mindful of the need to ensure that the benefits of high speed rail are shared with the cities and regions as rapidly as possible after the building out of the line and I think it would be very much contrary to that objective if we proceeded with the technology that only made it possible to run high speed trains to the destinations which are immediately served by the high speed lines. It seems to me very important that we are able to serve destinations beyond the high speed line and that rules out the maglev.

**Chairman:** Thank you for that. I think we may well return to that on another occasion. In the meantime we are expecting to be back here on 15 July for the aviation bill. Thank you very much.

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# Written evidence

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## Memorandum from the Association of Train Operating Companies (ATOC) (RFF 01)

### FARES AND FRANCHISING BRIEFING

#### FARES

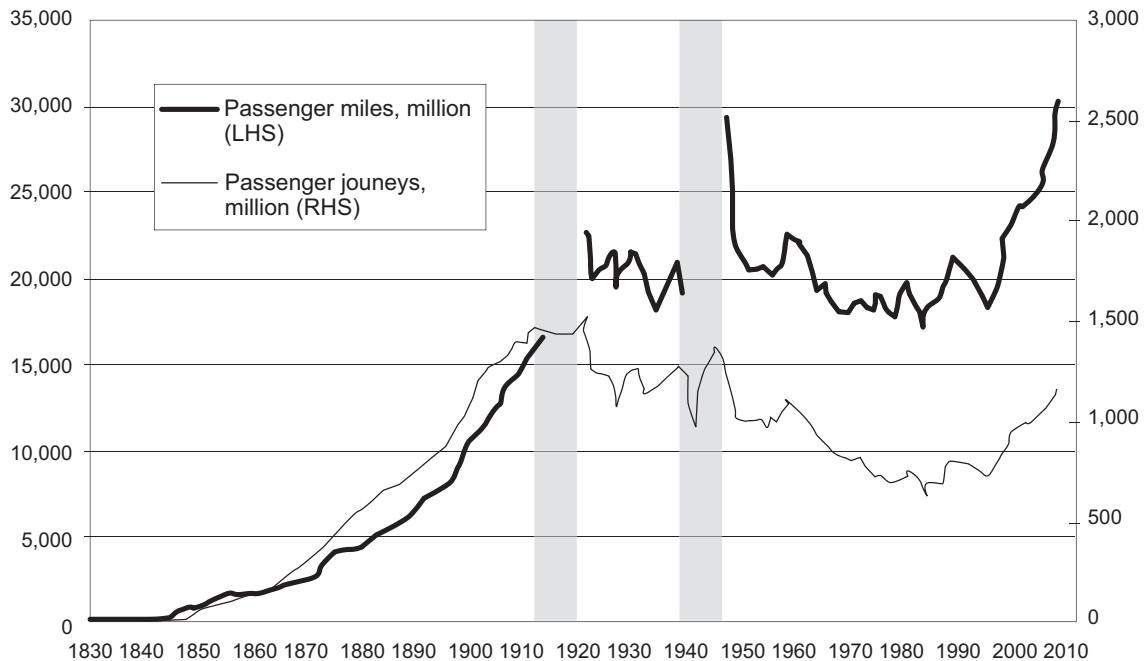
- The role of fares is to fund the cost of providing railway services. In 2006–07, total Government support for the National Railway, including Network Rail and PTE grants) was £5.3 billion, compared with fares income that year of £5 billion. (source National Rail Trends, ORR)
- The 2007 White Paper, *Delivering a Sustainable Railway*, indicated that the current 50:50 split was unsustainable, and Government policy is to increase the proportion of rail industry funding from the passenger towards a split of 70% passenger/30% taxpayer.
- Key Facts (source National Rail Trends):
  - Total rail revenue from fares is £5.5 billion (2007–08).
  - 1.15 billion journeys were made on the rail network in 2007.
  - The average distance of a rail journey is 25.6 miles.
  - The average single rail fare (2008 levels) is @£4.82p or 18.8 pence per mile.
- Fares were simplified in 2008 into three basic categories:
  - Anytime.
  - Off Peak.
  - Advance.

In addition, there is a range of railcards available all offering at least 1/3 off the price of many tickets to the 16–25 age group, senior citizens, families, and passengers with disabilities. There are also many promotional fare types such as GroupSave and “2 for1” travel deals offering reduced price travel. 80% of passengers are travelling on some form of discounted ticket.

- 62% of passengers are travelling on a fare regulated by Government. DfT regulation is based on an RPI + 1 formula, with RPI + 3 for South Eastern, and this is reflected in franchise agreements.
- Unregulated fares include First class and Advance tickets. Anytime tickets are unregulated except where no Off Peak ticket is available, and Off Peak tickets are regulated where they have a one day validity. Assumptions on the revenue growth these fares yield are also reflected in franchise agreements.
- Comparisons with other European countries show that, at today’s exchange rates, average price per kilometre in Britain is number six. Belgium, Germany, the Netherlands, France and Austria all exceed the rate per kilometre in Britain.
- Passenger numbers have grown strongly since 1997 and are at their highest level for 63 years. (See *The Billion Passenger Railway*, ATOC, April 2008).

## FRANCHISING

**The Passenger Railway since the beginning-  
Passenger Miles and Journeys**

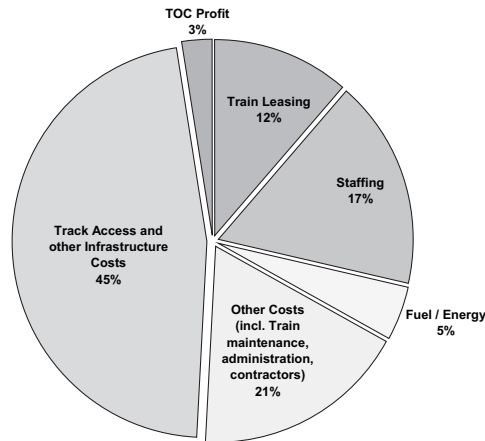


- The purpose of franchising is to ensure value for money by establishing competition in the provision of groups of rail passenger services specified by Government. On some routes, further competition exists from open access operators who do not have their services specified by Government and neither receive subsidy nor pay premium to Government.
- The National Audit Office found that the process of awarding passenger rail franchises by the Department for Transport had delivered better value for money, with subsidies to the taxpayer reducing. “The Department has negotiated commitments to improve the quality, reliability, accessibility and security of passenger services, for example through station refurbishment and investment in rolling stock” (Source: Letting Rail Franchises 2005–08, NAO, October, 2008)
- Franchised train operators provide the comprehensive service that passengers require against an outline specification set by the Government through the franchise agreement between the operator and the Department for Transport. In particular, they:
  - take revenue risk for the operation of passenger services (but note “cap and collar” arrangements (see below) to manage significant variations in revenue).
  - procure track access, lease stations, hire in rolling stock and plan and operate the train services that are specified;
  - train and develop the staff who run the trains and look after passengers;
  - manage, maintain and service the rolling stock fleet;
  - provide passenger information, both at stations and through internet texting and telephone enquiries;
  - provide ticketing and revenue allocation systems through ATOC;
  - market and promote the railway;
  - provide supporting facilities and services for passengers, eg catering;
  - run car and cycle parks, sponsors bus links and improve station accessibility;
- Train operators have a strong focus on the passenger, because the rail franchising model means that their financial success depends on their ability to attract more people to travel by train and to retain them.

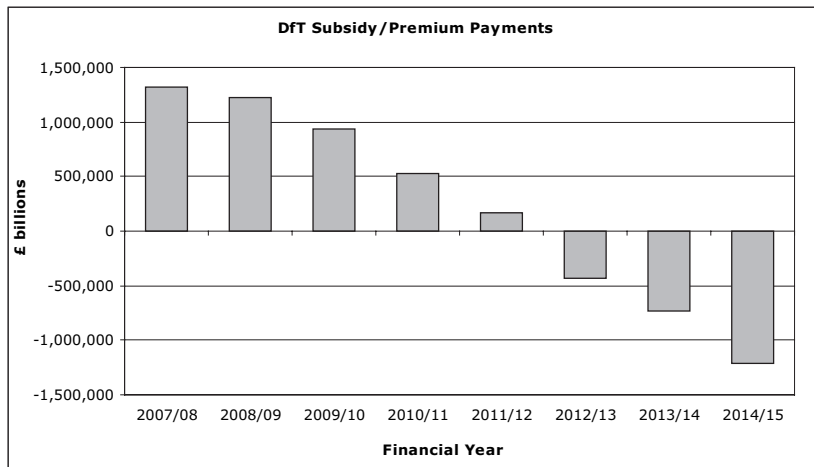


- Train operators have delivered 22% more train services and attracted 54% more passengers since privatisation. From December 20,728 passenger trains are scheduled to run every weekday, compared to 16,982 in May 1995, and 686 more than in December 2007. Britain runs more trains each day than any European country except Germany.
- Train operators’ profits are a small proportion of the total cost of the TOC, as can be seen from the graph below. Under revenue share/revenue support arrangements in a number of franchise agreements, revenue above a level specified in the agreement is paid to Government.

**Cost of Passenger Train Services 2006-2007**



- By 2012, train operators collectively will become net contributors to Government, with premia exceeding support payments. By 2014, train operators together will be paying £1.4 billion a year to Government for their franchise agreements.



Source: ORR

Jan 2009

**Supplementary memorandum from the Association of Train Operating Companies (ATOC) (RFF 01A)**

1. At the session on 4 February 2009, David Mapp undertook to ask ATOC members if they would provide the Transport Committee with information about the financial details per franchise.

This information might perhaps be more appropriately sought from the Department for Transport, which is the only body that has this information in aggregate. It is also worth noting that train operators are constrained by the terms of their confidentiality clauses from giving details of their franchise agreements with DfT, and that some of this information will also be commercially confidential.

2. Our table of current franchises is set out below, and includes open access operators:

#### TRAIN OPERATING COMPANIES

<i>Franchise</i>	<i>Franchise period</i>	<i>Description</i>
Arriva Trains Wales (Arriva Trains Ltd)	December 2003 to December 2018	Arriva Trains Wales operates a mix of long distance, regional and local rural services in Wales, including the Valley Lines network of services around Cardiff, and also in the English border counties and to Manchester, Liverpool and Birmingham.
c2c (National Express Group)	May 1996 to May 2011	c2c operates an intensive, mainly commuter, service into London Fenchurch Street from south east Essex.
Chiltern Railways (Deutsche Bahn AG)	March 2002 to December 2021	Chiltern Railways operate passenger train services throughout the M40 corridor between Birmingham and London. Their passengers are a mix of commuters, business and leisure travellers.
CrossCountry (Arriva Trains Ltd)	November 2007 to April 2016, with a provision for termination after six years if certain performance criteria are not met.	CrossCountry operates a network of long distance services between Scotland, North West and North East England through to the South West of England, Bournemouth and Brighton. Also between: <ul style="list-style-type: none"> <li>— Birmingham, Leicester and Stansted Airport</li> <li>— Cardiff, Birmingham and Nottingham.</li> </ul>
East Midlands Trains (Stagecoach Midland Rail Ltd)	November 2007 to March 2015, with a provision for termination after 6 years if certain performance targets are not being met.	It operates train services between London, the East Midlands and Yorkshire (Leicester/Nottingham/ Derby/Sheffield/Leeds) and all the central England services groups linking Nottingham/Derby/ Worksop/Lincoln/Cleethorpes/Skegness/Leicester/ Cambridge. Also the trains between: <ul style="list-style-type: none"> <li>— Derby and Crewe/Matlock</li> <li>— Liverpool and Norwich</li> <li>— Doncaster and Peterborough</li> </ul> <p>There is a mixture of leisure, business and commuter travel.</p>
Eurostar	N/A	Operates high speed international train services between London/Brussels/Paris (centre and Disneyland Paris), the Alps and Rhone Valley.
First Capital Connect (First Group)	April 2006 to March 2015	First Capital Connect (FCC) operates trains between Bedford and Brighton via central London and also between Luton and Sutton via Wimbledon. It serves five major stations in central London and two airports – Gatwick and Luton. <p>FCC also runs commuter and local services between London Kings Cross and Moorgate to Peterborough and Cambridge, as well as longer distance services to Ely and Kings Lynn.</p> <p>At the end of the fourth year the franchise will automatically continue for another 2 years if performance improvement targets are met. Subject to the DfT's agreement the franchise will then continue for up to three further years. This flexibility is necessary to facilitate work on the Thameslink project</p>

<i>Franchise</i>	<i>Franchise period</i>	<i>Description</i>
First Great Western (First Group)	April 2006 to March 2016 (Final three years dependent on service performance achieving agreed targets)	<p>First Great Western (FGW) operates high-speed train services between London Paddington, South Wales, the Cotswolds and the West Country. These trains serve a mix of commuting, business and leisure customers.</p> <p>FGW also provides semi-fast and stopping services for commuters, business and leisure travellers, throughout the Thames and Kennet Valleys, the Cotswolds, to Stratford-upon-Avon, and on the North Downs line between Reading and Gatwick Airport, as well as a mix of long distance and local urban and rural services in the West and South West of England.</p>
First ScotRail (First Group)	October 2004 to October 2011 (extended to November 2014)	First ScotRail operates the vast majority of the passenger rail services in Scotland, and its services extend across the border to Carlisle and Newcastle. It also operates the Sleeper services between London and Glasgow, Edinburgh, Inverness, Aberdeen and Fort William.
First TransPennine Express (FirstGroup/Keolis)	February 2004 to January 2012	First TransPennine Express operate predominantly long distance inter-urban services linking major centres of population across both North East and North West England including Newcastle, Middlesbrough, Leeds, Manchester, Liverpool and also Manchester Airport. It also operates trains between Manchester and Glasgow/Edinburgh.
Grand Central	N/A	Grand Central is a open access operator and provides a limited number of through London Kings Cross/Sunderland via Hartlepool services
Heathrow Express	N/A	Operates dedicated high speed services between London Paddington and Heathrow Airport.
Hull Trains (Renaissance Trains/ FirstGroup)	N/A	Hull Trains is a open access operator and provides a limited number of through trains between London Kings Cross and Hull services
London Midland (London & Birmingham Railway Ltd) (Govia—Go-Ahead Group/Keolis)	November 2007 to September 2015 (final two years dependent on achieving performance targets)	<p>London Midland operates express services between:</p> <ul style="list-style-type: none"> <li>— London Euston, Milton Keynes and Birmingham New Street (via Northampton)</li> <li>— Birmingham and Liverpool</li> <li>— Birmingham and Stafford/Stoke/Crewe</li> <li>— London and Crewe</li> </ul> <p>Also local service groups in the West Midlands conurbation and to neighbouring towns including Redditch, Leamington Spa, Worcester, Stratford-upon-Avon, Hereford, Shrewsbury, Telford and Stafford.</p> <p>In addition it operates the branch lines:</p> <ul style="list-style-type: none"> <li>— Bletchley and Bedford</li> <li>— Watford Junction and St Albans.</li> </ul>
London Overground —contract managed by Transport for London (MTR Laing)	November 2007 to November 2014, with a possible extension for a further two years.	<p>London Overground operates services between Richmond and Stratford via Willesden, together with the Willesden Junction/Clapham Junction and Gospel Oak/Barking lines, and also local services between London and Watford Junction.</p> <p>It will also operate the East London Railway between Highbury &amp; Islington and West Croydon from 2010.</p> <p>Transport for London is responsible for the letting and management of the London Overground service.</p>

<i>Franchise</i>	<i>Franchise period</i>	<i>Description</i>
Merseyrail—contract managed by Merseyside PTE (Serco-NedRailways)	July 2003 to July 2028. To be reviewed in 7 years and then every 5 years to fit with the Merseyside Local Transport Plan	Merseyrail provides services between Liverpool and Southport, Ormskirk, Kirby, Hunts Cross, New Brighton, West Kirby, Chester and Ellesmere Port. Merseyside PTE is responsible for the letting and management of the Merseyrail Electrics service.
National Express East Anglia  (London Eastern Railways)  (National Express Group plc)	April 2004 to March 2011	National Express East Anglia operates main line trains between London, Colchester, Ipswich and Norwich and local trains across Norfolk, Suffolk and parts of Cambridgeshire. Also local and commuter services into London from a range of places including Ilford, Hertford, Enfield, Chingford, Romford, Southend, Chelmsford, Colchester, Clacton and Ipswich. In addition it operates the Stansted Express service.  Its trains serve business and leisure travellers as well as daily commuters into London.
National Express East Coast  Nxec Trains Ltd  (National Express Group plc)	December 2007 to March 2015, the final 17 months being dependent on performance.	National Express East Coast operates an intensive range of long distance services linking London Kings Cross with North East England and Scotland, together with the East Midlands, South and West Yorkshire, Humberside and Lincolnshire.
Northern Rail  (Serco-NedRailways)	December 2004 to September 2013 (final two years dependent on achieving performance targets)	Northern Rail operates a range of inter-urban, commuter and rural services throughout the North of England, including those specified by West Yorkshire, South Yorkshire, Tyne & Wear (Nexus), Merseytravel and Greater Manchester PTEs.
Southern  (Govia—Go-Ahead Group/Keolis)	May 2003 to September 2009	Southern operates predominantly commuter services between London, Surrey and Sussex, as well as services to Gatwick and Brighton, and South Coast services between Bournemouth, Brighton, Hastings and Ashford. From June 2008 Southern will also run the Gatwick Express services, some of which will be extended to Brighton (from December 2008). Since June 2008 it has also operated the Gatwick Express services.
Southeastern  (Govia—Go-Ahead Group/Keolis)	April 2006 to March 2014 (final two years dependent on achieving performance targets)	Southeastern operates all the services in the south east London suburbs, the whole of Kent and part of Sussex, primarily commuter services to/from central London. From 2009 it will also operate domestic passenger services on the Channel Tunnel Rail Link.
South West Trains  (Stagecoach Holdings)	February 2007 to February 2017, (final three years dependent on achieving performance targets)	South West Trains operate trains from London Waterloo to Woking, Basingstoke, Guildford, Southampton, Weymouth, Portsmouth, Exeter, Plymouth, Paignton and Reading, serving a mixture of longer distance and shorter distance travellers, with a high percentage of commuters. Also on the Isle of Wight.
Virgin Trains	March 1997 to March 2012	Virgin Trains operates services between Glasgow, North West England, North Wales, the West Midlands and London, and also between Birmingham and Glasgow/Edinburgh.
Wrexham, Shropshire & Marylebone Railway Company	N/A	Wrexham and Shropshire is a open access operator and run a limited train service between Wrexham, Shrewsbury, Wolverhampton, Birmingham and London Marylebone
Renaissance Railways/ Deutsche Bahn AG)		

3. The arrangements for revenue risk-sharing are separately negotiated for each franchise by DfT.

4. RPI + 1 is calculated as a weighted average of regulated fares; the fare baskets for each TOC are calibrated, so that the sum totals of the amount of revenue generated by each regulated fare are used to determine whether RPI + 1 has been achieved.

February 2009

### Memorandum from the National Union of Rail, Maritime and Transport Workers (RMT) (RFF 02)

#### SUMMARY

This note will seek to demonstrate that:

1. The profiteering of the rail companies and cuts in government funding are the twin causes of passengers facing excessive fare increases.
2. Government policy for funding passenger services has inadvertently undermined rail franchising.
3. The consequences of the downturn for rail jobs, services and safety.
4. Instead of using the rail industry to help beat the recession the Government is instead subsidising redundancies. The Government should intervene to save jobs in passenger operations, the railway infrastructure and at freight company DB Schenker (formerly EWS).
5. Members of Parliament have shown that the Government has never made an assessment as to whether rail franchising provides the best value for money for the taxpayer.
6. The RMT's six point plan for fair fares to save rail services and jobs during the economic downturn. Ultimately the current crisis demonstrates that the only serious option for the future of the rail industry is renationalisation.

#### 1. EXCESSIVE FARE INCREASES

##### *Fare increases caused by profiteering rail companies*

January 2009 saw passengers facing average fare increases on regulated and unregulated tickets of 6% and 7% respectively. In fact, Arriva Cross Country, which will receive public subsidy in excess of £1 billion over the course of their franchise term, raised unregulated fares by an average of 11%.

Additionally, South Eastern Trains raised regulated fares by an average of 8%, in line with their franchise agreement, on the spurious ground that the operator will be investing in new high-speed rolling stock. Of course, Southeastern is neither building the stock nor paying for upgrades to the railway infrastructure and will receive almost £600 million in public subsidy over the course of its franchise term.

In December 2008 RMT published research which indicated the "Big Five" transport operators are converting above inflation fare increases into profits and dividend payments of between 10 and 33%. A full copy of the report is in Appendix A.

<i>Group</i>	<i>Report period</i>	<i>Operating profit</i>	<i>Dividend</i>
Arriva	6 months to 30/06/08	£14.8million	Interim dividend up by 10%
First Group	6 months to 30/09/08	£48.3million	Interim dividends up 10%. £55.5 million paid in 2007
Go-Ahead	12 months to 28/06/08	£77.2million	Dividends paid £48.1million
National Express	6 months to 30/06/08	£28.7million	Dividends paid during the period of £40.2million
Stagecoach	6 months to 31/10/08	£31.7million	33.3% increase in dividend. £28.9million equity dividend

The year-on-year "inflation plus" fare increases cannot be allowed to continue. It is difficult to avoid the conclusion that the operators are simply engaging in profiteering.

The Retail Price Index now stands at 0.9%. The Pre-Budget report projection is that the rate will dip below zero during 2009 reaching minus 2% in the last quarter of the year. In addition thousands of workers are losing their jobs and employers are introducing wage freezes. Virgin Atlantic has imposed a wage freeze on 9,000 of its staff from March this year.

In these circumstances the January 2009 fare increases are wholly unacceptable. RMT's view is that the DfT has to intervene to support rail passengers.

### *Fare increases caused by cuts in Government funding*

In no small part the above inflation fare increases are a result of the franchise agreements signed off by the DfT and the private operators since the demise of the Strategic Rail Authority and the “re-balancing” of ToC income announced in the 2007 White Paper *Delivering a Sustainable Railway*.

The Rail Business Intelligence newsletter indicated that the July 2007 High Level Output Specification “revealed that the government is banking on straight-line growth in passenger revenue to cut support for the national rail network by around £1 billion over the five years of Control Period 4 starting on 1 April 2009”. To off-set this reduction “growth in passenger revenue is expected to provide an extra £9.2 billion rising from £6 billion in 2008–09 to £9 billion in 2013–14”.<sup>1</sup>

Implicit in the policy was the calculation that growth in passenger revenues was expected not only through increases in passenger numbers but through year on year above inflation fare increases.

## 2. GOVERNMENT POLICY FOR FUNDING PASSENGER SERVICES HAS INADVERTENTLY UNDERMINED RAIL FRANCHISING

RMT warned in our written evidence to your Committee’s inquiry; *Delivering a sustainable railway: a 30-year strategy for the railways?* “Finally, much of the growth in ridership in the past 10 years has been as a result of the strength of the economy. Any future downturn in economic fortunes will necessarily slow the growth rate in passenger numbers, an eventuality which would also lead to a reappraisal of the Department’s revenue projections”.

The UK recession has indeed now led to a reappraisal on the DfT’s revenue projections. Train operators which won franchise agreements on the basis of over-optimistic passenger revenue growth figures which in turn would pay for premium payments often in excess of £1 billion have, even with the cap-and-collar arrangements after the first few years of the franchise term, found that their franchise agreements are coming apart at the seams. Press reports indicate that the Department for Transport has placed a red-light next to five franchises. Question marks are now being placed next to National Express in relation to its future operation of passenger services.

Government attempts to “rebalance” train operator income and insert challenging premium payments into franchise agreements was misjudged at the time it was written in 2007. There was of course no guarantee that passengers would put up with year-on-year inflation plus fare increases in order to meet a greater proportion of train operator income and help the ToCs meet their DfT payments even when the economy was relatively healthy.

## 3. THE CONSEQUENCES OF THE DOWNTURN FOR RAIL JOBS, SERVICES AND SAFETY

The response from the train operators is all too typical of how the private sector has behaved in the rail industry post-privatisation. They remain happy to receive huge sums in public subsidy and bear very little financial risk when economic fortunes are good, but when they are exposed to any serious financial risk the operators propose to cut jobs, attack service levels, threaten to run shorter trains, demand that franchise agreements are re-negotiated and even request that Government directly fund 1,000 extra staff to help the operators. These same operators were able to pay huge shareholder dividend payments, through the recession.

To date the following job cuts have already been announced:

- National Express Group has stated that a total of 750 jobs will go across the East Anglia and East Coast franchises. On the East Anglia franchise there will be 300 posts lost in total, with 242 job losses and the freezing of 61 vacancies. This will include the removal of restaurant services from the Norwich-London services.
- Network Rail is deferring 28% of rail renewals (eg laying new track, installing new signals) meaning 800 jobs are at risk.
- The UK’s main rail freight operator DB Schenker (formally EWS) has announced over 500 jobs losses and is saying that it further significant numbers are likely to be at risk due Network Rail announcing a deferral in renewals work (above).
- Despite the partial rejection by the Department for Transport of South West Trains plans to butcher ticket offices opening times, SWT has announced that 480 jobs will be lost including large number of ticket office and platform staff.
- 300 as yet unspecified jobs at Southeastern.
- 40 unspecified jobs at First Scotrail.
- Proposed cuts to ticket office opening times at First Capital Connect leaving over 20 posts at risk.

The three rail unions have written to the Secretary of State for Transport outlining our concerns in detail. This letter is attached as Appendix B.

<sup>1</sup> Rail Business Intelligence No 299 2 August 2007

#### 4. INSTEAD OF USING THE RAIL INDUSTRY TO HELP BEAT THE RECESSION THE GOVERNMENT IS INSTEAD SUBSIDISING REDUNDANCIES

It is disjointed to say the least that when the Government is planning to use taxpayers money to intervene in completely private sector industries (which we welcome) such as the car industry, it is standing by and allowing the heavily subsidized rail industry to lay off skilled workers (arguably in “green jobs” due to relatively low carbon role of the rail industry). In effect the Government is subsidizing redundancies.

It is astonishing that the rail industry, which is heavily dependent on tax payers’ subsidy and based on a number of contractual relationships with Government, is being allowed to announce widespread jobs losses and is making strategic decisions which will result in further job losses. Why are the railway companies, which are so heavily reliant on taxpayer support and have made substantial profits, being allowed to throw thousands on the dole and cock a snook at the Government’s efforts to tackle the effects of the economic downturn?

The government should use the control it has over the industry to intervene to stop the jobs losses in railway infrastructure, passenger operations and the freight industry.

#### 5. THE GOVERNMENT HAS NEVER MADE AN ASSESSMENT AS TO WHETHER RAIL FRANCHISING PROVIDES THE BEST VALUE FOR MONEY FOR THE TAXPAYER

Your Committee’s report *Passenger Rail Franchising* argued “The objectives of the passenger rail franchising system are a self-contradictory muddle, providing no coherent framework or vision for the development of passenger services for future generations. The result is a system that is worth less, and costs more, than the sum of its parts. It is high time that the Government established a consistent and achievable set of objectives and a system capable of achieving them whilst providing good services and value for money to passengers and taxpayers”.

The government has consistently asserted that rail franchising system provides value for money. Yet Parliamentary questions have revealed *that the government has never made an assessment on whether the current system of franchising, compared to running services in the public sector, provides value for money*. The RMT would argue that is essential in the current economic climate that such an assessment is made.

The full text of the parliamentary questions are attached as Appendix C.

#### 6. THE RMT’S SIX POINT PLAN FOR FAIR FARES TO SAVE RAIL SERVICES AND JOBS DURING THE ECONOMIC DOWNTURN

- No re-negotiations of franchise agreement terms. The ToCs were happy to sign them off when they thought that money was to be made from increased passenger numbers and passenger revenue.
- An industry-wide moratorium on job losses. Government should develop an industry-wide strategy to ensure that our railways can be managed in a way which mitigates against rather than exacerbates the effects of the economic downturn and assist in the battle against climate change. Railway jobs are “green jobs” and should be protected and expanded. As a first step it should intervene.
- Regulated fares are linked to a formula where they rise in January on the preceding July RPI, plus 1%. Economic forecasts predict that RPI could fall below zero in July meaning that January 2010 should result in a fare cut for passengers. The government should at the very least ensure that the train companies and not the taxpayer bear the cost of this fall. The Government should also urgently consider reintroducing the pre-2004 formula that regulated fares should be based on the formula of RPI—1%.
- A freeze on dividend payments. All profits should be re-invested to protect jobs and services.
- If the train companies are unwilling to cooperate with this strategy the Government should intervene to operate passenger services in the public sector as part first step to renationalising the railways.

## APPENDIX A

### FARE INCREASES VERSUS COMPANY PROFITS OF THE “BIG FIVE”

The big five use different trading periods for their reporting:

Arriva	Interim six months ended 30 June 08
First Group	Interim six months ended 30 September 08
Go-Ahead (for Govia)	Annual 12 months ended 28 June 08 (Interim six months ended 29 December 07)
National Express Group	Interim six months ended 30 June 08
Stagecoach	Interim six months ended 31 October 08

ATOC announced 2009 rail fare changes on 21 November 2008.

<i>Train company</i>	<i>Increase in fares Regulated Unregulated</i>	<i>2008 rail division profit</i>	<i>2008 dividend based upon total Group results</i>	<i>Company comments on Group results</i>
	ATOC listed average: 6%, b) 7%			
<b>Arriva Group Interim six months ended 30 June 08</b>		<ul style="list-style-type: none"> <li>— Revenue up to <b>£415.5 million</b> from <b>121.6 million</b></li> <li>— Operating profit up to <b>£14.8 million</b> from <b>£1.1 million</b> Reflects first full six-month contribution from Cross Country and absence of franchise bid costs.</li> </ul>	<ul style="list-style-type: none"> <li>— Interim dividend up 10%.</li> <li>— Dividends paid to shareholders <b>£33.9 million</b> up from <b>£30.8 million</b> on the same period the previous year</li> </ul>	<b>CE David Martin “delighted by these results... great potential for further growth”</b>
Arriva Cross Country	6%, b) 11%	Passenger revenue up 10.3%		
Arriva Trains Wales	6%, b) 6%	Passenger revenue up 12.3%		
<b>First Group Interim six months ended 30 September 08</b>		<ul style="list-style-type: none"> <li>— Revenue increased by 11.2% to <b>£960.6 million</b> (2007: <b>£863.6 million</b>)</li> <li>— Operating profit increased to <b>£48.3 million</b> up from <b>£48.2 million</b></li> </ul>	<ul style="list-style-type: none"> <li>— Interim dividend up 10%.</li> <li>— Dividend of <b>£55.5 million</b> paid during the period (2007: <b>£45.6 million</b>)</li> <li>— Dividends of <b>£29.1 million</b> proposed for approval during the period for the year ended 31 March 09 (2007: <b>£23.9 million</b>, full year 2008: <b>£55.5 million</b>)</li> </ul>	<b>CE Moir Lockhead “delighted to report another set of record results... the Board is confident of the Group’s prospects.”</b>
First Capital Connect	6%, b) 9%	Revenue growth of 8%		



<i>Train company</i>	<i>Increase in fares Regulated Unregulated</i>	<i>2008 rail division profit</i>	<i>2008 dividend based upon total Group results</i>	<i>Company comments on Group results</i>
First Great Western	6%, b) 6.6%			Over the next two years all front line staff will complete a training programme designed to raise customer satisfaction levels
Hull Trains <sup>1</sup>	Not listed by ATOC			
ScotRail <sup>2</sup>	6%, b) 6%	<ul style="list-style-type: none"> <li>— Passenger growth up 4%</li> <li>— Passenger operator of the year at the National Rail Awards</li> </ul>		
TransPennine Express	6%, b) 6.4%			
<b>Go-Ahead Group (65% of Govia)<sup>3</sup> Annual 12 months ended 28 June 08</b>		<ul style="list-style-type: none"> <li>— <b>Revenue up 28.7% to £1.4 billion from £1 billion</b></li> <li>— <b>Operating profit up 16.8% to £77.2 million from £66.1 million</b></li> <li>— <b>Addition of London Midland and Gatwick Express franchises</b></li> </ul>	<ul style="list-style-type: none"> <li>— <b>Total dividend paid and proposed increased by 15.7%</b></li> <li>— <b>Dividends paid £48.1 million (increasing from £43.6 million)</b></li> </ul>	<b>Sir Patrick Brown, Chairman</b> “pleased to report another year of record results... we believe that we are well placed for the year ahead...”
London Midland	6%, b) 0%	<ul style="list-style-type: none"> <li>— London Midland commenced operations on 11 November 2007 and contributed £6.3 million of operating profit for the period.</li> <li>— Revenue growth has been above the franchise bid assumptions triggering revenue share to the DfT of 50% for amounts above 102% and 80% of the revenue in excess of 104%</li> </ul>		
Southeastern	8%, b) 6%	6.4% growth in passenger numbers, delivering a 13% increase in passenger revenue		
Southern	6%, b) 6%	6.7% growth in passenger number, delivering a 13.2% increase in passenger revenue		

<i>Train company</i>	<i>Increase in fares Regulated Unregulated</i>	<i>2008 rail division profit</i>	<i>2008 dividend based upon total Group results</i>	<i>Company comments on Group results</i>
<b>National Express Group Interim six months ended 30 June 08</b>		<ul style="list-style-type: none"> <li>— Normalised operating profit up to £39.6 million from £28.7 million</li> <li>— Passenger revenue growth of 9%</li> </ul>	<ul style="list-style-type: none"> <li>— Interim dividend up 10%</li> <li>— Dividends of £40.2 million were paid during the period (up from £36.4 million)</li> <li>— Dividends of £19.4 million were proposed for approval during the period (2007: £17.6 million)</li> </ul>	<b>Chairman Richard Bowker</b> “Trading in the UK is encouraging”
C2C	6%, b) 6%			
National Express East Anglia	6%, b) 6%			
National Express East Coast	6%, b) 7.4%	11% revenue growth		
<b>Stagecoach Group Interim six months ended 31 October 08</b>		<ul style="list-style-type: none"> <li>— Revenue up 50.7% to £486.4 million</li> <li>— Increase in operating profit by 25.3% to £31.7 million from £25.3 million</li> <li>— (Operating margin decreased by 1.3% to 6.5% from 7.8%)</li> <li>— Stagecoach received a £19.4 million dividend (up 76.4%) for its 49% share of the Virgin Rail Group. Virgin fares are to increase by (a) 6% and (b) 7%.</li> </ul>	<ul style="list-style-type: none"> <li>— 33.3% increase in dividend</li> <li>— £28.9 million equity dividend</li> <li>— Full year dividend for year end 30 April 2008 increased 31.7%. Final dividend of £28.9 million proposed for approval (2007: £20.4 million)</li> </ul>	<b>Chairman Bob Speirs</b> “Challenging short-term outlook in UK Rail; decisive management action in anticipation of this.” — Planning for a significant drop in Central London Employment — Cost reduction programme including headcount reductions
East Midlands Trains	6%, b) 7%	14.1% increase in revenue		
South West Trains	6%, b) 7.2%			

1 Fares set by “open access” operators are not subject to fares regulation

2 ScotRail’s regulated fares in Strathclyde were previously set by SPT and reviewed in May. Now Scotland has a single regulatory body, Ministers have aligned Strathclyde fares changes with the rest of Scotland from January 2009. The Strathclyde regulated fares increase is 4% to take into account the alignment. It would have been 6% in May 2009. Outside of Strathclyde, the regulated fares increase is 6%.

3 Govia is a joint venture between Go-Ahead Group (65%) and Keolis (35%)

## APPENDIX: B

### COPY OF LETTER SENT TO THE SECRETARY OF STATE FOR TRANSPORT: RT. HON GEOFF HOON MP ON 27 JANUARY 2009

#### RAIL AND THE RECESSION

When we met last November together with the TUC we raised our concerns about the impact of the economic downturn on the rail industry and we welcomed your agreement to meet again to discuss these concerns.

Since then the downturn has rapidly accelerated and in response the Government has taken a number of initiatives to seek to mitigate the effects of the recession and protect employment, including the recent jobs summit and the announcement of the creation of 100, 000 new jobs through such measures as new infrastructure projects.

It is welcome that the Government is seeking to be proactive in this way and these various initiatives will of course involve billions of pounds of tax-payers' money and unprecedented state intervention.

Against this background it is therefore astonishing that the rail industry, which is heavily dependent on tax payers' subsidy and based on a number of contractual relationships with Government, is being allowed to announce widespread jobs losses and is making strategic decisions which will result in further job losses. It appears that in effect the Government is subsidising redundancies in almost every sector of the rail industry.

We have clear indications, for example, that Network Rail are managing their renewals contracts, including track and over head line renewals, in such a way that essential work is being deferred to a later date to achieve short term efficiency savings. The scale of these reductions is significant and we have been advised that on average there will be a twenty eight per cent reduction in renewals work. The result is that not only will contractors be laying off skilled staff because of the way Network Rail is choosing to manage its work, but essential upgrades are being delayed which will adversely impact on the provision of services to passengers.

Network Rail admits in their own 2009–10 business plan that a “huge reduction in track renewals expenditure” will have a “major impact on the supply chain” with “20%—30% less heavy materials” resulting in “supply chain redundancies”. We believe the decision will have a knock on effect on the rail freight industry and in addition a whole range of other industries such as Quarrying and Steel.

Network Rail's actions are making a mockery of the Government's stated intention to bring forward infrastructure projects to boost employment. Network Rail is responsible to the Government and dependent on Government subsidy, yet its directors are creating a climate which will result in a hemorrhaging of jobs from the rail industry.

It is also vital to draw your attention to the fact that again in the name of efficiency savings Network Rail are cutting the frequency of track inspections and routine signals maintenance. We are now deeply concerned that combined with the reduction in renewals work the cumulative effect will be to significantly raise safety risks to passengers and workers. We fear conditions are being created which could lead to another Hatfield, Potters Bar or Grayrigg.

Similarly with rail passenger services, companies which rely directly on Government subsidy are announcing huge job losses. In the last two months alone the train operating companies have announced almost 2000 jobs will go, allegedly as a result of a slowdown in passenger growth. The announcement of these job losses is even more galling when we know the “big five” transport groups have recently presided over huge fare hikes and enjoyed dividend increases of between ten and thirty three percent.

Again we would question why a part of the railway which is so heavily reliant on taxpayer support and has made substantial profits is being allowed to throw thousands on the dole and cock a snook at the Government's efforts to tackle the effects of the economic downturn. These redundancies will of course also adversely impact on the safety and security of passengers and the quality of service they receive. Reports that the train companies are now also seeking your permission to cut services and shorten trains, whilst at the same time demanding even more tax payer subsidy, demonstrates that they have no regard whatsoever for the wider public interest.

You will also know the rail freight industry has and continues to enjoy the benefit of considerable indirect government subsidy and track access concessions to encourage freight on rail to assist in the battle to reduce carbon emissions. It must surely then be completely unacceptable for the UK largest rail freight company, DB Schenker Rail, owned by German State railways, to announce the loss of over 500 skilled jobs. This again not only flies in the face of the Government's aim to protect jobs but also raises serious concerns that the United Kingdom Government's rail freight policy is being undermined by overseas and commercial interests.

The economic crisis demands concerted and coordinated action to protect jobs and services yet the main components of our fragmented railway industry which have benefitted from over a decade of massive state subsidy, rising passenger numbers and profits are now making decisions which will put thousands on the dole, undermine services and safety and squander tax payer's money.

The rail industry depends on Government subsidy and we believe you should use the control this gives the Government to seek an industry wide moratorium on cuts in jobs and services, a freeze in dividends with all profits instead invested to protect services and jobs and the development of an industry wide strategy to ensure that our railways can be managed in a way which mitigates, against rather than exacerbates the effects of the economic downturn.

We would be grateful for an urgent meeting with you to discuss our concerns.

*Bob Crow*  
RMT General Secretary

*Gerry Doherty*  
TSSA General Secretary

*Keith Norman*  
ASLEF General Secretary

*February 2009*

#### APPENDIX: C

##### FROM QUESTIONS TO TRANSPORT MINISTER PAUL CLARK TABLED BY JOHN MCDONNELL MP

John McDonnell: To ask the Secretary of State for Transport whether his Department has made an assessment of the value for money of (a) integrating rail infrastructure and operations in the public sector and (b) separating train and station operations from rail infrastructure maintenance and renewals.

Paul Clark: No such formal assessment has been made. It is generally accepted that the structures put in place at privatisation were flawed. The 2004 Rail White Paper and 2005 Railways Act set out a new streamlined structure, specified by the Government and delivered by the private sector, under which rail investment is based on affordability and value for money as determined by the independent Office of Rail Regulation. This structure provides coherent and effective management and delivers safe, reliable railways that work efficiently. The new arrangements provide much-needed stability for the industry as a whole.

John McDonnell: To ask the Secretary of State for Transport whether his Department has a comparator to assess the relative value for money of private and public operation of railway passenger services.

Paul Clark: The Government's policy is that rail passenger services are provided by the private sector through competition to operate publicly-specified franchises. There are no public operations which could provide the yardstick for a comparator.

John McDonnell: To ask the Secretary of State for Transport what assessment his Department has made of the value for money of operating rail passenger services in the public sector after each passenger franchise expires.

Paul Clark: The Government's policy is that rail services are provided by the private sector to a specification developed in the public sector; therefore, no formal assessment has been made of the value for money of operating rail passenger services in the public sector.

*20 November 2008*

##### FROM QUESTIONS TO TRANSPORT MINISTER PAUL CLARK TABLED BY KELVIN HOPKINS MP

Kelvin Hopkins: To ask the Secretary of State for Transport if he will make an assessment of the effect of operating train services in the (a) public and (b) private sectors in respect of (i) innovation, (ii) use of new technology, (iii) customer services and (iv) provision of information to customers; and if he will make a statement. [244224]

Paul Clark: In 2004 our rail White Paper "The Future of Rail" recognised rail's status as a public service, specified by Government and delivered by the private sector. The £15 billion programme of investment in the network over the next five years, set out in last year's rail White Paper, is focused on concrete improvements in the number of services available, performance and reliability, safety, capacity and ticketing and fares.

*18 December 2008*

**Supplementary memorandum from the National Union of Rail, Maritime and Transport Workers (RMT)  
(RFF 02A)**

At 4 February 2009 oral evidence session RMT was requested to provide additional information in support of our written and oral evidence.

**DISAGGREGATED PROFITS**

Below are details of disaggregated profits for the “Big 5” transport operators. Dividends are not disaggregated in the annual and interim reports.

**ARRIVA PLC INTERIM REPORT FOR THE SIX MONTHS TO 30 JUNE 2008**

UK Bus operating profit—£45.5 million (£37.8 million for same period in 2007)

UK Rail operating profit—£14.8 million (£1.1 million for same period in 2007)

**GO—AHEAD GROUP ANNUAL REPORT FOR THE YEAR ENDED 28 JUNE 2008**

UK Bus operating profits—£66.2 million (55.8 million in 2007)

UK Rail operating profits—£77.2 million (66.1 million in 2007)

**NATIONAL EXPRESS PLC HALF YEARLY FINANCIAL REPORT 2008**

UK Bus operating profit—£20.6 million (£19.8 million for the same period in 2007)

UK Rail operating profit—£39.6 million (£28.7 million for same period in 2007)

**FIRST GROUP PLC ANNUAL REPORT 2008**

UK Bus operating profit—£122 million (£103 million in 2007)

UK Rail operating profit—£120 million (£107.8 million in 2007)

Stagecoach plc Interim Report for the six months to 31 October 2008

UK Bus operating profit—£60.9 million (£52.5 million for same period in 2007)

UK Rail operating profit—£31.7 million (£25.3 million for same period in 2007). Plus £15.1 million in post-tax profit from share in Virgin Rail Group (£12.9 million for same period in 2007).

**CUTBACKS AND JOB LOSSES**

The Committee also asked for information on cutbacks and threatened job losses. Please see below for details:

- National Express Group has stated that a total of 750 jobs will go across the East Anglia and East Coast franchises. On the East Anglia franchise there will be 300 posts lost in total, with 242 job losses and the freezing of 61 vacancies. This will include the removal of restaurant services from the Norwich-London services.
- Network Rail is deferring 28 percent of rail renewals (eg laying new track, installing new signals) meaning 800 jobs are at risk.
- The UK’s main rail freight operator DB Schenker (formally EWS) has announced over 500 jobs losses and is saying that further significant numbers are likely to be at risk due to Network Rail announcing a deferral in renewals work.
- Despite the partial rejection by the Department for Transport of South West Trains plans to butcher ticket offices opening times, SWT announced that 480 jobs would be lost including large number of ticket office and platform staff. On the day of RMT’s oral evidence to the Committee (4 February 2009) the Company announced a further 180 job losses.
- 300 as yet unspecified jobs at Southeastern.
- 40 unspecified jobs at First Scotrail.
- Proposed cuts to ticket office opening times at First Capital Connect leaving over 20 posts at risk.

**RAIL REPORTS**

To further assist the Committee with its inquiry two reports published by RMT are available:

- (1) The performance of the privatised train operators – Jean Shaoul 2005
- (2) Tax paid by the Railway Companies – Richard Murphy 2007

*February 2009*

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### Supplementary memorandum from London TravelWatch (RFF 03)

#### RAIL FARES AND COMPETITION

In response to your request at Q158 page 62, we attach a copy of an Excel spreadsheet<sup>2</sup> detailing the major changes to fares set by First Capital Connect in January 2009.

The features to note here are that where there is competition on flows to London the rate of increase has been either below inflation or no increase at all. The only exception has been Peterborough, where we know that National Express East Coast substantially increased their Anytime and Off-peak fares, and so First Capital Connect felt able to increase their own fares likewise. The areas where competition occurs on flows to central London are as follows:

Peterborough—National Express East Coast.

Cambridge—National Express East Anglia.

Bedford, Luton and Luton Airport Parkway—East Midlands Trains (no separate fares by this company).

Gatwick Airport, Three Bridges, Balcombe, Wivelsfield, Burgess Hill, Hassocks, Preston Park and Brighton—Southern/Gatwick Express.

#### THE GROSS COST MODEL OF FRANCHISING

London TravelWatch believes that the successful gross cost method of franchising appears increasingly attractive, in view of the current tensions surrounding rail franchising.

Transport for London (TfL) operates two examples of gross cost franchising—the Docklands Light Railway (DLR) and London Overground. The DLR franchise has been in place since 1997 and predates the establishment of TfL. This franchise has been very successful to the extent that the franchise itself has been virtually invisible in the public view. TfL then subsequently applied the same model to the London Overground concession when this was let in 2006–07.

In both franchises there is a clear separation of fares policy and practice from service level provision, and the level of risk undertaken by the franchise operator.

The franchisee has a very clear and specific specification to work to in terms the levels of service provided both on the train and at the station. There is a performance regime of incentives and penalties to achieve those standards eg London Overground is penalised if graffiti on a station is not removed within 24 hours. There is a measure of incentivisation within the performance regime. This deals with the collection of fares in that the franchisee receives 10% of all the revenue received, but this is a small proportion of contract costs. (The level of fares evasion is also included in the performance regime such that the operator is penalised if this goes above the acceptable level agreed in the contract).

Setting of fares in this regime is the prerogative of the Mayor, and is done independently of the franchise/concession operator. This enables fares to be changed on a year by year basis as a matter of political judgement—eliminating any confusion in the public mind about the difference between capped and uncapped fares, regulated and unregulated fares, and the possibility and appearance of “profiteering” by the operator on what may be a monopoly service.

This has also has the effect of reducing the risk to the franchise operator inherent in a franchise where they are dependant on the income from fares to cover their costs. This then means that they can concentrate on the levels of customer service provision that they are expected to provide, and also on ensuring that their operation is efficient in terms of costs of operation, because their income levels are much more predictable. The contract mechanism if carefully devised can cover the effects of commodity price variations or industry specific inflation costs factors.

The independent setting of fares policy also means that this can be used to manage demand or encourage the development of particular means of payment or fares collection. In the case of London Overground this has meant that in some cases cash fares rose significantly above inflation, but were offset by the introduction of much lower fares on the Oyster Pay As You Go smartcard. This in turn has led to a significant switch from cash payment for paper tickets (the proportion of Oyster Pay As You Go sales on London Overground has grown from 5% in November 2007 to 25% In January 2009), which has reduced operating costs but also had significant impact in terms of reduced queuing times at ticket offices.

Currently zonal fares on the National Rail network in London are not set by individual operators but instead collectively through the Association of Train Operating Companies (ATOC). This means that individual train operators have no real freedom on fares-setting at all—they take the revenue risk in a situation in which they cannot determine their charges. This arrangement could be seen in some cases to be inherently unstable and commercially unsound, particularly if these fares form a substantial part of the income of a particular franchise. The application of a gross cost contract in these circumstances may therefore also be attractive to operators in the current financial climate.

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<sup>2</sup> Not printed as information is publicly available.

This model has worked well for both DLR and London Overground to date, with significant improvements in passenger satisfaction as a result particularly on London Overground. A similar but different arrangement operates on the Merseyrail network. It is also noteworthy that in these arrangements no operator has either handed in or had their franchise removed, which would suggest that these types of franchise/concession are inherently more stable than those employed elsewhere on the National Rail network where operators are exposed to more risk.

London TravelWatch considers this model to be very effective in delivering services in an urban and suburban context, and we are pleased that in the South Central franchise the Department for Transport has incorporated many of its features in its invitation to tender in relation to the local services operating in South London. We would however, urge that in future other franchises which include urban and suburban services should include this as a standard arrangement.

February 2009

#### Supplementary memorandum from Passenger Focus (RFF 04)

a) *Additional question from the Committee: “any evidence in the Jan 2009 fares that there have been lower fare increases on specific journeys where there is direct competition (Q 157 in the transcript)”*

It can be difficult to identify a clear relationship between competition and fares, not least because of the absence of direct competition in the first place. Often competition will involve taking a different route—possibly even involving a change of trains, a longer journey time, a less frequent service, a poorer quality train, or the use of a different terminus within a city/town. Passengers’ decisions, therefore, are often as dependent on time and location and are not solely linked to price. Not having a “level-playing” field makes it difficult to isolate the precise impact of price in the purchasing decision.

Even where different train companies do operate over the same route the provision of inter-available/interchangeable fares (ie the ability to travel on any operator’s train with one ticket) limits the extent to which TOCs can directly compete on price.

That said, however, competition does exist and it does bring advantages. Genuine competition provides an element of choice and can help TOCs focus on the quality of the product offered. It can be argued, for instance, that Hull Trains’ open access operation has been beneficial to passengers. It is also entirely possible that, even where competition/choice hasn’t reduced prices, it could have prevented them from rising by as much as would otherwise have been the case.

Perhaps one of the best examples of direct competition was found between Newport, Cardiff and Swansea in 2006–07. Great Western introduced a fare that was only valid on its services between these places and Arriva Trains Wales retaliated by reducing the inter-available fare. The net result was reductions in the region of 30–40% for passengers. The Great Western specific fare has since been withdrawn so it remains to be seen how the Arriva Trains Wales fare will respond.

The Cambridge to London flow is another that we will be watching closely. First Capital Connect sets the “any permitted” fares, with the off-peak and off-peak day fares being set at £29 and £20 respectively. National Express East Anglia has just introduced its own TOC-specific fares: off-peak day return at £15.20 and super off-peak day return at £14. It remains to be seen whether the cheaper choice—albeit on a different London terminus—will have an impact on the scale of FCC increases in the years to come.

There are other examples of competition where we could find no evidence that choice had resulted in above or below average fare increases: eg London-Birmingham and London-Exeter markets. We found, though, a different result when looking at the London-East Croydon fare. Southern increased its Anytime fare by 4.6% (from £28 in January 2008 to £29.30 in January 2009) against the Southern average increase of 6%. Likewise First Capital Connect increased its restricted anytime fare (valid only on FCC services) from £20.50 to £21—a rise of 2.4% against the average of 6%. It isn’t possible, however, to attribute this all to competition as other issues such as type of rolling stock and journey time will all play a part in the choice of ticket.

It is this difficulty in isolating the precise impact of price that makes it difficult to supply the Committee with a clear pattern/trend.

b) *Clarification/expansion of Question 143 surrounding fare regulation.*

Passenger Focus’s concern with fares regulation does not surround the month on which RPI is based but with more fundamental issues.

For example, the January 2009 fare increase was based on RPI of 5% (as recorded in the preceding July). Regulated fares are grouped into what are known as fares “baskets” and the RPI cap (RPI + 1%) is applied to the total value of that basket. Some individual fares within the basket may go up by more than the RPI + 1 formula (up to maximum of 5% points) provided that the total average does not exceed this. So, in January 2009, an individual fare could increase by as much as 11% (RPI + 1% + 5% = 11%) and still be perfectly within the rules.

Our research shows that many passengers cannot relate the fact that many fares are regulated with their personal experience. This may be partly because RPI had been running ahead of increases in earnings at the time of the research, but it may also be because:

- A system of regulation that allows prices to rise 1% ahead of inflation every year in return for a service that is not perceived to have improved does not feel like adequate consumer protection. There is a disconnect between the quality of service received and the level of fare increase.
- Some passengers will have experienced price increases of 11%, possibly four-to-five times likely salary increases.

The existing formula for regulated fares has undoubtedly provided some protection for passengers over the past years but we believe that the current recession makes existing assumptions about fares and indeed about the role of fares in franchising policy (which were both designed for different economic times) unsustainable. For instance: even if RPI in July 2009 is 0%, some passengers could still find themselves paying 6% more for their rail tickets (ie  $0 + 1 + 5 = 6\%$ ).

We believe that there is a need to review the fundamental structure governing regulation. This includes:

- Government reviewing its intention to shift the balance of funding for the railway from the taxpayer to the fare payer (from roughly 50%/50% to 25%/75% respectively).
- Government reviewing the impact on fare levels of high premium franchises.
- Restricting the fares basket flexibility that allows individual tickets to rise by 5% points higher than the overall cap.
- Preventing train companies from passing on all of the permitted increase in regulated fares on routes where performance is poor.

February 2009

#### Supplementary memorandum from the Department for Transport (RFF 05)

At the Transport Select Committee hearing on 25 February 2009, I undertook to supply a breakdown of the differences between the December 2007 and December 2008 timetables for services between Kettering and London. This is attached at Appendix 1 to this letter.

You might also be interested in more detailed comparative figures for the improvement in service between 1997–98 and 2008–09, as follows:

		1997–98	2008–09
Weekdays	Kettering-London	24	43
	London-Kettering	25	39
Saturdays	Kettering-London	22	34
	London-Kettering	22	35
Sundays	Kettering-London	17	30
	London-Kettering	17	28

On the current stopping pattern for east Midlands trains, I should explain that a key requirement for the new franchise was to speed up the longer distance services, particularly to and from Sheffield, while continuing to provide a good and frequent service for intermediate stations, including Kettering. The East Midlands Trains bid achieved the ITT specification by introducing 5 trains per hour by a complete revision of the timetable. This resulted, in the following services service pattern (per hour): 1 x Sheffield (fast); 1 x Derby (semi fast), 2 x Nottingham (fast and slow), and 1 x Kettering (slow) that will become the Corby service. This was judged to make best use of the route, with improved long distance capacity and journey times; a standard pattern timetable for longer distance journeys, and addressing the demand around Kettering by introducing a London-Kettering service that provides improved seat availability for passengers.

The new timetable recognises that there is still demand for some faster additional services to the standard half-hourly pattern to Kettering, thus stops have been retained in the 1745 (Derby), 1815 (Leeds) and 1925 Derby (which allows Anytime off-peak fares to be used), from London St. Pancras.

The bid also combined faster journey times with a standard hour departure pattern. Although the overall quantum of services specified for the latest (December 2008) timetable at stations such as Kettering may be slightly less than before, the regularity of the service means that the disbenefit of fewer services is reduced. The result is a twice hourly service leaving at the same times each hour, which is easy for passengers to remember.



Having implemented this timetable, we expect East Midlands Trains to constantly review its effectiveness at meeting passenger demand and produce proposals for timetable changes where it believes it is justifiable to do so to respond to changing market conditions—without additional cost to government.

I am of course always happy to discuss this with you further.

March 2009

### APPENDIX 1

#### KETTERING-LONDON ANALYSIS OF DECEMBER 2007 VS DECEMBER 2008 SERVICES

##### WEEKDAYS

##### *Kettering—London*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0521	0641	0501	0621
Off-peak frequency	2 tph		2 tph	
Typical journey time	1 hr 5 mins		1 hour 3 mins	
Last train	2223	2332	2224	2336
Trains per day	42		43	

##### *London-Kettering*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0610	0707	0610	0708
Off-peak frequency	2 tph		2 tph	
Typical journey time	57 mins		57 mins	
Last train	2315	0029	0015	0142
Trains per day	45		39	

##### SATURDAYS

##### *Kettering-London*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0554	0705	0501	0621
Off-peak frequency	2 tph		2 tph	
Typical journey time	1 hr 5 mins		1 hour 3 mins	
Last train	2128	2243	2213	2335
Trains per day	40		34	

##### *London-Kettering*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0620	0723	0610	0708
Off-peak frequency	2 tph		2 tph	
Typical journey time	57 mins		57 mins	
Last train	2210	2329	2225	2357
Trains per day	40		35	

##### SUNDAYS

##### *Kettering-London*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0749	0916	0749	0916
Off-peak frequency	2 tph		2 tph	

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
Typical journey time	1 hr 15 mins		1 hour 13 mins	
Last train	2205	2322	2207	2326
Trains per day	28		30	

*London-Kettering*

	2007		2008	
	<i>Depart</i>	<i>Arrive</i>	<i>Depart</i>	<i>Arrive</i>
First train	0900	1013	0900	1012
Off-peak frequency	2 tph		2 tph	
Typical journey time	1 hr 15 mins		1 hr 6 mins	
Last train	2300	0012	2300	0013
Trains per day	28		28	

**Supplementary memorandum from the Department for Transport (RFF 05a)**

During the evidence session on rail fares and franchising that I attended on 25 February, I stated that my officials, during a private session of companies rated as red for the purposes of our internal franchise monitoring systems, but had not identified the individual companies concerned (Q241).

On reading the transcript of the private PAC session in question, I note that in fact my officials had identified the companies in question. I apologise for having inadvertently provided incorrect information to the Committee.

*March 2009*

**Further supplementary memorandum from the Department for Transport (RFF 05b)**

At the Transport Select Committee hearing on 17 June 2009, I undertook to supply further information in response to questions raised by members of the committee.

You asked what the figures for passenger growth assumptions underlying the recent winning bid for the South Central franchise were. This growth is linked to a number of passenger growth initiatives including:

- Improved marketing.
- Better stations, trains and improved customer service.
- More visible staff presence.
- Better ticket retailing including smartcards and better revenue protection.
- Additional services (especially in South London at evenings and weekends).
- Improved information provision.
- Improved access to stations (including enhanced cycle parking, car parking and station travel plans).

	<i>Mar 2010</i>	<i>Mar 2011</i>	<i>Mar 2012</i>	<i>Mar 2013</i>	<i>Mar 2014</i>	<i>Mar 2015</i>
	<i>Mar 2011*</i>	<i>Mar 2012</i>	<i>Mar 2013</i>	<i>Mar 2014</i>	<i>Mar 2015</i>	<i>Mar 2016**</i>
Passenger Journeys	5.7%	6.0%	5.7%	4.8%	5.1%	4.1%

Overall this is equivalent to around 5.5% CAGR.

\* This is the first full financial year of the franchise and excludes the initial Sept 2009 to March 2010 period

\*\* Note the franchise term ends in July 2015. This figure is the full year growth for calendar year 2015–16.

Philip Hollobone asked about passenger numbers and subsidy figures for the Corby services which started in April 2009. The subsidy for the Corby services is (as set out in the Franchise Agreement):

## SUBSIDY PAYMENT IN 2005–06 PRICES £000s

2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
178	3,159	7,580	5,847	4,998	4,700	4,776	4,145

The numbers of passengers boarding and alighting at Corby each day between 27 April and 14 June 2009 are as follows:

	<i>Passengers boarding at Corby</i>	<i>Passengers alighting at Corby</i>
27/04/2009	200	80
28/04/2009	192	61
29/04/2009	152	66
30/04/2009	136	99
01/05/2009	153	100
02/05/2009	170	84
03/05/2009	75	40
04/05/2009	55	50
05/05/2009	231	93
06/05/2009	215	73
07/05/2009	171	88
08/05/2009	197	122
09/05/2009	133	91
10/05/2009	7	8
11/05/2009	279	120
12/05/2009	223	129
13/05/2009	180	98
14/05/2009	170	75
15/05/2009	210	100
16/05/2009	166	99
17/05/2009	31	26
18/05/2009	272	133
19/05/2009	234	105
20/05/2009	202	93
21/05/2009	148	77
22/05/2009	183	108
23/05/2009	17	44
24/05/2009	15	7
25/05/2009	83	33
26/05/2009	264	141
27/05/2009	296	139
28/05/2009	201	92
29/05/2009	219	130
30/05/2009	174	64
31/05/2009	34	17
01/06/2009	240	96
02/06/2009	208	122
03/06/2009	213	96
04/06/2009	173	98
05/06/2009	195	144
06/06/2009	149	55
07/06/2009	26	15
08/06/2009	278	100
09/06/2009	206	95
10/06/2009	200	85
11/06/2009	141	134
12/06/2009	179	149
13/06/2009	171	73
14/06/2009	70	29
<b>Total</b>	<b>8,137</b>	<b>4,177</b>

I hope this information is helpful. I am copying this letter to Philip Hollobone MP.

July 2009