

# 16 Summary of conclusions and recommendations, and overview

16.1. A summary of our detailed conclusions and recommendations is given below.

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	<b>The management and planning of NSE</b>	
	<b>Business management</b>	
	Although BRB introduced business sectors at the time of the previous inquiry, the organisational changes necessary to give the sectors the dominant role—what BRB has described to us as the cultural change to a business-led organisation—only began in January 1982.	4.51
	The system of contracts between the NSE business sector, through its sub-sectors, and the regions and operating areas was only introduced in 1986 and is still being refined. Similar contracts covering regional engineering activities are still at an early stage of development.	4.52
	It is too early to form a reasoned assessment of the effectiveness of the system of contracts between the NSE business sector and the regions but we fully endorse the concept. The process of negotiating the contracts on standards of performance has served to sharpen management focus on these matters, and more particularly the cost implications of meeting such standards.	4.53
	There are aspects which cause us some concern. In some cases as many as four business sectors may be involved in approving an Area Manager's budget. There is some risk of resources essential to the overall operation of an area not being underwritten in cost terms by business sectors, where several sectors are involved. BRB told us that such matters could be resolved.	4.54
	BRB is keeping the size and structure of Headquarters departments and regions under systematic review.	4.55
	The Area Manager's line of managerial responsibility is to his Regional Headquarters and the business sectors have no direct authority over him. There may have been some lack of clarity in communicating the changed roles to all levels of management. Steps were being taken to correct this.	4.56
	Since 1980 the responsibilities of Area Managers have increased. With the removal of the divisions some functions were delegated to areas and the number of areas has been reduced. The Area Manager's job is both more complex and demanding since he is still responsible for the day by day, minute by minute management of the railway.	4.57
	We question whether in some respects the area organisation is everywhere effective.	4.58
	Local supervision becomes fragmented and specialised within an area. For example, station managers and supervisors have limited authority over train crew even though a crew depot may be adjacent to a station.	4.59

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	<b>We recommend that BRB should:</b>	
1.	<b>(a) pay careful attention to the detailed difficulties arising during the transition to a business-led approach. In particular it should ensure that there is no confusion or lack of clarity in the respective roles of business sectors, regions and areas; and</b>	
2.	<b>(b) re-examine the role and responsibilities of Area Managers and their management teams and should consider whether strengthened line management below the Area Manager is needed in addition to increased staff support for Area managers.</b>	4.60
	BRB's changes to its corporate plan procedures since the 1980 report have improved the match between the planning arrangements and the business-led organisation structure	4.61
	<b>Financial framework</b>	
	The Board has a statutory requirement to break even on revenue account, taking one year with another. This it has failed to do.	5.81
	Because the Board has to operate within the constraints of the EFL, it does not at the moment find its statutory borrowing powers inadequate.	5.82
	A significant lack of consistency between EFLs and BRB's other objectives agreed with the Secretary of State can put at risk the achievement of these latter objectives.	5.83
	BRB's difficulties in planning to meet its objectives are exacerbated when the EFL for the year is set below the indicative level previously advised. BRB cannot escape from the consequences of being dependent on public funds but it is desirable to minimise restraints on its planning. The inability ever to carry forward an undershoot against the EFL from one year to the next is a further restraint on BRB's plans to meet agreed objectives.	5.84
	The heavy undershoots against the EFL in 1982-83 and 1983-84 suggest a lack of flexibility at that time in the Board's planning and control processes.	5.85
	The InterCity sector will cease to be eligible for PSO grant after 1987-88 and the grant target is to be reduced between 1986-87 and 1989-90 from £736 million to £555 million (1986-87 prices). This underlines the importance to the Board of reducing costs through increased efficiency.	5.86
	The effect of 'ring-fencing' has been to reduce the degree of flexibility available to the Board in its response to circumstances as they evolve during the budget year.	5.87
	The application of the 'sweeper' adjustment in the settlement of the PSO grant claim provides incentives to efficiency.	5.88
	BRB has developed and introduced an effective accounting and reporting system which is consistent with the new business-led management of the rail business. The effectiveness of the system will be improved in June 1988 when financial information will be produced simultaneously for business and production management.	5.89
	BRB has widened the range of costs which can be specifically attributed to sectors/sub-sectors. The attribution of infrastructure costs will become more specific as the regime of location costing is progressively introduced for engineering work over the next three years.	5.90

Abolition of the divisional tier of production management has facilitated the development of direct relationships between sub-sector managers and the Area Managers responsible for the cost centres contributing to sub-sector costs. 5.91

Between 1983 and by 1985–86, the reduction in NSE's annual deficit amounted to £68 million, or about 21 per cent. If the actual 1986–87 results for NSE are in line with the outturn forecast at 44 weeks, a further reduction of some £49 million will have been achieved, making a total reduction in NSE's deficit of some £117 million, equivalent in constant price terms to about 36 per cent of the 1983 figure. 5.92

If the outturn forecast for 1986–87 is achieved, working expenses will have been reduced in real terms by some 10 per cent since 1983. 5.93

Achievement of the 1986–87 outturn forecast for both fares revenue and working expenses will show some 77 per cent of working expenses covered by fares revenue, compared with about 67 per cent in 1983. 5.94

The progressive reduction since 1982 in the requirement of the rail passenger sectors for PSO grant owes much to the adoption of business-led management and to the accounting and reporting system which supports it. 5.95

We welcome BRB's continuing efforts to improve its accounting procedures and have no recommendation to make in this area of its activities. 5.96

#### **Investment**

We welcome the proposals for increased or accelerated investment set out in the 1986 Rail Plan but it will not be possible to implement these plans unless they can be accommodated within the EFL. 6.26

We are not convinced that BRB has considered a wide enough range of investment projects to be confident that its investment programme is adequate. We welcome the paper produced at a late stage in our inquiry on ways of alleviating overcrowding in NSE. 6.27

We note that the electrification of the St Pancras/Moorgate to Bedford route has led to a 40 per cent increase in traffic. We believe that the key to this was the concurrent improvement of a number of aspects of service quality. 6.28

It is not sufficient that NSE should invest only enough to achieve the cost reductions and revenue increases necessary to meet its PSO target: it should at least be investing in those schemes which can be expected to meet the required rate of return. Moreover, in some parts of the network the agreed quality of service targets are not likely to be achieved without considerable improvements in equipment and infrastructure. 6.29

DTP's Supplementary Memorandum to the House of Commons Select Committee on Transport dated 24 November 1986 said that BRB's appraisal process could take account of significant external benefits by using cost benefit analysis and that for all modes of transport the government was prepared to take account of significant external and non-financial effects of investment, where they existed. We think that this should be taken into account when projects necessary to achieve the quality of service targets are considered. 6.30

The method of including investment projects in the planning process does not include rigorous ranking of projects because capital at present is said by BRB not to be a constraint. The ranking of projects deserves more attention. 6.31

**We therefore recommend that BRB should:**

3. (a) evaluate projects designed to achieve the concurrent introduction of a number of related quality of service improvements. We should like to see studies of projects like the St Pancras/Moorgate to Bedford electrification carried out on services where:
  - (i) some but not all of the assets are life expired; and
  - (ii) quality of service levels are low but none of the assets are life-expired;
4. (b) estimate the level of investment needed to bring the quality of service on every part of NSE at all times of day up to the quality of service standards we recommend in paragraph 14.71(a) and (b); and
5. (c) rank the projects in its existing programme and ensure that all new projects are given a ranking via an outline appraisal (which should include quantified estimates of benefits) before inclusion in the Rail Plan. Rankings should be updated when projects have been authorised and more accurate estimates made of the costs and benefits.

6.32

**Investment regulations and procedures**

The recruitment of an independent team of investment specialists has helped to introduce rigour and discipline into the appraisal and submission of projects. It is important that sufficient resources are devoted to this process to prevent unnecessary delays in selecting and approving projects.

7.52

Application of the Board's system for the appraisal, authorisation and monitoring of investment has revealed some weaknesses.

7.53

The use of varying levels of tolerance in cost estimates in main appraisals may be introducing spurious inaccuracy into the financial analysis.

7.54

A separate, more detailed, section may be desirable in an appraisal to examine the outcome of past similar projects.

7.55

We found one case where expenditure was committed before authority was given. BRB told us that it was normal to incur expenditure on design work without authority being given where there was a need to obtain planning permission from the local authority.

7.56

Traffic forecasts in the appraisals we looked at relied on assumptions such as a constant traffic level and did not test sensitivity to a different level of traffic.

7.57

**In respect of its system of investment appraisal, we recommend that BRB should:**

6. (a) ensure that sensitivity analysis is used to test genuine uncertainties and their effects on a project;
7. (b) consider whether the mechanism for dissemination of the results of projects, and their incorporation into relevant later appraisals, is adequate;
8. (c) ensure that greater care is taken to prevent expenditure being committed to particular solutions before authority is given. If expenditure is committed, such details should be given in the investment submission; and
9. (d) ensure that investment appraisals make clear the assumed level of traffic on which they are based and that sensitivity to different traffic levels is tested.

7.58

**Industrial relations, pay and employment policies**

**Collective bargaining**

Little progress has been made in implementing the recommendation in the 1980 report to improve collective bargaining. There is an urgent need for reform of the Machinery of Negotiation.

8.49

Since 1980 BRB has moved to a two-tier regional organisation, in which Region and Area are the main levels of decision-making. The joint bargaining machinery has not changed. Its effectiveness would be improved if it related more closely to Areas.

8.50

The present consultative arrangements, based on the sectional employee groups represented by the LDC system, are not effective at Area level.

8.51

The LDC system needs revision. As a general rule, policy negotiation and consultation on purely local matters should be conducted between managers and individual employee representatives. This would be simpler, more flexible and more effective than the existing arrangements.

8.52

It is not necessary to have two representatives for very small groups, nor as many as four representatives (ie an LDC) for as few as 35 employees. Area Managers in Southern Region (Operations) currently have to deal with an average of more than ten LDCs and more than 20 individual representatives; this is unnecessary, and reduces the effectiveness of the Machinery.

8.53

We are not satisfied with BRB's current arrangements for ensuring the cost-effectiveness of the Machinery.

8.54

The period of seven years taken to conclude the agreement on the Easement of Conditions of Single Manning of Traction Units, is wholly unacceptable. The prime responsibility for expediting initiatives of this nature rests firmly with BRB.

8.55

We accept that the timescale in this case is not representative of major negotiations generally, and note that variable day rostering was negotiated for different employee groups in 9 to 18 months, a much more acceptable period. On the other hand, the period of four years to reach final agreement on driver-only operation is another example of negotiations on an important issue taking far too long.

8.56

It is also important to resolve minor and routine issues as quickly as possible.

8.57

The increase in recent years in the number of references to RSNT is disturbing, not least because each party holds the other mainly responsible.

8.58

The creation of business sectors has produced a new situation, particularly with regard to consultation, and the unions clearly regard the present arrangements for attendance of sector representatives as unsatisfactory. The issue can best be resolved by discussions between the parties.

8.59

**10. We recommend that changes should be made to the Machinery on the basis of the following principles:**

- (a) negotiation and consultation on purely local matters should normally be conducted between management and individual employee representatives;**

- (b) the committee structure below regional level should be related to Area rather than local level;
  - (c) arrangements should be introduced to allow for regular joint consultation at Area level with all employee groups (possibly through a single Area Joint Consultative Committee);
  - (d) the scale of representation should be reduced, particularly for small and medium-sized employee groups;
  - (e) target timescales should be established for each major negotiation; as a general rule the timescale should not exceed 18 months (excluding reference to conciliation and/or RSNT);
  - (f) procedures should provide for the reference of issues to conciliation as an additional option;
  - (g) BRB and the unions should discuss the implications of the role of business sectors in relation to the Machinery, and should seek to agree what changes, if any, are appropriate; and
  - (h) BRB should improve arrangements for monitoring the effectiveness and costs of the Machinery. 8.60
11. BRB is reviewing the Machinery at present and intends to put proposals for change to the unions later this year. We recommend that those proposals should include a target timescale for change not exceeding three years (inclusive of any necessary statutory or other requirements). Management and unions should also consider whether a joint working party of management and union representatives would help to expedite matters. 8.61
- Pay**
- The factors relating to pay in BRB are unusually complex. 8.62
- Additional payments account for a much higher proportion of earnings for a standard week than in industry generally. These additional payments, together with high level of overtime working, account for the exceptionally large difference between base rates and average earnings for most NSE employees. 8.63
- The unions have argued strongly that base rates are a valid comparator, and are far too low. BRB says that base rates do not provide a valid basis for comparison. 8.64
- The nature and scale of additional payments are such as to invalidate base rates as a true comparator. Average earnings for a standard week (ie including additional payments but excluding overtime earnings) represent the best available basis for assessing and comparing pay. 8.65
- The present levels of overtime for certain grade groups are not a satisfactory long-term basis for employment. 8.66
- Employment policies**
- Recruitment and selection**
- We welcome recent efforts in NSE to recruit more staff, and also BRB's assurance that it will seek to avoid arbitrary bans on recruitment in future. We have no doubt that in the past such bans have sometimes had adverse effects on revenue and staff morale. 8.67
- NSE faces special problems in recruiting and retaining suitable staff, so we were particularly concerned to learn of fresh recruitment restrictions, albeit selective and for a limited period. 8.68

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	We endorse the efforts currently being made by regions to provide better guidance to Area Managers on recruitment and selection.	8.69
	<b>Training</b>	
	Formal arrangements for off-the-job induction training are generally satisfactory. Southern Region has recently issued guidelines which should help to remedy a weakness in on-the-job induction training.	8.70
	There is a need for some central monitoring of training performance. We note that Southern Region intends to introduce a training audit which will meet this need.	8.71
12.	<b>We recommend that, where they have not already done so, other regions should follow the example of Southern Region by providing guidance on on-the-job induction training, and by instituting arrangements to monitor performance standards in relation to training generally.</b>	8.72
	<b>Performance appraisal</b>	
	We support BRB's intention to extend performance appraisal to supervisory grades, based on the principles of the existing management staff scheme.	8.73
	Although that scheme appears to be soundly based, we note the reservations expressed by BTOG.	8.74
	<b>Other personnel matters</b>	
	<b>Sick absence</b>	
	BRB is justified in its concern about current levels of sick absence, and especially about the recent upward trend among wages grades. We agree with BRB that the problem has to be tackled at Area and local level, but it is also important to ensure a consistent approach and the application of common standards.	8.75
13.	<b>We recommend that BRB, via the Regions, should co-ordinate the efforts of Area Managers to reduce levels of sick absence.</b>	8.76
	<b>Disciplinary procedures</b>	
	It is important that disciplinary standards are clearly stated and that the disciplinary procedure enjoys the confidence of both managers and staff.	8.77
14.	<b>We recommend that BRB and the unions should discuss the unions' misgivings about disciplinary matters and seek to establish the facts concerning the alleged increase in recourse to formal disciplinary action. BRB should also ensure that it makes clear to all employees the required standards of conduct and performance, and the consequences of failing to achieve those standards.</b>	8.78
	<b>The role of the regional personnel function</b>	
	BRB is reviewing the role of the regional personnel function in Western Region. We welcome the commitment to extend that review to the other regions in the immediate future.	8.79

**Efficient use of manpower**

We are pleased to note the agreements to changes in working practices since 1980 designed to improve manpower efficiency. 9.40

The introduction of driver-only operation on some services has clearly been of considerable benefit, both in cost and reliability terms. However, the capital and technical requirements are such that it will be several years before driver-only operation is widespread in NSE. 9.41

The Traincrew Concept proposals include measures to develop new modular training schedules. In addition 'starter links' will be established for drivers at depots. A minimum operational period before drivers become eligible for transfer from the training areas will also be introduced. Our investigations suggest that the need for these measures in some areas in and near London is acute. 9.42

While there has been some marginal improvement in the effective utilisation of train crew since 1980, the average level remains low with less than 50 per cent of a driver's time being spent driving and some 21 per cent of the available time unused. Furthermore, the level of spare cover provided is still high with, on average, one spare to every four drivers involved with passenger service duties. 9.43

A much greater degree of flexibility in monitoring train crew is needed. Even without additional flexibility in rostering there is significant scope for improving the effective utilisation of train crew. This is essential to improving the efficiency and reliability of NSE services. 9.44

BRB has generally been more successful in achieving progress in improving productivity with categories of staff other than train crew. 9.45

We also note NSE's new initiative to extend the employment of part-time staff on the railway. One area where we see further scope for improvement is carriage cleaning. 9.46

There are other opportunities for improvements in labour utilisation, for example in reducing the amount of ineffective working time of drivers and guards, and in more efficient ways of meeting the requirements of morning and evening peak demand. 9.47

BRB should examine more vigorously the scope for effective incentive schemes such as that envisaged in the Traincrew Concept proposals. The present mileage payments scheme for drivers and guards has a relatively small impact in NSE, and contributes little to the improvement of manpower utilisation. 9.48

The feasibility of other broad-based group incentives should be carefully examined, including the question of whether the Area is a suitable unit for such a scheme. 9.49

**We recommend that BRB should:**

15. (a) seek agreement in developing a modular approach to route learning as quickly as possible, if necessary in advance of general agreement on the Traincrew Concept proposals;
16. (b) take urgent steps to secure flexible and more effective utilisation of train crew including a reduction in unused time and the level of spare cover;
17. (c) extend the employment of part-time staff in all functions where feasible and cost effective to do so;
18. (d) consider the introduction of group incentive schemes for drivers and guards based on actual working time as a proportion of total man-hours; and
19. (e) examine the scope for broad-based group incentive schemes for other employees.

9.50

**Maintenance**

We found that the reliability of rolling stock as measured by regional casualty rates was very variable.

10.75

There are also variations in reliability between different classes of stock and of the same class when used on different routes. The scale of the difference for such classes as 312 and 455 when used on different routes must also reflect maintenance effectiveness at different depots.

10.76

Some new classes would appear to be less reliable than the older classes and, from the reasons given by BRB, it is difficult to avoid the conclusion that this must, to some extent, reflect shortcomings in design or manufacture. BRB has assured us that the lessons learned from the introduction of new classes from Class 313 onwards will be incorporated in the design and testing of the new Class 319 and Networker stock.

10.77

**Costs and productivity**

Overall maintenance costs per vehicle mile have not varied greatly in Southern Region while there has been a marginal reduction in Eastern Region (excluding the periods of blue asbestos removal); London Midland Region has now achieved a very satisfactory level of costs. The main factors affecting the Southern and Eastern Region performance appear to be lower reliability and increased materials costs.

10.78

The reductions in manpower, the concentration of work into fewer depots, the introduction of specialised repair facilities at certain depots and the recent move towards unified management indicate BRB's determination to continue to improve productivity. The now regular formal reviewing of bonus incentive schemes has minimised bonus drift. The data provided by BRB for the period since 1980 point to an improvement in maintenance productivity for the direct labour workforce. BRB does not directly measure productivity for the indirect labour workforce in maintenance, but the ratio of indirect to direct is regularly monitored and controlled.

10.79

**Programming, monitoring and control systems**

BRB attaches great importance to the provision of whole life costing information for its rolling stock. The computer system designed to provide this information, RAVERS, will not supply useful whole life costing data until the mid-1990s. Meanwhile BRB will continue to use manual analyses to support investment proposals for the replacement or refurbishment of rolling stock.

10.80

The availability of maintenance performance data varies from region to region within NSE, suggesting that the recording and monitoring of such performance has been less than satisfactory.

10.81

**Control of stock and provision of spares**

Stock cover of consumables is some four weeks higher than in 1979. However, the introduction of new rolling stock entails high initial purchases of spares.

10.82

BRB has reduced its stock error rates since 1980 but there are still problems over accounting for stock, particularly at depot stores.

10.83

BRB agreed that it did not have adequate management control of repairable components.

10.84

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	<b>We recommend that BRB should:</b>	
20.	(a) continue to give high priority to identifying ways and means of further reducing the number of weeks' cover for stocks of consumables;	
21.	(b) ensure that all movements of stock, particularly at depot stores, are properly accounted for; and	
22.	(c) examine available options for securing a longer-term solution to the problem of declining stock levels of repairable components for older stock.	10.85
	<b>Carriage cleaning</b>	
	BRB's carriage cleaning performance is continuing to improve but not all cleaning depots are yet able to achieve the targets laid down in business contracts. It can be improved further by careful management and at little extra expense.	10.86
	Our own examination of the subject revealed a number of matters about which we would have expressed criticism had not BRB reached the same conclusion as a result of its own inquiry carried out in parallel with ours. The BRB inquiry did not, however, address two matters which we believe are in need of further attention.	10.87
	<b>We recommend that BRB should:</b>	
23.	(a) through its current investigations into a carriage washing machine strategy for Southern Region draw up for the next Rail Plan a schedule of capital works required to meet quality of service standards for carriage washing depot by depot; and	
24.	(b) ensure that carriage washing performance is reported accurately.	10.88
	<b>Fares</b>	
	<b>Costs of provision</b>	
	BRB regards its present method of setting fares, which does not include any process of relating fares to marginal costs, or fares on a particular service to the costs of that service, as consistent with the Government's requirements not to use its market position to raise fares unreasonably, and to reflect in its fares structure the costs of provision and the quality of service.	11.56
	BRB does not identify the fixed and marginal costs of maintaining and operating services nor the incremental cost of improving them, in order to see the existing relation of fares to costs, comparing peak services with off-peak, services on one line with those on another and long distance services with short distance services for the same line.	11.57
	<b>We recommend that:</b>	
25.	(a) BRB should undertake a study of the costs of particular services, including both fixed and incremental costs and their relation to fares; such a study should assess the consistency of having a distance taper for season tickets but not for other fares;	
26.	(b) BRB should then consider, in the light of the Government's requirements, whether the relation between fares and costs could be made closer. The question whether on this basis differential rates of fares should be introduced for different services will require consideration of a number of matters, both financial and non-financial; and	

<i>Recommendation No.</i>		<i>Paragraph No.</i>
27.	<b>(c) an important factor in the judgment in (b) above would be the PSO grant and its intended purpose. It would be helpful if BRB could clarify with the Government whether the grant is meant to benefit all passengers alike, or some group or groups rather than others.</b>	11.58
	<b>Off-peak fares</b>	
	Unlike peak travel, a large increase in demand for off-peak travel could be easily accommodated on the present system of track and stations, and without additional rolling stock. The incremental cost of off-peak travel is, in general, relatively small.	11.59
	Off-peak fares are, on average, very little lower than peak fares and there may be a case, on cost grounds, for reducing them.	11.60
28.	<b>We recommend that BRB should consider further initiatives aimed at testing market responsiveness to such lower fares, to ascertain the scope for offering these low cost services at little or no loss in revenue.</b>	11.61
	<b>Spreading the peak</b>	
	If early morning season tickets were available significant numbers of rail travellers might shift from travelling in the peak to travelling before it; this could bring reduced overcrowding and significant cost savings through a reduced requirement for rolling stock to meet the peak.	11.62
29.	<b>We recommend BRB should undertake more extensive experiments with early morning fares.</b>	11.63
	<b>LRT and Capitalcard</b>	
	We applaud the desire by NSE, in conjunction with LRT, to offer a convenient and flexible public transport system for London. NSE told us, however, that its requirement for broad consistency with LRT was strongly influencing its approach to fares and it wished to bring its Capitalcard fares into line with the fares for the LRT Travelcard. NSE's Capitalcard offers a much wider facility than Travelcard. Moreover, if NSE's costs are above those of LRT there is little cause for NSE to phase out the present 15 per cent differential.	11.64
30.	<b>We recommend that NSE should seek to offer a convenient interface to LRT services but should not necessarily seek to offer identical fares if the facilities and marginal costs are substantially different.</b>	11.65
	<b>Selective pricing and quality of service</b>	
	We see some scope for raising fares on specific services when improvements take them beyond network standards. Moreover in the light of our conclusions on investment, BRB may need to consider whether greater real fare increases than currently planned, in conjunction with improved quality of service, would be appropriate.	11.66
	There may also be some scope for relatively smaller fare increases on lines where the quality of service is chronically poor. However, we are not all agreed that this is a practical course to pursue.	11.67
	Those of us who think such differential fare increases practicable, do not anticipate that this would make the problem of overcrowding significantly worse on the lines with poor quality of service because of the insensitivity of demand to price. The advantage would be the incentive to improve quality standards on these services, since that would permit fare increases and revenue gains.	11.68

<i>Recommendation No.</i>		<i>Paragraph No.</i>
31.	Some of the current fare loadings do not appear to be based on any systematic criteria. We recommend that their basis should be re-examined as part of the study of the relationship between fares and costs.	11.69
	<b>First class travel</b>	
	The 50 per cent premium for first class travel does not always reflect costs. For example the peak first class passenger is provided on average, with about three times the space of the second class passenger.	11.70
32.	We recommend that BRB should review the costs and revenue of first class travel as part of the study recommended in paragraph 11.58.	11.71
	<b>Bus and coach competition</b>	
	NSE fares show a large discount on off-peak services, relative to standard fares, reflecting their generally low cost of provision. We found no evidence that NSE off-peak fares compete unfairly with buses and coaches.	11.72
	<b>Revenue protection</b>	
	We welcome NSE's measures to combat ticketless travel through the provision of improved ticket purchasing opportunities and effectively organised random spot ticket checks and BRB's plans to seek the necessary legislation to introduce a penalty fare.	11.73
	The implications of various cost-saving measures associated with revenue collection do not appear to have been considered fully at the time of their implementation. It is open to question whether the cost savings generated by such measures exceeded the revenue losses in all cases.	11.74
	<b>We recommend that:</b>	
33.	(a) measures to reduce ticketless travel across the network should be implemented as quickly as possible, including the promotion of legislation for the introduction of a penalty fare;	
34.	(b) in considering the introduction of a penalty fare to be imposed on passengers travelling without a valid ticket, BRB should ensure that adequate safeguards are provided; and	
35.	(c) NSE should ensure that appropriate numbers of staff are employed on revenue collection so as to maximise net revenue.	11.75
	<b>Matching supply and demand</b>	
	<b>Demand forecasting and the effect of quality of service</b>	
	BRB's method of forecasting is largely an extrapolation of past trends. Traffic has recently grown significantly more than was predicted by BRB on that basis and there could be a significantly higher growth of commuters, at least into the City, than is at present assumed by BRB.	12.59
	NSE's increased budget for market research is welcome. The present major survey of users—the Origin and Destination Survey—is undertaken only every ten years but we note BRB plans to design a fully comprehensive passenger survey to replace it (see paragraph 13.19). There are other specific areas where more research should be undertaken.	12.60

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	Estimates of consumer valuation of quality of service affect major investment and other decisions on rolling stock, station facilities, and reliability among others. Some of the estimates currently used by NSE (eg of passenger valuation of reliability and frequency) are primarily based on research in other business sectors of BRB. Information is limited on a number of other quality of service factors.	12.61
	BRB may have under-estimated the benefits of the concurrent introduction of a number of related quality of service improvements.	12.62
	<b>We recommend that:</b>	
36.	<b>(a) NSE should carefully monitor trends in traffic and the factors that determine demand, and should commission further research, in association with other organisations if possible, on the prospects for Central London employment, and on the methodology for forecasting traffic on NSE;</b>	
37.	<b>(b) BRB should also continue to consult other interested organisations about the prospects for employment in Central London and the future demand for rail services into Central London;</b>	
38.	<b>(c) subject to the introduction of the proposed new passenger survey, the next survey of the origin and destination and other journey characteristics of passengers should be brought forward to well before 1991;</b>	
39.	<b>(d) although estimates of consumers' valuation of quality of service improvements will always be subject to uncertainty, further research should be undertaken on consumers' valuation of main quality of service factors and their effect on demand;</b>	
40.	<b>(e) BRB should examine whether the effect on demand of the concurrent introduction of a number of related quality of service improvements might be greater than the effect of the sum of the parts; and whether sufficient allowance is made of the benefits of introducing such a group of quality of service improvements.</b>	12.63
	<b>Load factors and efficient use of rolling stock</b>	
	The 1980 report recommended greater economy in use of rolling stock. NSE did not effect a lasting increase in the ratio of passengers to vehicles until 1985–86 but we note the progress which has now been achieved. Following recent traffic growth, some additional rolling stock may now be required to reduce overcrowding on certain services.	12.64
	BRB is considering whether to modify its definition of maximum load factors (for example, to a passenger per square metre basis).	12.65
	Monitoring of train loadings is based primarily on the annual train count, which takes place on a single day for each route. Performance against one of the quality standards—the extent to which passengers stand for over 20 minutes—is not monitored on a comprehensive basis.	12.66
	Comparisons of the 1979 and most recent train counts show a significant increase in load factors, particularly in the shoulder periods where load factors were previously very low; but an increase in the number of peak hour trains loaded at less than 80 per cent. Analysis of 'cost peak' trains shows that in Southern and Eastern Regions over a quarter of these trains on services to London during the peak were loaded at less than 80 per cent of capacity while 40 per cent of cost peak trains had passengers in excess of capacity. Underloading could be reduced by the greater use of two-car units. Stock from underloaded trains may to a limited extent be redeployed on overloaded trains, as part of the regular analysis of overloading and underloading.	12.67

As there are capacity constraints on various parts of the network, NSE aims only to reduce overcrowding, on its measure of passengers in excess of capacity, from 4.2 per cent in 1986 to 2 per cent. The options being considered by BRB that could provide a significant reduction in overcrowding have not yet been formally appraised (see paragraph 6.27).

12.68

**We recommend that:**

41. (a) if NSE wishes to redefine load factors, it should fully discuss its proposals with the TUCCs;
42. (b) NSE should undertake one additional comprehensive count as an experiment for one year, and subsequently assess whether increased counting effort gives additional useful information on the pattern of travel;
43. (c) some attempt should be made to monitor the duration of standing on trains stopping within 20 minutes of the count point. Allowance should also be made for the different loadings of first and second class accommodation;
44. (d) NSE should continue to improve utilisation of rolling stock on those cost peak trains in both the peak hour and in the peak shoulder period, which are at present underloaded, and to redeploy such stock on services which are overloaded; this may require a greater provision of two-car units on some lines; and
45. (e) NSE should appraise major infrastructure expenditure projects to alleviate overcrowding and improve quality of service in other ways to see if any of them might earn the required rate of return.

12.69

**Other means of adjusting supply and demand**

Some services fail to cover direct operating cost by a substantial margin. BRB does not at present review the continuation of uneconomic services unless major capital expenditure is required. We do not believe that widespread withdrawals of passenger services are necessary or desirable; but a prudent business should keep the range of services it offers under regular review.

12.70

BRB's present policy however, is to reduce the level of timetable change, but it still proposes to make timetable changes if worthwhile net benefits would be obtained.

12.71

BRB reduced off-peak services following the 1980 report in order to improve net revenue; some have been restored, partly in response to public pressure. BRB's intention is to continue to seek improvements in net revenue by increasing off-peak load factors, but by adjusting train formations rather than reducing services. This is sensible, since off-peak services have low avoidable costs.

12.72

**Specification and production of the annual timetable**

The clerical work previously required to produce public timetables is being increasingly and beneficially handled by computers. The new computer projects which BRB has under way to assist train planning should bring great benefits when fully implemented.

13.18

<i>Recommendation No.</i>		<i>Paragraph No.</i>
	The quantity and quality of data collected about passenger travel requirements and used by business sector management in producing the commercial timetable specification is in need of improvement. BRB proposes to design an enhanced passenger journey database to replace the large scale O&D survey.	13.19
	The 18 months it takes BRB to produce a new timetable, adversely affects its ability to respond in good time to changing patterns of demand. BRB plans to reduce the timescale for major reviews to about 12 months.	13.20
	Current timetables on a number of routes appear to be fragile and easily disrupted during peak periods when opportunities for contingency planning within the timetables produced are limited. One consequence is that each train incident that results in a deviation from the timetable will have a knock-on effect on other trains. Operational management has generally no margin for recovery to avoid this on busy routes.	13.21
	BRB can alleviate some difficulties in meeting punctuality targets on a particular route by re-timing the trains. Where re-timing results in a reduction in the number of trains in the peak period, a careful balance needs to be struck between improvements in punctuality and increases in passenger overcrowding.	13.22
	BRB is now undertaking a review of the basic methodology of train planning including the organisational aspect.	13.23
	<b>We recommend that:</b>	
46.	(a) BRB should make every effort to reduce the elapsed time between receipt of new planning data and the introduction of new timetables; and	
47.	(b) in its forthcoming review of train planning methodology BRB should pay particular attention to the need to produce schedules which are more robust and capable of absorbing disruption during busy periods.	13.24
	<b>Quality of service</b>	
	<b>Quality standards</b>	
	We welcome the formulation of quality of service standards for NSE. We were told by BRB that its aim was to achieve these standards on average across the network. BRB also told us that they cannot be achieved in all cases and in all aspects of quality consistently with the present financial objectives.	14.67
	In the case of the present punctuality standard, this is expressed as an average over all day operations and BRB's only published standard is for 90 per cent of trains to arrive within five minutes of right time. There are, however, wide differences between those services which do and those that do not (and possibly cannot) achieve this standard.	14.68
	There remains the need, as recommended in the 1980 report, to develop a more fundamental approach to target-setting.	14.69
	We support the adoption of internal management contracts as a means of providing greater clarity of, and motivation to achieve, the network targets.	14.70
	<b>We recommend that:</b>	
48.	(a) BRB should publish separate standards for arrivals within five minutes of right time for the peak periods and all day operations;	

<i>Recommendation No.</i>		<i>Paragraph No.</i>
49.	<b>(b) these standards should not be lower than the existing published or internal standards set out in Table 14.2 and should be achieved on all routes. This will require reconsideration of BRB's financial objectives (see paragraph 16.19);</b>	
50.	<b>(c) in moving towards the objective of achieving the network standards on individual routes at all times of day, NSE should provide interim targets for each route. Investment and timetable plans should show how these interim targets will be improved and performance moved progressively toward the higher achievement represented by the new network standards; and</b>	
51.	<b>(d) the interim targets in (c) above should be communicated to the TUCCs and interested railway user groups together with explanations of why particular interim targets are below the network standard.</b>	14.71
	<b>Punctuality performance</b>	
	NSE is having difficulty in meeting its internal punctuality targets during peak period operations, a situation that has not changed since 1980. Results for some groups of services show persistent late running and we do not believe much improvement can be effected without increased investment expenditure (see paragraph 6.29).	14.72
	Although destination arrival statistics are a reasonable composite measure of punctuality performance, better recording of arrival and departure times at key intermediate points is necessary as a first step to help to improve punctuality.	14.73
	Such recording should form part of the new computer package, under development by BRB, to provide train performance statistics. Once operational, this system should be able to produce individual service statistics which could be supplied to TUCCs and railway user groups with explanations of deviation from targets.	14.74
52.	<b>We recommend that BRB should at once provide the TUCCs and interested railway user groups with punctuality results by service or groups of services including explanations of significant deviation from published targets and amplify this information to particular services once the computer package presently under development is fully implemented.</b>	14.75
	<b>Reliability</b>	
	The special management attention paid to train cancellations has led to a marked overall improvement in performance since 1980 although some individual services are still subject to high rates of cancellations. Improvements continue to be made assisted in Southern Region by the analytical procedure known as IMPACT. We note BRB's intention to extend the use of IMPACT to all of NSE.	14.76
	Trains shorter than planned can severely increase overcrowding on some trains in the peak.	14.77
	<b>We recommend that:</b>	
53.	<b>(a) the IMPACT system should be extended throughout NSE and given appropriate computer support; and</b>	
54.	<b>(b) NSE should monitor the incidence of short trains and consider to what extent the need for them may be eliminated at an acceptable cost.</b>	14.78

**Overcrowding**

The number of passengers carried in excess of planned capacity (PEC) may be a useful measure for BRB but it is misleading if used as the sole measure of passenger overcrowding. A useful additional measure may be the percentage of passengers carried on trains with load factors in excess of the planned maxima.

14.79

NSE's 1986 terminal census results on train loading indicate that there has been a significant increase in overcrowding over that recorded in 1985.

14.80

NSE does not routinely monitor the 20 minute standard but takes as an indication the number standing on trains having no stop within 20 minutes of the London terminus. The degree of error in this approach is regarded by NSE as small. Analysis of the 1986 terminal census data shows that NSE is having considerable difficulty meeting this standard (see paragraph 12.68).

14.81

**Other aspects of service quality**

We welcome NSE's initiatives to improve customer service such as 'Operation Pride' the setting up of 'customer care' schools and 'surgeries', and the publication of the 'Code of Practice and Guide to Customer Service'.

14.82

BRB has made a major effort to improve its passenger information services available on both stations and trains, and it accepts the need to continue the improvement throughout NSE. New communications equipment will be necessary. However, rail users cited wide variations in the use made of existing systems, particularly at times of service disruption.

14.83

The number of complaints received by BRB through public correspondence has increased by 64 per cent since 1979. This may in part reflect the difficulty that NSE is experiencing in meeting its quality of service targets.

14.84

16.2. These conclusions and recommendations supply our answers to the questions put specifically to us. In our judgment, BRB could improve its efficiency and thereby reduce its costs without affecting the quality of the service which it provides. In saying this we have particularly in mind the scope for greater efficiency in the use of labour. In some respects quality of service could be improved, by the efforts both of management and of staff, without any increase in costs; examples are carriage cleaning and provision of information to passengers. However, in certain parts of the network increased investment expenditure seems to us to be inevitable if there is to be significant improvement in punctuality, reliability and the avoidance of overcrowding—the three most important features of railway service from the passenger's point of view. We return to this point in paragraph 16.10ff. Experience of the St Pancras/Moorgate to Bedford electrification has shown that improved quality of service can generate a very great increase in traffic. Passenger miles on that line increased from 142 to 198 million between 1983 and 1985–86. Over the same period revenue net of train working expenses rose from £2.8 million to £8.4 million. It must be observed, however, that in that case a number of conspicuous improvements in quality of service were introduced concurrently at a high capital cost of £156 million at outturn prices (see paragraph 6.20). Further assessment of the results of this investment, including calculation of net revenue generation after interest and other charges, must await BRB's backcheck (see paragraph 6.22). Clearly, however, there are not likely to be many lines upon which equally dramatic increases of revenue can be achieved.

16.3. BRB should pay particular attention to the following matters, giving priority to the recommendations we have noted against each of them:

- (a) estimation of the investment needed to bring the quality of service on every part of NSE at all times of day up to the quality of service standards in accordance with our recommendations 6.32(b) and (c);
- (b) revision of the Machinery of Negotiation (recommendation 8.60);
- (c) improvements in manpower utilisation and systems of remuneration (recommendations 9.50(d) and (e)); and
- (d) the relationship between fares and costs including clarification of the purpose of the PSO grant (recommendations 11.58(a) to (c)).

16.4. An alarmingly high level of ticketless (and often fraudulent) travel persists in NSE which results in an annual loss of revenue estimated by BRB at some £21 million. We were therefore glad to note that the Board was actively considering the introduction of a penalty fare. We have recommended that measures to reduce ticketless travel across the network should be implemented as quickly as possible, including the promotion of legislation to enable the Board to introduce a penalty fare.

16.5. We conclude this report by emphasising the matters which have emerged from our inquiry as having special importance.

16.6. Almost seven years have passed since the Commission delivered their report on the London and South East Commuter Services of BRB. Returning to the same field of inquiry, we have found that much has changed, and much has happened upon which BRB is to be congratulated. We have noted substantial improvements in efficiency. There has been a significant increase in the utilisation of rolling stock in NSE; the number of vehicles was reduced by 11 per cent in the period 1980 to 1985–86. This has saved an estimated £10 million a year in running costs and some £200 million investment on new vehicles. Manpower has been reduced by 13 per cent. These and other cost reduction measures have enabled NSE's call on PSO grant to be reduced from £323 million in 1983 (at 1986–87 prices) to £206 million (outturn forecast) in 1986–87, a reduction of more than a third.

16.7. We have set out in detail in Chapter 15 the actions taken on the 1980 report. We are in general satisfied that the Board has followed up the recommendations in a comprehensive and business-like way. The Board told us in particular that the passages in the report on setting objectives for the social railway, introducing a clear focus for management of the London and South East business sector, and setting targets for quality had transformed the approach to the railway in what is now Network SouthEast.

16.8. Nevertheless, there have been some disappointments. The Commission concluded in 1980 that the complex framework of negotiating and consultative procedure in BRB was in need of simplification, and recommended that the Board and the unions should undertake a joint review to this end (recommendation 14). Both sides, the report stated, recognised the need to reduce the delays produced by the procedures. Seven years later we find that no progress has been made. The Board tells us that it has now started a fundamental review of the whole of the Machinery. We welcome this commitment to try to expedite a matter which was overdue in 1980, and is long overdue now. In the interests of the management, the workforce and not least the passengers, progress must be made. We have recommended certain principles on which changes should be based, in particular that the Machinery should match the key importance of areas in the Board's management structure and that target time-scales should be established for each major negotiation. We hope the fundamental review will be pursued energetically by both sides and agreement will be reached on the changes that need to be made.

16.9. Our second disappointment is connected with aspects of the quality of service in NSE. NSE comprises a railway system which is exceptionally complex and very difficult to operate. It was developed in the 19th century to satisfy the ambitions of rival companies rather than to make the most convenient provision for the needs of the public. It carries a very heavy traffic, which, after a period of some decline, is now growing. Particular problems are presented by the sharp peaks in demand in two short periods of the day. In spite of the competition from road transport and in some areas from the Underground, it continues to carry 40 per cent of the commuters upon whose daily journeys the business of London depends. The evidence of passengers and their employers made clear to us the importance from this point of view of a reliable and punctual railway service. Because of the scale of public dependence on it, NSE remains an essential public service.

16.10. These circumstances give special importance to the quality of the service which NSE provides. We have referred in paragraph 16.2 to the three most important features from the passenger's point of view—punctuality, reliability and avoidance of overcrowding.

16.11. The published punctuality figures for NSE as a whole and the unpublished figures for each of its sub-sectors for 1986, and comparison with the figures for 1979, appear not to be unsatisfactory. At first sight, therefore, it is surprising to find that passengers' organisations, almost without exception, complain of unpunctuality. The explanation is that these figures are annual averages over the whole network or a whole sub-sector. A commuter's experience is of a particular line day by day, and probably of particular trains running in the peak periods. The figures given in our report show wide variations between lines, between peak hours and the rest of the day, and between months, which annual averages do not reveal; and on the Liverpool Street and the Kent Coast services (which are among the most heavily used) performance since 1979 either has not changed significantly or has improved only modestly and remains at an unsatisfactory level.

16.12. Over NSE as a whole reliability has improved considerably since 1979. Here again, however, the experience of many passengers may be different. The figures in our case studies show that on the Liverpool Street services the level of cancellations during peak hours, although it has improved, still varies greatly from month to month, and sometimes rises far above the annual average for the whole network.

16.13. Over NSE as a whole, and in all but one of its sub-sectors, overcrowding (in the sense of the number of passengers carried in excess of planned capacity) in peak hours has increased over the last five years. The service between Liverpool Street and Southend, the Kent Coast services and the service from London to Gillingham via Dartford provide particular examples of this.

16.14. There is thus a considerable and continuing discrepancy between BRB's published figures for these aspects of quality of service and the daily experience of many commuters. Commuters come to regard BRB's figures with scepticism or even mistrust, and the credibility gap is damaging to the Board's reputation. This is the result of BRB's appearing to have exclusive concern with average performance figures for the whole network, which are the only quality of service statistics published. We have therefore recommended that BRB should publish standards for arrivals within five minutes of right time separately for the peak periods and for all-day operations. These standards should not be lower than the existing published or internal standards, and they should be achieved on all routes.

16.15. Attention to recruitment and labour relations, and improved maintenance of rolling stock, should reduce the problem of cancellations. Punctuality and the avoidance of overcrowding present difficulties which are much

more intractable to management effort. We have pointed out that on some of the most heavily used, and therefore most important, sections of NSE unpunctuality and overcrowding show no improvement since the time of the Commission's last inquiry. At that time the Commission found that the quality of service in terms of punctuality and level of cancellations was below that offered in 1974 (1980 report, paragraph 4.105). If the best efforts of management have not achieved a satisfactory quality of service up to the present time, we see no reason now to expect that those efforts unaided will do so in future. Two things will also be essential—improved infrastructure and modern rolling stock.

16.16. Very many of BRB's regular passengers are likely never to receive a proper level of service unless BRB can make the investment and associated changes in working practices needed for these improvements. (The great majority of these passengers, it may be added, are for practical purposes captive customers of the railway.) For some years the level of investment has actually been declining, but BRB is now planning a substantial increase in NSE. This new plan has yet to be discussed with the Government, but even if it is approved it will not, in our judgment, fully make up for the years of low investment.

16.17. An indication of what will be necessary is provided by the study which BRB produced of the further investment required to relieve overcrowding. While this study suggests that in NSE apart from the Southeast sub-sector overcrowding may be relieved without increase of planned investment, in the Southeast sub-sector it is estimated that roughly £50 million additional investment will be needed (Appendix 6.2). This relief of overcrowding would also assist punctuality and reliability, but to raise punctuality to target levels there would have to be further considerable expenditure on, for instance, works to relieve congestion at busy junctions.

16.18. BRB gave us, at our request, a comparison between its services in NSE and the Paris suburban services of SNCF. While overcrowding is a problem in both places, in general the quality of service in Paris is significantly higher than that offered in London. There may be many reasons for this, but we note also that investment, relative to the size of the system, has for many years been much higher in Paris than in NSE.

16.19. We recognise that the expansion of investment we have been discussing has important financial implications for BRB. While the investment might reasonably be expected to generate some increase in revenue at current fare levels, this is unlikely to be so great as to satisfy BRB's test discount rate of 7 per cent, or to allow the investment to be accommodated within the current EFL. We have noted from DTp's Supplementary Memorandum of 24 November 1986 to the Transport Committee of the House of Commons that 'for all modes [of land transport] the Government is prepared to take account of significant external and non-financial effects of investment, where they exist'. We believe that the improvements in quality of service resulting from an expanded investment programme would yield real economic benefits which are not taken into account by BRB's current investment appraisal methodology.

16.20. This increased investment is likely to require an enlarged EFL. However, it should lead both to reduction of some costs through improved efficiency, and to additional revenue through growth of traffic and continuance of some real increase of fares. The extent of the enlargement of the EFL would be greatly affected by the level to which it were thought possible and reasonable to raise fares. This will be a question to be decided by BRB after discussion with the Government.

16.21. Within the EFL, the increased investment which we think necessary may call in the short term for an increase of the PSO grant. In the longer term, however, there is a wider set of possibilities. Once the benefits of the investment are being received, it will be for the Government and BRB to decide how the balance is to be held between the level of costs, the level of fares and maintenance of the grant. This is a matter of policy upon which different views can be taken. It is not for us to express a choice between them.

16.22. We have been impressed by what BRB has achieved since the 1980 report was delivered. A radically new system of management has been introduced, designed to emphasise the commercial character of the railway business. In spite of all the difficulties of operation and modernisation, there has been a substantial increase of efficiency in NSE, and the need of support from public funds has been greatly reduced. There is still a long way to go before satisfactory quality of service is attained on every part of the network at all times of day, and this will depend to an important degree upon the attitude of the Government towards investment and financial objectives. Upon quality of service we have been told of plans already promoted or proposals now under discussion within BRB to effect a substantial improvement. Having weighed up the whole of the evidence laid before us, we conclude that the Board is not, in relation to any matter falling within our terms of reference, pursuing a course of conduct which operates against the public interest.

J G LE QUESNE (*Chairman*)

C C BAILLIEU

D G GOYDER

R REES

C A UNWIN

R YOUNG

S N BURBRIDGE (*Secretary*)

29 April 1987