

The Hansford Review

Independent review of contestability in the UK rail market to consider third party investment and infrastructure delivery on the national railway

Questionnaire – Your Views

January 2017

1 About you

In order to set the context for your responses please can you tell us about role/interests with reference to the scope of this Review?

Name
Urban Transport Group
In what role or capacity are you responding?
<p>The Urban Transport Group (UTG) represents the seven largest city region strategic transport bodies¹ in England, which, between them, serve over twenty million people in Greater Manchester, London, the Liverpool City Region, the North East Combined Authority area, the Sheffield City Region, the West Midlands conurbation and West Yorkshire.</p> <p>Nottingham City Council, the West of England Partnership, Strathclyde Partnership for Transport (SPT) and the Tees Valley Combined Authority are associate members of the UTG.</p> <p>Our members plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of delivering integrated public transport networks accessible to all. Several of our members are responsible for extensive light rail and suburban rail networks, each carrying tens of millions of passengers each year.</p> <p>We understand that some of our members are providing their own evidence to this consultation and this response aims to draw together high level issues of common concern to city region transport authorities.</p>
Are you currently involved in the rail industry?
Yes.

¹ With the exception of Transport for London, these bodies were formally known as Passenger Transport Executives (PTEs) and the UTG was previously known as the Passenger Transport Executive Group. In recent years, some PTEs have been abolished with their functions transferred onto successor bodies, such as Combined Authorities. The new name for our group reflects these changes.

What is your experience(s) of third party investment and delivery of infrastructure improvements on the rail network?

The annex to our response to the Shaw Review initial scoping study provides some relevant examples.

<http://www.urbantransportgroup.org/resources/types/consultation-responses/shaw-report-scoping-study>

2 How is the current system working?

The current system of investment and delivery of infrastructure improvements has the majority of investment in rail infrastructure channelled through Network Rail or Special Purpose Bodies such as Crossrail Ltd.

How well do you think the current system works on a scale of 1 to 10 where 1 is very poorly and 10 is exceptionally well?

1	2	3	4	5	6	7	8	9	10
	x	x	x	x	x				

There are different views amongst our members, ranging between 2 and 6.

Please give the main reasons for your response.

(please use Tables 1 to 4 where possible to help structure your response)

Below is a summary of the key common challenges that the current system presents to our members in delivering local infrastructure schemes efficiently and effectively.

1. Cost efficiency. The unit costs of infrastructure projects on the national rail network appear to be higher than those in comparable industries, such as on light rail networks. A considerable amount of regulatory effort is aimed at top-down analysis of efficiency and virtually no effort, as far as we can see, is targeted at bottom-up engineering analysis of cost drivers. From where we stand, there is a lack of transparency over detailed cost data, which would enable this type of analysis to be undertaken both by NR, the regulator and by third parties who might consider entering this market.
2. Cost escalation. Our members have, as a rule, experienced significant cost escalation across a wide range of local projects, and this seems to be the rule across the programme of enhancements in the current Control Period.

3. Poor asset information. Much of the asset information held by Network Rail has proven unreliable and this helps explain some of the delays and cost escalation experienced in recent years.
4. Procedural complexity. Network Rail processes are overly complex, inflexible, opaque and time-consuming. They are also not well aligned with other related mechanisms, such as the statutory planning process. This is complicated further by the degree of fragmentation in the industry and the fact that many projects require active involvement and support from several additional stakeholders, including typically several train operating companies.
5. Technical standards. Rail standards are, in general, overly prescriptive, expensive to meet and Network Rail is too rigid in their application. There is also a concern amongst some of our members that Network Rail lacks sufficient staff with the appropriate skills to apply standards in a more effective way or to challenge current ways of working.
6. Attitude to risk. Network Rail is, by design, a risk averse organisation which has few incentives to support schemes promoted by third parties, in particular those that may trade off short term performance against future network capability. This point also helps explain NR's inflexible approach to technical standards.
7. Risk allocation. Given its unique position in the supply chain, Network Rail is able to impose large risks on third parties over which they have little or no control. In turn, this removes a key incentive on Network Rail to improve its efficiency.
8. Lack of local focus. Our perception is that the attention of Network Rail's management is too focussed on the Office of Rail and Road, the Department for Transport and on the most visible national projects, typically centred on inter-city corridors; and not enough on vital regional and commuter projects, generally promoted by local transport authorities. A greater concentration of resources at the Route level may help address this issue. However, the latest indication is that a large

proportion of Network Rail functions, notably strategic planning, will remain concentrated within a single national unit.

What parts of the current system works well

(please use Tables 1 to 4 where possible to help structure your response)

Network Rail should be given credit for operating a safe network and for growing the network's capability in what are challenging operational conditions. This would pose significant challenges under any ownership and regulatory context, which should not be under-estimated. Changes to market structure are only ever likely to be a part of the solution and it is vital that whatever structure is adopted the organisations involved are given adequate resources and incentives to complete the tasks at hand.

What parts of the current system could be improved

(please use Tables 1 to 4 where possible to help structure your response)

Greater understanding and transparency over cost drivers. There needs to be a much clearer and in-depth understanding of cost drivers from an engineering point of view. Greater openness with detailed cost data should enable both Network Rail and third parties to work towards this goal. The ORR and Network Rail have gone some way along this path in the context of PR13 but not far enough in our view.

There is a sense amongst some of our members that Network Rail lacks internal incentives, resources and a structure that enables its own staff to challenge its technical solutions and standards effectively. This is something Network Rail can work through recruitment and changes to its ways of working. Greater transparency (as per the previous point) is also likely to help facilitate positive changes from the outside in.

Greater local accountability (for example to regional transport authorities), would lead to stronger incentives and more effective scrutiny of Network Rail.

Allocation of greater share of risks to Network Rail where it is clear that it is the organisation best placed to manage them. This would need to be accompanied by well-balanced incentives to carry those risks in the first place.

Simpler and more flexible processes (ie, GRIP – Governance for Rail Investment Projects), that can more effectively align with those followed by non-rail industry stakeholders (e.g.: statutory planning processes).

More flexible approach to standards, that takes into account differences in operating conditions and expected performance across the network, to produce more cost effective designs; and adequate internal resources to interpret/apply standards.

3 The Review ‘hypothesis’?

‘The hypothesis’ for the Review is that greater contestability in the UK rail market would provide more opportunity and encourage third parties to invest in and take responsibility for delivery of rail infrastructure improvements, which in turn is required for the UK rail network to grow and meet future challenges.

What are your views on this ‘hypothesis’?

(please use Tables 1 to 4 where possible to help structure your response)

The meaning of contestability is not entirely clear in this context.

As System Operator and Network Operator, Network has a stranglehold on key infrastructure functions (and disproportionate power over the functions of Case Maker and Promoter), and few incentives to change its behaviour or improve its performance. It is unclear whether/how those functions could be made contestable or competed.

Yes, there are a number of downstream functions where there is a degree of competition or contestability. And if those markets could be made more competitive then that would likely be beneficial.

However, it is difficult to see how Network Rail's key infrastructure functions could be made more contestable and, indeed, whether that would have a positive or negative impact on the overall performance of UK rail infrastructure. So we believe that the Review hypothesis would benefit from further discussion and clarification.

4 Barriers to third party entry/appetite?

What do you see as the barriers to existing and potential third party involvement in investment and delivery of infrastructure improvements?

(please use Tables 1 to 4 where possible to help structure your response)

Points 3 to 8, in our response to the first question, act as barriers to entry for both potential investors and competitors to Network Rail.
Points 1 and 2 are likely to deter investors.

Please provide details below of any examples where barriers to entry affected potential third party involvement in investment and delivery of infrastructure improvements?

(please use Tables 1 to 4 where possible to help structure your response)

The annex to our response to the Shaw Review initial scoping study provides examples of the issues we list above, in the context of specific projects which our members have been involved in.
<http://www.urbantransportgroup.org/resources/types/consultation-responses/shaw-report-scoping-study>

5 Changes to encourage third parties

What are your views on changes to encourage third party involvement and reduce barriers to entry? Please consider the suggestions in the table below and indicate your view on their significance.

	Significance: High, Medium, Low
Changes to vehicle acceptance processes	M
Changes to asset protection arrangements	H
More abundant and/or cheaper access	H
More flexible standards	H
Changes within Network Rail:	
Reduced bureaucracy	H
Clarity on roles and responsibilities within NR so that decision makers are easily identifiable	H
Incentives within NR to encourage alternative delivery/investment methods	H
Other. Please specify	
Effective alliancing	M
Proportionate exposure to safety risk and potential liabilities	H
Predictable financial risk profile	H
Longer term contracts such as DBFM	L
Opportunities to become Infrastructure Manager under a DBFMO arrangement	M
More comprehensive franchise or concession obligations	M
Creation of competing regional Network Rail clienting bodies	M
Creation of independent regional transport authorities as clients	H
Direct investment by DfT through third parties	M
Other (s). Please specify below	

<p>N.B.: These scores are an attempt at aggregating the wide ranging views of our members. However, note that by virtue of the qualitative nature of the scores this is an imperfect method and the scores should only be seen as indicative.</p>	
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6 Greater contestability

How and where in the system do you think a greater level of competition in the current system would deliver value for money and innovation.

For example, do you think if DfT allocated more government funding to parties other than Network Rail to act as client bodies?

Do you think there is the possibility of greater contestability with the devolution of investment funding to the Routes, where for example the Route might chose a different entity to NR Infrastructure Projects to act as Delivery Agents

(please set out your views below and use Tables 1 to 4 where possible to help structure your response)

<p>We refer to section 2 of our response to the Shaw report scoping study, in which we discuss how Network Rail organises itself and the possibility of greater devolution.</p>

<p>In summary, we believe that greater devolution of powers to Routes and of government funding to local stakeholders could potentially lead to better planning and investment decisions, lower costs and overall better industry performance.</p>
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<p>This would be achieved, for example, by making more effective use of local knowledge (including that which resides in transport authorities); by creating greater accountability to local stakeholders and therefore allowing them to challenge NR more effectively; by allowing/incentivising management to focus more effectively on the needs of local areas (including by taking opportunities to reduce whole-life costs or to vary standards where these arise); and by giving routes the specialist skills they need at the local level to deliver all this.</p>
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However, our response also lists a number of caveats, including the fact that certain functions may be best performed (for reasons of operational effectiveness and efficiency) at the national level. In turn, this may limit the extent to which Route devolution could, by itself, overcome the barriers we list earlier in the response without other reforms of Network Rail.

7 Comparators

Are there any models in other sectors in the UK that offer a demonstrable improvement over the way we invest in rail infrastructure?

(please use Tables 1 to 4 where possible to help structure your response)

There are a number of alternative ownership and contractual models in other UK transport markets which, on the face of it, appear to perform better than the national rail network. These include the London Underground as well as several light rail networks developed and operated by our members. Whilst the national rail network is unique in its scale and complexity we believe much could be learned about the strengths and weaknesses of different models through an in-depth benchmarking exercise of these different systems.

Are there any models in other countries that offer a demonstrable improvement over the way we invest in rail infrastructure in the UK?

(please use Tables 1 to 4 where possible to help structure your response)

There are many other models of ownership and operation in other countries, both in the heavy rail industry, in other transport markets and in other markets that share some similar features.

We wouldn't claim to be experts in the performance of these alternative models and this should perhaps be the object of a separate review. One good starting point for evidence relating to transport markets is the Thredbo conference series <http://www.thredbo-conference-series.org/>.

We are aware of the benchmarking exercises previously commissioned by the ORR (e.g.: http://orr.gov.uk/data/assets/pdf_file/0015/4713/econometric_update_2010_or_r_benchmarking_report.pdf). While these provide useful evidence, one criticism is that they are based on econometric analysis, which tries to draw comparisons from statistical analysis of a small number of aggregate-level data points and where heterogeneity between systems is often not captured effectively. A more in-depth analysis of the features and performance of different systems would perhaps be justified.

8 Anything else?

Are there any further matters that we should consider as part of the Hansford Review?