

SRA'S SPECIFICATION OF NETWORK OUTPUTS

RESPONSE ON BEHALF OF PTEG (PASSENGER TRANSPORT EXECUTIVES GROUP)

The specification of outputs is essential if there is to be clarity in the rail industry about the SRA's priorities and to enable Network Rail and the Rail Regulator to determine the costs of delivering the network. Passenger Transport Authorities (PTAs) have a clear view of the outputs they expect from the rail networks in their areas. Other stakeholders will have equally clear views. It is therefore essential that any specification ultimately produced is transparent, understandable and achieves the necessary buy in from all of the various stakeholders in the rail industry. Whilst welcoming the opportunity to comment on the SRA's recently published document we believe the proposals fail this test. PTEG has serious reservations about the process that the SRA has followed, its analysis and the conclusions it has reached. Indeed these concerns are so strongly felt that many PTEs have responded separately on the impact they believe the proposed output specification would have in their areas were it to be implemented. This response reflects the views of all seven PTEs.

PTEG understands the timescales that have been imposed by the ORR's review of Track Access Charges. Nonetheless, it also believes the SRA also has a duty to adequately consult on such an important principle. It does not believe the above document and timescales allowed achieve this. In the introductory paragraphs to its response, Strathclyde PTE sets out the reasons why it believes the process to be unclear and inconsistent. PTEG endorses these views. These concerns are reinforced by the conclusions the SRA has come to and the way in which they have been derived. The proposed specification is over-simplified and inconsistent. By identifying only 2 levels of priority there is a real likelihood that investment decisions that do not represent value for money will be made. In particular, PTEG must express its concern about the inclusion of all London and South East commuter routes within the first tier but only selected secondary routes. This could mean that routes with high usage, and a stronger case for investment in conurbations outside London and the South East, will receive less investment than less well used routes in London and the South East. As a consequence, reduced maintenance could lead to further speed restrictions and worsening performance making services overall in those conurbations less attractive. This would run counter to the Government's 10-Year Plan objectives and those set out in the constituent Local Transport Plans of the Metropolitan Authorities.

PTEG would, therefore, like to see much more consideration given to investment priorities relating to the characteristics and importance of particular routes. The work being done on the Capacity Utilisation Strategy could provide supporting information to guide the classification. The consultation document is not clear on the extent of the evaluation of different scenarios with different priority groupings or different assumptions in relation to London and the South East versus the main secondary groups. Indeed, to further inform the debate it may be helpful if the SRA published which routes were in the main secondary category and which were not.

Turning to the specific questions:-

Question 1 - Do consultees agree with the SRA's 2 key objectives as described in paragraph 3.3, accepting that funds are limited and it is not possible to deliver all stakeholder ambitions?

Whilst we accept that funds are limited and that it will not be possible to deliver all stakeholder ambitions in the short term, the objectives outlined in paragraph 3.3 relate to the base performance of the network rather than ambitions. The stated objectives are:

..a faster improvement in performance over the most heavily used parts of the network....and a more substantial cost reduction....over the remaining parts of the network.

This implies (as set out in paragraph 3.11) a reduction in outputs on 'less well-used' parts of the network. It is PTEG's view that this is contrary to the government's key target (and the SRA's primary objective as set out in the Directions and Guidance) to increase rail use and secure improvements to punctuality, reliability and safety. The requirement to secure improvements in punctuality and reliability does not relate to specific sectors or services. Deterioration in network outputs will clearly lead to worsening punctuality and reliability as the failures will not coincide with adjustments to the timetable (for example lengthening by journey times). This is especially the case where maintenance is reduced to a minimum short-term basis.

Although considerably improved since the post-Hatfield levels, performance (particularly punctuality) is running below target levels. Latest performance statistics for the year to 31 March 2003 (On Track, October 2002 – March 2003) show that overall performance is 79.2% (as measured by the Public Performance Measure). Considering the regional operators only, performance for the same period was 80.5% (ie 1 in 5 trains cancelled or delayed). To consider reducing this level of performance is unacceptable and would have a detrimental impact on the achievement of local objectives.

The proposed strategy (as stated in paragraph 3.11) is to mitigate the adverse impact on performance by taking management actions including journey time extensions. Extending journey times will make rail travel less attractive and given that the demand for rail services is still relatively elastic in the conurbations outside London this will lead to passengers who have a choice transferring back to the car. This is contrary to national, regional and local objectives to increase use of more environmentally forms of transport.

Extending journey times would not only make rail less attractive, it would also make it less financially viable. Reduced turnarounds would lead to pressure from Network Rail to either reduce service frequencies (thereby further reducing the attractiveness of rail) or increase the resources required to operate the service (additional units, crews etc). Coupled with reduced fare revenue, this will inevitably lead to further subsidy requirements to sustain services. Increased journey times would also impact on investment programmes for new stations by increasing the resource requirements to serve the sites and reducing the likelihood of being able to serve new stations with the existing train service. Nexus has concerns that any increased journey times between Sunderland and Newcastle on Metro services will impact on the rest of the light rail network as all services are interlinked potentially resulting in additional resources as well as lost revenue.

The objectives, as defined, fail to address the fundamental underlying issue ie cost escalations within the industry. If this is not addressed as a core objective, by increasing

expenditure on some parts of the network, the SRA may not be able to demonstrate overall value for money. The focus should be on achieving efficiencies in Network Rail's costs.

PTEG and the SRA are working on 'the case for rail' (referred to in the introduction) and part of the purpose of this is to make the case for additional investment in rail. Setting a specification now based on the current level of funding would pre-judge the outcome of this work and imply an acceptance of the current level of resources. It would be better to focus efforts on making the case for an appropriate level of investment in maintenance and enhancements.

PTEG therefore does not agree with the objectives as set out in paragraph 3.3 of the consultation document.

Question 2 – Do consultees agree with how the SRA proposes to shape the specification to deliver those objectives, or would they propose alternative approaches?

The specification is described in terms of:-

- ◆ Maintenance and renewal activity levels;
- ◆ Engineering possession arrangements.

It is proposed that maintenance and renewal activity levels are prioritised into 2 high level groupings:-

- ◆ Primary London and South East main secondary;
- ◆ Other secondary rural and freight.

We have looked at these issues separately.

Maintenance and Renewal Activity Levels

- ◆ Even with the modified route categorisation proposed in paragraph 3.8 (the inclusion of a "main secondary route" classification within the first high-level grouping of primary and London commuter routes), PTEG cannot accept that the proposed differentiation is an appropriate or equitable way of prioritising network maintenance and renewal spend. In particular, the document provides no justification for relegating key commuter routes outside London and South East England to the "other secondary" category, with all the consequences that would flow from that in terms of degraded service quality (paragraph 3.3). These services contribute significantly to the functioning of the greater Glasgow, West Midlands, Merseyside, Leeds, and Greater Manchester conurbations which have high levels of rail use. PTE local rail services at 140m annual journeys represent a fifth of the rail network. Much of this network would now appear to be relegated to secondary or deferred maintenance standards.
- ◆ Network Rail's June 2003 Business Plan Update shows that renewals account for at least half of the company's projected annual revenue requirement in the period to 2006-2007. At least half of the renewals expenditure over the same period (and therefore at least 25% of the total revenue requirement) is planned to be spent on the first five routes within Network Rail's existing classification – ie the West and East

Coast Main Lines, the routes from Paddington to Bristol and South Wales and to Penzance and the Midland Main Line. These routes also already appear to account for a higher proportion of Network Rail's maintenance expenditure than their share of total route mileage would suggest.

- ◆ Three corollaries appear to flow from the business plan data. Firstly, in real terms the scope for savings from further differentiation seems to be less than the scenario testing described in the document would suggest. Taking the network as a whole, there would appear to be far greater scope for savings and for benefiting the majority of railway users by controlling the level of existing spend on these five inter-city routes; indeed, the Regulator's recent review of the west coast main line upgrade has confirmed the scale of the potential efficiency savings remaining within this project. The long-distance services which derive the primary benefit from the maintenance and renewal expenditure on these five Network Rail routes collectively account for less than 8% of all passenger journeys on the GB Railway system. In addition to the equity issues that arise from the existing skewing of Network Rail's subsidised expenditure, the Department for Transport statistics show there is a strong correlation between income and aggregate distance travelled. Consequently, a strategy which had the effect of further redirecting taxpayer funding of railway infrastructure in favour of longer-distance journeys would be clearly regressive.
- ◆ Secondly, the converse is that even a marginal redirection of resources from these inter-city routes to other parts of the network would contribute to improvements in punctuality performance which could potentially benefit a far greater proportion of the system's users and ultimate funders.
- ◆ Thirdly, the "value-for-money" assumptions which appear to underlie much of the consultation document's approach (see, for example, paragraphs 1.10, 1.13 and 3.4) are predicated upon the entirely false premise that those elements of the SRA's passenger franchise and freight support expenditure which reflect track access charges are an accurate measure of the infrastructure costs specific to those services. As indicated above, Network Rail's current business plans show a continuing trend for a wholly disproportionate share of its renewals expenditure to be concentrated on a few inter-city routes. Elsewhere on the network (as paragraph 2.20 implies) a significant proportion of maintenance and renewal expenditure is driven by high axle-load traffic, rather than the train consists of the passenger TOCs which fund the bulk of Network Rail's expenditure on these routes. Consequently, a more efficient allocation of infrastructure costs - and in particular an elimination of the existing hidden cross-subsidy to the inter-city and freight sectors - is likely to demonstrate the need for a revision of the assumptions about "what rail does best" which seem to form the basis of much of the SRA's current thinking.
- ◆ A further, more fundamental, point which arises both from the foregoing discussion and from the general drift of the document's proposals is that such differentiation in maintenance and renewal expenditure is not consistent with the existing architecture of the access charging regime. Moreover, this is not simply a matter of domestic policy: it must be questioned whether the outcome of the SRA's proposed strategy would be compatible with the requirements of Directive 2001/14/EC. This provides in Article 7 that Track Access Charges should be set at the cost which is directly incurred as a result of operating the train service in question, and in Article 8 that any mark-ups to permit full cost recovery should be based upon efficient, transparent and non-discriminatory principles.

- ◆ In addition to regulatory and European compliance issues arising from any formalisation of the existing skewed allocation of maintenance and renewal budgets within Network Rail's regulated aggregate expenditure, those TOCs which were expected to face degraded outputs or altered compensation provisions (as described in paragraphs 2.11-12, 3.13, 3.21-5 and 3.27) could reasonably expect a significant reduction in their access charges to reflect these changes. It would be entirely appropriate to argue that these charge reductions should equate to the sum of Network Rail's direct savings attributable to the lowering of its output and compensation obligations, and that the financial outcome of this differentiation should not therefore be available for spending elsewhere on the network. While this would be consistent with the SRA's objective of reducing total tax-borne expenditure on the railway industry, it would not of itself contribute towards the attainment of faster performance recovery on other parts of the system.
- ◆ It is also inevitable that the degraded performance of the "second high level grouping" would have an adverse impact both on the attainment of the Government's policy of increasing rail's modal share and also on the finances of the TOCs concerned. As noted later in this response, some of this financial impact would fall directly on other funding parties. It would arise both from the reduced commercial attractiveness of extended and less reliable journey times and of increased service interruption because of changed possession arrangements (discussed below), and also from the additional crewing and rolling-stock costs of extended journey times. Both this immediate financial overspill from the proposed strategy and the wider social, economic and environmental impacts of its policy consequences need to be brought fully into account against any direct savings to Network Rail.
- ◆ PTEG will also wish to understand the maintenance levels that are proposed for those in the lower/lowest tier of maintenance and renewal activity. For example, minimum levels of maintenance proposed with journey times not to be exceeded by a given agreed standard.

In summary, PTEG does not agree with the key objectives and therefore does not support the proposed specification. In particular, the proposed groupings of:-

- ◆ Primary/London and South East/Main Secondary;
- ◆ Other Secondary/Rural/Freight.

are far too crude and will not allow the type of detailed evaluation that will be required under the SRA's Appraisal Criteria in order to determine whether the strategy offers value for money. Commuter routes within the main conurbations must be assigned a higher priority than other secondary routes given their vital social and economic roles. PTEG would like to understand the appraisal that has led to the proposed classification, because it appears to take no account of the wider benefits that rail services provide in the conurbations.

Engineering Possession Arrangements

In general, PTEG is not opposed to the principle of allowing lengthier possessions to achieve greater efficiency from Network Rail. All PTEs are always prepared to discuss with Network Rail alternative ways of managing engineering possessions on its sponsored network and many have engaged in local discussion of proposals along the lines

suggested in paragraph 3.13 of the consultation document. However, both the SRA and Network Rail must accept that altered possession arrangements cannot be templated on a top-down basis but need to reflect the circumstances of different parts of the network and the wider policy objectives against which particular groups of services are specified. In many instances, these objectives encompass issues which extend beyond the SRA's primary statutory remit. In this connection, it is instructive to compare the approach proposed in paragraph 3.27 of the SRA document with paragraph 6.23 of the Regulator's 3rd consultation paper on his Interim Review of Track Access Charges. The latter acknowledges the potentially wide impact of changes in possessions arrangements on passengers and freight users, and the need for consultation with major stakeholders. PTEG supports the 4 fundamental pre-requisites for any changed approach to possessions arrangements set out in Strathclyde PTE's response namely:-

- i) Network Rail's own internal business processes should not be the sole or main determinant of the possessions options to be considered for a particular route. Customer reasonable requirements should always play a major role.
- ii) There needs to be transparency about the financial impacts of different options and about how the costs and benefits will be shared between the interested parties. Put bluntly, Network Rail should not be permitted to take all the upside from any change in possessions arrangements regardless of the economic impact on TOCs and their funders.
- iii) As part of this decision process, the needs of different operators must be balanced on an equitable and open basis. In particular, PTEG regards as unacceptable Network Rail's aspiration locally to encroach into the operating hours of regular suburban services in order to maintain night-time access for sporadic freight services, especially in view of the relative contribution of the two types of operation to track access charges on the sections of route concerned and also their relative responsibility for wear and tear to the infrastructure.

Where negotiated changes to possession arrangements result in the creation of more "white space" compared with existing timetables, there must be an absolute presumption against Network Rail's selling access to other operators within these periods.

In addition there is also a role for PTEs and the SRA in developing appropriate strategies for replacement transport including alternative rail services as well as bus services. Finally, It is also axiomatic that before any change in permitted possessions arrangements is concerned, that Network Rail should demonstrate that it can manage pre-planned possessions more efficiently than at present.

Question 3 - What factors would affect implementation of the Specification proposed by the SRA and what are the implications for timing?

Before any decisions are made on a strategy, it is imperative that the SRA fully assesses the implications of the strategy on a line of route basis so that stakeholders have a better understanding of the implications. A full appraisal against the SRA's Appraisal Criteria will be required taking into account the wider benefits of heavy rail services and the potential adverse impacts on social and economic development of areas affected.

Other Issues

The document stresses the SRA's "leadership" role, and suggests in paragraph 3.20 that the SRA will respecify franchises to take account of the consequences of its strategy. However, this approach ignores the role and direct interests of other funding parties (including the Scottish Executive and Merseyside and Strathclyde PTEs), and the separate statutory locus of the Scottish Executive and the PTEs as service specifiers. Consequently, finalisation and delivery of the strategy cannot appropriately be determined unilaterally by the SRA, even within the regulatory safeguards described in the Annex to the document.

The consultation paper proposes in paragraphs 3.29-31 that Network Rail should be permitted to implement activity reductions or output flexes in order to manage overspends or under-delivery within a control period. PTEG is totally opposed to any arrangement that would permit Network Rail to vary its regulated outputs without recourse to the Rail Regulator.

Summary and Conclusion

In the absence of fuller consideration within the SRA's strategy formulation processes of all the points detailed above, PTEG considers the proposals for network differentiation to be premature and inadequately justified. While it supports the case for a closer and more transparent alignment between Network Rail's cost and activity levels on the one hand and the requirements of particular traffic flows on the other, PTEG does not accept that the proposed "high level groupings" would be an effective or equitable means of achieving that alignment. Instead, a more direct attribution of costs to the demands which particular types of operation make on the infrastructure, supported where necessary by a segregation of high axle load traffic where this can be shown to contribute disproportionately to maintenance and renewal requirements, or to impose particular constraints on possessions, would seem to offer a more effective approach which would avoid the widespread and progressive degradation of network quality associated with the proposed strategy. This approach should also be buttressed by giving a high priority to capturing, on a system-wide basis, the efficiency gains which the Regulator considers to be within Network Rail's easy reach. PTEG believes it is right for the SRA to question the current cost of maintenance activities, but believes the proposed approach is fundamentally flawed and would have severe impacts for the future viability of rail services in PTE areas. The focus should instead be on cost reduction (across the board) and an assessment of whether standards could be reduced on some routes without compromising safety or overall outputs. The SRA should also assess an appropriate quantum of maintenance expenditure necessary to deliver the required outputs in parallel with the work on 'the case for rail'.