

Enhancing the PTE Role on Rail in the City Regions

Final Report



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Glossary

ATOC	-	Association of Train Operating Companies
ATW	-	Arriva Trains Wales
CA	-	Combined Authority
CfIT	-	Commission for Integrated Transport
CP	-	(Five Year) Control Period
CRDP	-	City Region Development Programme
DaSTS	-	Delivering a Sustainable Transport System
DfT	-	Department for Transport
EPB	-	Economic Prosperity Board
FLDM	-	Full Local Decision Making (Vertical Integration)
FOC	-	Freight Operating Company
GLA	-	Greater London Authority
HLOS	-	High Level Output Statement
HoC	-	House of Commons
HSR	-	High Speed Rail
INFRACO	-	Infrastructure Company
ITA	-	Integrated Transport Authority
ITT	-	Invitation to Tender
LAA	-	Local Area Agreement
LORAL	-	London Overground Railway Limited
LTP	-	Local Transport Plan
MAA	-	Multi-Area Agreement
PTA	-	Passenger Transport Authority
PTE	-	Passenger Transport Executive
PTEG	-	Passenger Transport Executive Group
MOU	-	Memorandum of Understanding
NIR	-	Northern Ireland Railways
NITHC	-	Northern Ireland Transport Holding Company
OPRAF	-	Office of Passenger Rail Franchising
ORR	-	Office of Rail Regulation
SNR	-	Sub-National Review (of Economic Development and Regeneration)
SoFA	-	Statement of Funds Available
SoS	-	Secretary of State
SRA	-	Strategic Rail Authority
PAYG	-	Pay As You Go
ROSCO	-	Rolling Stock Company
SoFA	-	Statement of Funds Available
SPT	-	Strathclyde Partnership for Transport
STPR	-	Strategic Transport Projects Review (Scotland)
TfGMC	-	Transport for Greater Manchester (Committee)
TfL	-	Transport for London
TPE	-	Trans Pennine Express
TOC	-	Train Operating Company
VfM	-	Value for Money
WAG	-	Welsh Assembly Government

Executive Summary

Introduction

The Passenger Transport Executive Group (**pteg**) has commissioned Atkins to undertake a Review of key issues and options for *Enhancing the PTE Role on Rail in the City Regions*. The Review covers the six metropolitan conurbations of England and their surrounding economic hinterlands which are home to around 11 million people and which provide the economic drivers for the Midlands and the North of England. The passenger rail franchises serving these areas carry almost 200 million passengers a year at an annual public subsidy in excess of £300 million with considerable growth in patronage seen in the past decade compared to national trends.

The Review has been carried out between January and April 2010 through review and analysis of desktop evidence and secondary literature, structured interviews with ITA and PTE officers with responsibilities for rail, and the examination of a number of UK and European case studies. Two working sessions have also been held with the **pteg** Rail Group and draft findings presented to a meeting of all the PTE Director Generals. In agreement with **pteg**, the Review has not included formal contact with the Department for Transport, Network Rail or the Office of Rail Regulation at this stage, although dialogue with these decision making bodies, and other stakeholders, will be crucial in due course in order to explore further and reach an agreement on the future of the planning, funding and delivery of urban rail within and between the conurbations.

Current PTE Rail Powers

The Review sets out an analysis of rail networks and services in the English city regions, as well as the legislative basis for the PTEs' current responsibilities and powers on rail. These powers date back to the 1968 Transport Act, and the PTEs can claim an impressive range of achievements on urban rail over the past forty years; however, successive legislation and actions by Government has weakened the local and regional role in favour of key rail-related decisions and funding being made within the Department for Transport, Office of the Rail Regulator and Network Rail. Combined with the dramatic increase in industry costs following privatisation, the Hatfield crash and the collapse of Railtrack, and with the sole exception of Merseytravel, this has reduced the PTEs' ability to progress rail as part of their wider public – and now integrated – transport remits. With the Government understandably focused on central cost control and managing risk across the rail sector, PTEs therefore believe they are less able to provide adequate network and train capacity to accommodate the growth in demand, improve the quality of passenger service, introduce and maintain rolling stock or link rail investment to economic, social and environmental goals.

The 2005 Railways Act transferred extensive powers and funding for defined rail networks and services from DfT to Transport Scotland, the Welsh Assembly Government and Transport for London, with evidence of positive results for investment, customer focus and operational performance. Yet policy affecting the PTEs, with the notable exception of Merseytravel, has been largely in the opposite direction, with Ministers' policy of removing passenger franchise co-signature, for example, being at odds with policies for city region devolution and localism from the rest of Government and approaches which are commonplace across much of Europe.

This is unfortunate since passengers often regard rail as an integral part of their local transport networks, daily experience and means of accessing employment, education and a range of other opportunities, as well as providing connections further afield. It is also important that rail at the local level is planned and delivered in a strategically, physically and operationally integrated way alongside other modes and policy themes, and that lines of communication and direction are kept as simple and short as possible.

The Case for Devolution

On the basis of case study evidence and the PTEs' own views, devolved arrangements for local and regional rail would appear to offer substantial benefits. One approach for this is through the division of the rail network into a set of core "national" routes and a second tier of networks of local and regional importance. Whilst Ministers should rightly retain primary responsibility for strategic decisions and funding relating to the former,

there should be a presumption – or even a duty – to devolve adequate powers and resources for the latter to the appropriate sub-national level, provided this does not conflict with national priorities and certain minimum standards of transparency, efficiency and good governance are met. The Scottish, Welsh and London cases fulfil these conditions and a further precedent has also been set for strategic highways, through the division of the Highways Agency network into routes of national and regional importance. PTEs’ own experience and the successful development of the Merseyrail franchise have shown that the PTEs themselves are capable of delivering on rail. Government needs to go further in terms of the breadth and depth of devolution for rail under the options discussed below.

Devolution does seem to offer more hands on, proactive and committed management in accommodating patronage growth, improving performance and delivering a higher quality of service. The case study evidence suggests that where power is devolved in this way:

- rail is given greater priority, with stronger incentives and influence on network and service operators to acknowledge local priorities, maximise performance and deliver service for passengers;
- investment levels rise, for example, in terms of rolling stock, new or enhanced stations or promotion of re-opened or upgraded lines to cater for, or foster, increased passenger demand;
- operational performance rises, level of service improves, feeding into higher customer satisfaction; and
- decision making is more fully integrated across modes and policy objectives, including capital investment, integrated fares and ticketing, branding and ticketing.

Table 1 below presents some specific benefits and evidence around these themes.

Devolution also offers benefits to DfT. Such a trajectory delivers on commitments made, or implied, through the Local Transport Act, Local Democracy Economic Development and Construction Act, and supports City Region Pilot proposals in Leeds and Greater Manchester. Devolution also offers a mechanism for transferring responsibility – and therefore technical, financial and political risk – for regional and local rail networks to bodies potentially better placed – and with an appetite and ambition – to focus time and resources on them. This would leave Ministers and their officials better able focus on national rail infrastructure and services which are rightly the concern of Central Government. At a time when key questions remain over the cost base and structure of the industry overall, this would be a major advance.

Options

Within this overall approach, a range of options – and models – are available for how devolved arrangements might be structured, including:

- retention and better use of existing rail powers;
- co-ordinated planning and strategy;
- enhanced control of passenger services; and
- supporting infrastructure investment, operation and management.

This Review identifies 24 sub-options within these four categories and assesses their impacts in terms of fit with city region goals and aspirations, effectiveness and value for money, practicality, deliverability, costs and risk, and their match with PTE competencies and skills sets.

Whilst there are few “right” answers emerging from the assessment - since it is for each PTE to weigh up the evidence and decide its own way forward based on its starting point, circumstances, level of ambition and attitude to taking on risk – the evidence does suggest considerable merit in *pteg* and the PTEs developing policy, detailed specifications, road maps to implementation, and advocacy around the following:

- clear, evidence-based rail strategies for each city region, developed with DfT, Network Rail and TOCs and with the aim of securing closer alignment between these local frameworks and the HLOS, RPA and RUS processes which guide strategic planning and investment in the rail sector;
- conditions which better facilitate the use of PTEs’ existing powers, such as statutory consultation on franchise specification, increment/decrement and concessionary fares, especially around questions of

political leadership and decision making, engagement and leverage with Government, devolution of funding, new funding sources and wider efficiencies to the rail industry's cost base. The Memoranda of Understanding being drawn up for the Pilots in Leeds City Region in Greater Manchester, the latter based on a new Combined Authority and Transport for Greater Manchester (TfGMC), should be used to explore these conditions with greater certainty;

- a basic minimum proposition for the retention and extension of PTE franchise co-signature, at least in relation to Northern Rail, or its successor franchise(s) when it is retendered, linked to the PTEs taking on local franchise management on behalf of DfT;
- extension of direct franchising responsibilities, either for specific PTE areas, building on the Merseyrail and London Overground models, or more ambitiously through the creation of pan-regional franchising arrangements for Northern England and the Midlands. Further discussions are needed on both models around governance, franchise scale, specification, length and treatment of revenue risk;
- options which address the poor choice and high costs of purchasing or leasing rolling stock via the existing ROSCOs. These include incentives for TOCs to invest in new train fleets within or beyond franchise specifications, PTE engagement with DfT for shared procurement and the creation of a PTE-owned ROSCO. These should aim to ensure a consistent approach within franchise baselines, allow for franchise amendments which support patronage growth and complement infrastructure investment. Approaches should balance passenger needs, PTE requirements and the need to secure economies of scale and value for money considerations in procurement;
- whilst the case for adopting vertical integration as a basic structural model for the railway is weak, there is scope for stronger PTE engagement and consultation in the specification of plans for maintenance and enhancement of city region rail networks, building on the existing RPA and RUS processes and feeding into programmes which may emerge from DaSTS and HLOS. There is also a case for a carefully specified and supported pilot exercise for vertical integration on the Merseyrail network, with lessons informing policy and practice in other areas; and
- in combination with the Better Railway Stations Report recommendations, investment and management of commuter stations, through transfer of ownership, leasing or long-term management contracts, linked to integrated transport arrangements in each area and proportionate scheme approval procedures for rail property and infrastructure.

These options will create a stronger linkage between investment in, and management of, rail infrastructure and services, and local and regional priorities, both for transport and wider economic and social goals. They are also largely achievable within the current industry structure and either present the potential for efficiencies and cost savings on current arrangements, or provide scope for improved passenger service at limited additional cost.

As has been demonstrated by the case studies, taking on significantly greater responsibilities for rail should not be undertaken without comprehensive due diligence to identify and address risks, and the capacity and skills required to deliver. Equally, it will be important that a funding settlement is reached commensurate with the roles being taken on, and to meet any liabilities which are transferred.

Table 1 – Summary of Benefits and Evidence for Devolution of Rail Powers and Responsibilities

Benefit	Justification and Evidence
<p>Increased Investment</p>	<p>Where rail powers have been devolved, local and regional agencies either invest in enhanced infrastructure and services themselves, or create the conditions for the private sector to do so:</p> <ul style="list-style-type: none"> • new train fleets on order in for London Overground and ScotRail which will have greater reliability, operational efficiency and passenger comfort than the trains they replace. In the Netherlands, the introduction of new lighter passenger trains has reduced operating costs and wear on the track; • the long-term Merseyrail franchise has provided for investment in train modernisation and enhanced methods of maintenance has dramatically improved rolling stock reliability; • new or improved stations have been delivered, such as Liverpool South and Brunswick on Merseyrail, a deep clean, staffing, branding and modernisation of all stations on London Overground, and Transport Scotland’s Station Regeneration Fund; • line have been reopened or upgraded, including the Airdrie to Bathgate Rail Link in Scotland, the East London Line Extension and the Ebbw Valley Railway in Wales; and • in France and Germany, regional administrations can invest in enhanced rail infrastructure and services from taxes, such as the Versement Transport, which are raised locally.
<p>Focus, Drive & Incentivisation of the Industry</p>	<p>Where rail powers have been devolved, infrastructure and service operators are more closely incentivised to improve or maintain their performance and customer service by direct support, scrutiny and challenge by local politicians and officers who are closer to passengers, understand the daily travel experience and know where improvements are required:</p> <ul style="list-style-type: none"> • ScotRail’s franchising relationship is with Transport Scotland which working directly on behalf of elected Scottish Ministers, with a franchise extension agreed to 2014 in return for strong performance and an additional £73 million of investment for passengers; • Merseytravel is able to develop a close partnership and hold Serco-NedRailways directly to account for the performance of its services, with political pressure for high investment, service quality, responsiveness & customer focus from the company; • TfL takes revenue risk on the London Overground concession, but backed by the Mayor, monitors LORAL’s performance, and makes incentive or penalty payments; • the five Northern PTEs believe strongly that franchise co-signature gives them a “seat at the table”, more regular contact, a stronger degree of influence, and easier capacity to secure changes to the operations of Northern Rail on a day-to-day basis than would otherwise be feasible, with benefits for passengers; and • passenger service tendering arrangements in the Netherlands means provincial bodies can re-incentivise or replace operators periodically within an increasingly competitive market.
<p>Responsiveness and Flexibility to Local Priorities</p>	<p>Devolution enables local and regional aspirations, needs and challenges to be addressed in a complementary manner to overarching national goals:</p> <ul style="list-style-type: none"> • long-standing evidence, for example from the Core Cities Group, Centre for Cities and Northern Way, shows that there is a close relationship between local and regional economic competitiveness and the extent to which economic and social powers, responsibilities and resources are devolved, with investment in urban transport generating economic multipliers of up to 25-30% on top of “traditional” transport benefits; • the Government’s own Sub-National Review, Local Transport Act, and Local Democracy, Economic Development and Construction Bill, and City Region Pilots set out an ambitious agenda for city and sub-regions, rather than Central Government Departments, taking or influencing key decisions on investment in infrastructure and services; • PTEs contend that proposing and making changes to franchises when they are at least a co-signatory is easier, quicker and more efficient than where they are not. Centro’s experience of London Midland, with co-signature removed, appears to support this view; and • in Europe, regions and city regions specifying, funding and awarding or franchising rail infrastructure and services for sub-national networks is the rule rather than the exception.

Benefit	Justification and Evidence
<p>Stronger Performance</p>	<p>The evidence suggests that devolved rail networks show strong operational performance, increases in patronage and rising customer satisfaction:</p> <ul style="list-style-type: none"> • Merseyrail has been transformed from a failing railway to one of the best performing on the national network. Around 96% of trains now arrive on time, compared to around 80% prior to franchising by Merseytravel. Some 91% of passengers are satisfied with the service which has shown year on year patronage growth since 2002; • ScotRail – Since the current franchise was let and transferred to Scottish Ministers, service delays have reduced by 50% and passenger volumes have risen by 20%. Around 90% of services now arrive on time and 89% of passengers are satisfied with the service; • TfL investment in London Overground through replacing track and points and upgrading signals is expected to improve reliability and allow for increased frequency with signs that on completion of engineering works and introduction of new trains, customer satisfaction levels will rise, with 75% satisfied in Spring 2009 already up 10% on a year earlier; and • whilst directly comparable data from Europe is not available, there is evidence that investment in new regional infrastructure, rolling stock and services in many areas has been accompanied by increasing level of service, patronage and levels of customer satisfaction. Public transport use in and around Lille, for example, increased 47% in a decade and the introduction of tram-train in Karlsruhe has transformed patronage levels in and around the urban area.
<p>Integration</p>	<p>Devolved specification, funding and management of rail allows closer integration with other public transport modes, policies and wider transport interventions:</p> <ul style="list-style-type: none"> • Transport Scotland's Strategic Transport Projects Review (STPR) allowed evaluation of the case for rail alongside investment in roads, local public transport and maintenance; • Merseytravel has been able to plan and deliver interchange enhancements across Merseyside has improved physical interchange with buses, and invested in walking, including Merseyrail winning funding as a Cycling Demonstration TOC and obtaining Secure Station status for all 66 stations across its network. 75% of station car parks are also Secure; • Transport for London implemented Oyster PAYG on all London Overground stations soon after taking over responsibility for the franchise, allowing equal access to all other public transport modes in London within a single ticketing and fare arrangement; • the Scottish Government, Welsh Assembly Government & Northern Ireland Assembly have introduced or are developing integrated bus and rail ticketing products across bus and rail; • passenger service franchising arrangements in the Netherlands allow for combined franchising, management and branding of rail and bus services within a single area; and • Merseytravel, Transport for London and Transport Scotland have introduced common branding for railway stations, trains, and information and promotion alongside other public transport modes and initiatives, providing a consistent image and identity to the passenger and reducing costs of rebranding, if and when franchise operators are replaced.
<p>Efficiencies and Cost Reductions</p>	<p>There is evidence that devolution can provide for efficiencies and cost savings which can be re-invested back into benefits for passengers:</p> <ul style="list-style-type: none"> • in London and Scotland, a range of options for the purchase or leasing of new rolling stock may be more cost effective and flexible than reliance on one of the existing private sector ROSCOs; • in London and Scotland, focused project specification, procurement and management is enabling Airdrie-Bathgate and the East London Line to be delivered on time and on budget; • in Merseytravel, economies of scale in bringing rail planning, business case development and franchise management alongside other functions into a single organisation; • in London, Scotland, and Merseyside, there are cost savings from maintaining a single rail brand which does not change with the replacement of a franchise operator; • Merseytravel estimate that implementing vertical integration on the Merseyrail network would create cost savings of £33 million over the life of the existing franchise and provide a cost comparator to Network Rail. Separate evidence from Northern Ireland suggests lower capital and operating costs of the vertically integrated NIR network compared to Great Britain ;

	<ul style="list-style-type: none"> • direct franchising responsibilities in Transport Scotland, TfL and Merseytravel removes duplication of focus – and therefore cost – with franchise managers within DfT; • potential for bespoke local standards and specifications (e.g. on rolling stock specification, asset management regimes, station design standards) to reduce costs; and • combined bus-rail franchises in the Netherlands reduce management costs for the franchise operator with the potential for savings passed onto the franchising authority.
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The Way Forward

Based on the evidence presented in this Review, **pteg** should hold early discussions with DfT, Network Rail and ORR on key principles around devolution of rail powers and the options. Following the General Election, it should seek to engage with the relevant Ministers and officials on:

- the wider role of city region rail networks and services within the regional DaSTS and RFA process, and through this to the next HLOS for England. The distinction between national and local and regional rail networks, introduced above, may assist in informing this process;
- the current DfT discussion document on the Future of Rail Franchising and evolving thinking on the procurement of new diesel and electric rolling stock for services in Northern England;
- enhancing the PTE role on station management and enhancement in light of the Better Stations Report;
- early thinking on the retendering of the Northern Rail franchise, in light of decisions taken on Scotland, Wales and London Overground, as well as medium-term opportunities for enhanced capacity and services which may be created by the Northern Hub; and
- the ongoing DfT/ORR review of rail industry costs and efficiencies, including raising and appraising a range of options which may address some of the high costs to PTE areas which result from the current industry structure, and the allocation of network costs between regional and long-distance services.

1. Introduction

1.1 This Review

The Passenger Transport Executive Group (**pteg**) has commissioned Atkins to undertake a Review of key issues and options for “*Enhancing the PTE Role on Rail in the City Regions.*”

The outcomes from the Review are intended to provide decision makers in the city regions, principally the Director Generals and Directors of the six Passenger Transport Executives (PTEs) in England and Members of their governing Integrated Transport Authorities (ITAs), with advice on seeking changes to the current policy framework for urban rail, the benefits, risks and practical issues of increased devolution of rail responsibilities and powers, and for specific reforms which the PTEs may wish to pursue with Government.

The PTEs within scope of this Review are as follows:

- Greater Manchester;
- Merseyside, operating under the name of ‘Merseytravel’;
- South Yorkshire;
- Tyne and Wear, operating under the name of ‘Nexus’;
- West Midlands, operating under the name of ‘Centro’; and
- West Yorkshire operating under the name of ‘Metro.’

Together, the conurbations covered by these PTEs are home to around 11 million people, or slightly under a fifth of the population of the UK, with major contributions to regional and national economic productivity and output.

1.2 Review Objectives

This Review aims to deliver clear advice to the PTEs on the options available to them to maximise their role in securing an integrated, efficient, reliable and safe railway for their city regions. In this respect, it has the following aims:

- to summarise rail-related legislation and policy frameworks, including the 2005 Railways Act, 2008 Local Transport Act and 2009 Local Democracy, Economic Development and Construction Act, High Level Output Specification, Future of Rail Franchising and DaSTS;
- to examine and articulate PTE responsibilities, powers and influence on rail networks under existing legislation, and how these vary across different city regions;
- to analyse the experiences of others in taking devolved powers, including Transport for London, Transport Scotland, Merseyside and the impact of the removal of Centro’s co-signature on the London Midland franchise;
- to consider other successful examples from overseas, including linking to **pteg’s** proposed work on devolution of rail in the Netherlands;
- to set out the benefits – but also the practical issues and risks – that devolution of further rail powers might bring the PTEs, DfT, the rail industry and passengers, and the circumstances under which differing levels of devolution may be appropriate; and
- to identify a menu of options for specific powers, roles and responsibilities which the PTEs might pursue, together with the political, funding and practical conditions under which they might pursue them.

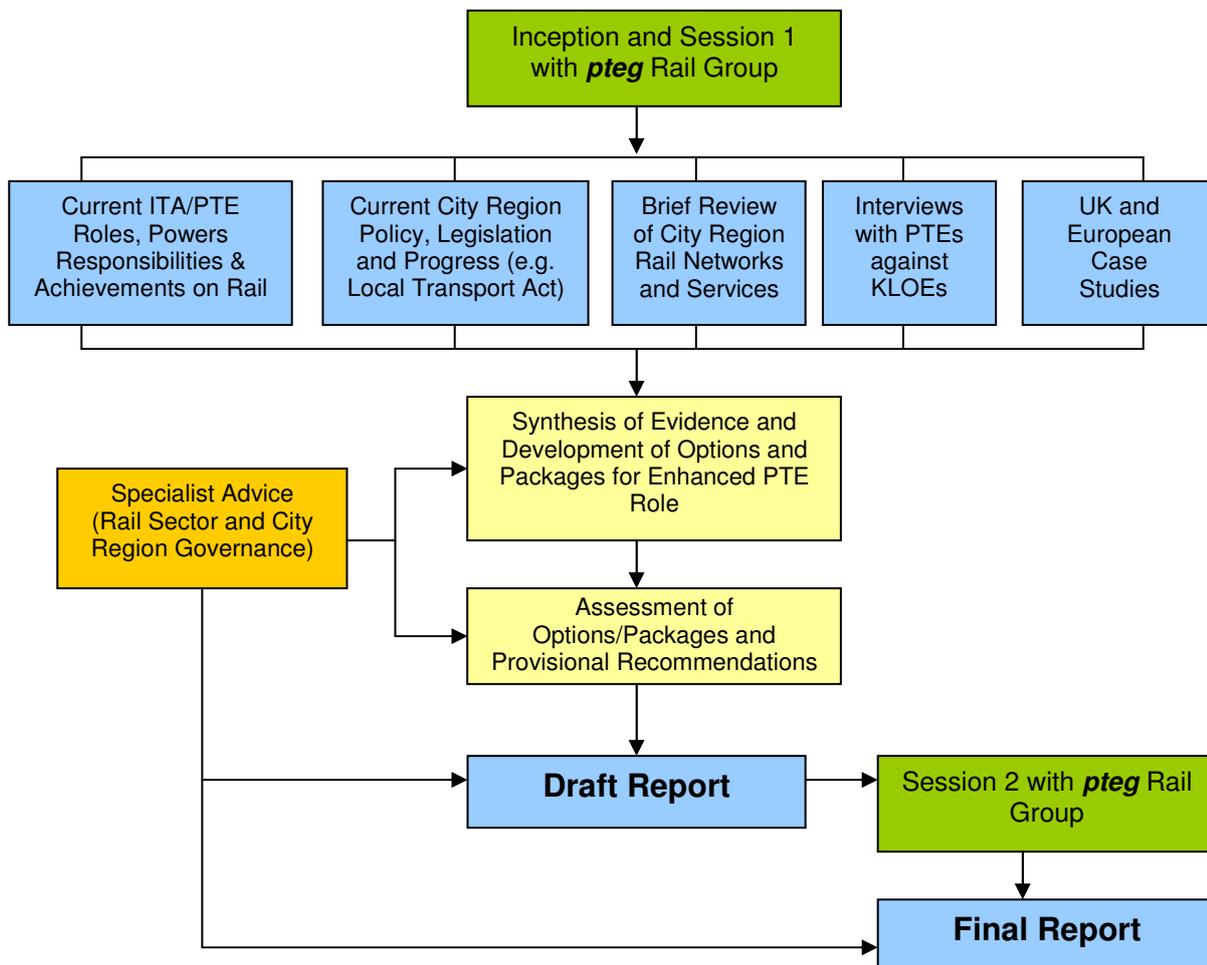
1.3 Methodology

The methodology and evidence base for the Review includes the following key elements:

- an initial review of current ITA and PTE roles, responsibilities and powers on urban rail;
- a literature review of existing evidence on rail policy, practice and outcomes;
- comparative review of experience of devolution of rail powers elsewhere in the UK and in Europe;
- a structured telephone interview with PTE directors with rail responsibilities;
- initial discussions, option generation and assessment by the Review Team; and
- two discussion sessions with the *pteg* Rail Working Group.

Figure 1.1 shows how the key elements of the approach relate to each other.

Figure 1-1 - Overall Approach to *pteg* Rail Review



It should be noted that our Review, with the agreement of the pteg Support Unit, **has not included any formal contact, at this stage with the Department for Transport, Network Rail and other rail industry stakeholders**. This Report should therefore be read primarily as an initial policy paper for *pteg*, subject to further engagement with external parties in due course.

This Report excludes detailed consideration of PTE responsibilities and powers in respect of light rail and urban tram systems and also discussion of options for High Speed Rail. Whilst these are important initiatives for connecting the city regions and supporting enhanced economic growth of the North and the Midlands, these topics are dealt with elsewhere.

Nor have we explicitly focused on other areas of PTE activity such as urban bus services, local transport planning or wider questions of governance structures and processes. Again, there is extensive material on these subjects elsewhere and it is not repeated as part of this Review, except where it is directly relevant to the question of urban rail.

1.4 Structure of this Report

The remainder of this Report structured as follows;

- **Chapter 2** briefly reviews the extent and nature of city region rail networks;
- **Chapter 3** presents a summary of PTE rail powers under existing legislation;
- **Chapter 4** presents the evidence for a change in existing arrangements, based on PTE views and evidence from case studies;
- **Chapter 5** proposes a set of options around rail powers and influence for PTEs individually or collectively including strategy, franchise specification and management, working with Network Rail, stations and rolling stock;
- **Chapter 6** presents a high level assessment of options in terms of their likely impact, affordability, practicality, risks and overall feasibility in the current political and economic climate; and
- **Chapter 7** sets out our conclusions and recommendations to *pteg*.

Eleven case studies are set out throughout the document illustrating various aspects and examples of devolved rail networks.

Further details are provided in Appendices A to C, including a bibliography and detailed descriptions of the case studies.

2. Rail in the City Regions

2.1 City Region Rail Networks

There has been increasing interest – and action – on urban transport governance in England in recent years. Government has identified the fragmentation of responsibilities for transport planning, funding and delivery across multiple local authorities, public agencies and stakeholders as a major impediment to achieving the coherent articulation and implementation of effective policies and for the transport sector as a whole to support wider agendas for economic development, social inclusion and environmental sustainability.

Urban rail networks are especially interesting in this debate. Unlike bus and tram networks, they were originally developed in the nineteenth and early twentieth centuries by private companies with relatively little involvement from municipal governments. The resulting networks often transcend local authority boundaries and carry important interactions between local commuter, regional and long-distance passenger services and the movement of freight. As competition with road-based modes has increased, rail traffic has declined revenues have fallen below costs, although passenger services remain socially necessary, therefore requiring an ongoing subsidy and degree of public sector interest and control not seen in many other transport sectors.

Moreover, urban rail networks are subject to complex, multi-layered governance arrangements. This is especially the case since the privatisation of British Rail in the mid-1990s with the responsibility for various aspects of economic and technical regulation, funding, network maintenance and management, passenger and freight services and integration with other modes split between numerous parts of Central and Local Government, Non-Departmental Public Bodies and private sector operators. By many accounts, this is not a structure we would invent from scratch if starting with a blank page.

Passenger numbers carried by commuter networks in England are dominated by London. However, demand is significant and has grown strongly in other regional cities, especially those covered by the PTEs. Increases in passenger journeys over the past decade have exceeded 60% in West Yorkshire and Greater Manchester, for example, over 50% in the West Midlands and almost 40% in South Yorkshire, all above the national trend. Almost 200 million annual passenger journeys are now made on rail networks wholly or largely within PTE areas in England, equivalent to one in seven of all rail journeys in Britain.

Key passenger franchises serving the PTE areas are Northern Rail, Trans Pennine Express, London Midland and Merseyrail. Table 2.1 sets out some vital statistics for each.

Table 2.1 - Key Statistics for English City Region Passenger Rail Franchises 2008 – 2009

TOC	Passenger Journeys (m)	Passenger Km (m)	Timetabled Train Km (m)	Route Km Operated	No. of Stations	No. of Employees
London Midland	52	1,575	22	861	149	2,510
Merseyrail	32	378	6	121	66	1,150
Northern	85	1,970	43	2,762	471	4,770
Trans Pennine	22	1,278	16	1,250	30	1,010
TOTAL	191	5,201	87	4,994	716	9,440

Source: National Rail Trends Yearbook 2008-2009 Office of Regulation (2009)

The services provided by these operators underpin urban economies and are a vital means of moving people – and other operators moving freight – whilst tackling congestion, promoting accessibility and supporting sustainable development. They also increasingly carry passengers beyond metropolitan boundaries to the functional city region¹ significantly beyond PTE jurisdiction.

Previous research for *pteg*² has shown that rail in the city regions plays a crucial role in delivering against a range of national transport objectives, including supporting the economy, reducing social inclusion by providing access to opportunities, contributing to sustainability and offering good value for money. This research also demonstrates a strong track record, and specific case studies, of targeted investment by PTEs supporting these objectives on the ground, with the potential for further success if additional powers were to be devolved to the local or regional level.

Whilst passenger volumes on city region rail networks has grown, it is also evident that investment in network and train capacity has not kept pace, as Central Government has focused its attention on controlling the cost base of the industry, and initially let a number of passenger franchises serving Northern cities on a no growth basis. Increase in demand and train traffic has therefore created or exacerbated problems of journey delays and unreliability, passenger overcrowding and sub-standard customer service. For example, almost half the trains arriving into Birmingham in the Peak Hour have standing passengers, compared with two-fifths into Sheffield and over two-thirds into Leeds³. Much of the rolling stock in the city regions is also ageing and in need of replacement in the foreseeable future⁴. Whilst measures of passengers in excess of capacity are less than commuter services serving London, there is extreme overcrowding on a number of metropolitan routes and this reduces the viability of ITA/PTE strategies to reduce dependency on the private car and tackle urban congestion.

Nevertheless, regional operations continue to require substantial public subsidy – equivalent to over £250 million a year for Northern Rail, Trans Pennine and London Midland combined⁵ – reflecting the social, rather than the commercial, nature of the routes and markets served. Total grant from the Government to all the PTEs for supported rail operations in their areas was £312 million in 2007/08, including £78 million for Merseytravel to directly support the Merseyrail franchise. Indeed, these costs have increased substantially since privatisation due to the change in industry structure and cost allocation procedures which removed the marginal user status of PTE-sponsored services and replaced it with an approach based on modern equivalent asset value, applicable to both infrastructure and rolling stock⁶. This has substantially, and adversely, impacted on the economics of providing additional rail services across the city regions.

In short, rail is a vital element in supporting the city regions across England. However, despite substantial public sector support, it is failing to achieve its full potential and this puts at risk the wider integrated transport objectives and strategies being pursued by the PTEs.

2.2 *pteg's* Rail Agenda

Investing in existing city region rail networks and services, and improving accessibility through new and improved links, has been a long-standing element of *pteg's* agenda and forms a key part of *pteg's Manifesto for Transport*, prepared to inform all political parties in the run-up to the 2010 General Election.

¹ Leeds commuter services extend beyond West Yorkshire, for example, towards Harrogate, York and Selby in the north and the east.

² Rail in the City Regions. JMP for PTEG (2004).

³ The Case for New Rolling Stock: Tackling Overcrowding on the PTE Rail Networks. JMP for PTEG (Unpublished, 2010).

⁴ For example, the oldest rolling stock, the Class 507/508 Electric Multiple Units on the Merseyrail network will come to the end of their useful lives during CP4 (2009-2014).

⁵ National Rail Trends Yearbook 2008-2009. Office of Rail Regulation (2009), ranging from 3.2 pence per passenger kilometre for Trans Pennine to 7.3 pence for London Midland. These are amongst the highest rates of subsidy in the industry, although still below Arriva Trains Wales (11.3 pence), First ScotRail (8.6 pence) and CrossCountry Trains (6.5 pence).

⁶ The subsidy required for an almost identical level of service in South Yorkshire increased five times pre- and post-privatisation, for example, from £4 million in 1995 to £19 million in 2002. Centro's subsidy requirement increased from £18 million to £48 million.

In essence, and as set out in its 2006 submission to the House of Commons Transport Select Committee, the PTEs aspire to:

modern, efficient, safe, reliable and high quality rail networks, integrated with other modes; and which provide passengers with clear and easy to understand information, branding and ticketing – all combining to make rail travel easier and more attractive.

The PTEs are working hard on the ground to attract investment and make this vision a reality. Since their creation in the late 1960s, they can claim a wide range of successful outputs and outcomes, such as 70 new stations, re-opening of complete railway lines such as Huddersfield to Halifax and the Cross-City Line in the West Midlands, and investment in new trains such as the Class 333 fleet on the Airedale and Wharfedale Lines in West Yorkshire. They have lobbied hard for, and been successful in securing, improved train frequencies and journey times to London and between regional centres, for example Nottingham to Sheffield and Leeds, and invested in branding and integrated ticketing, including Metro Train, Merseyrail and the current Yorcard initiative in South and West Yorkshire.

However, as will be outlined in Chapter 3, the formal responsibilities, powers and resources available to the PTEs to facilitate their work have changed significantly over time, with decision making and funding increasingly transferred and concentrated within Whitehall rather than devolved to those arguably best placed to understand and respond to local priorities and needs.

Whilst the transfer of franchising responsibilities for the Merseyrail Electrics to Merseytravel is a welcome development which has brought clear benefits for the Liverpool City Region, for example, the 2005 Railways Act's removal of automatic PTE co-signature on other franchises, and its removal in practice from Centro in the case of London Midland in 2007, have raised significant concerns, both in principle and in imminent practice in relation to the forthcoming refranchising of Northern Rail and Trans-Pennine Express. Moreover, the Government's policies and actions on urban rail run counter to its rhetoric and enabling legislation for devolving more responsibilities across a wide range of sectors to city regions where there is an appetite, ambition and capacity to rise to the challenge.

Likewise, the PTEs perceive decision making within DfT, Network Rail and engagement with its regional and local stakeholders as frequently lacking transparency, accountability and responsiveness, with a wide range of proposed interventions set out in various planning and delivery frameworks, but unfunded and with little commitment to implementation within an agreed timescale.

The options available for PTEs taking on – or regaining – greater influence over urban rail are not new. Many of those considered as part of this Review were included as part of **pteg's** work in 2007 on metropolitan transport governance, or as part of more recent reviews of transport governance under the Local Transport Act. The challenge of this commission is to not simply repeat these considerations, but to adapt them to current economic and political circumstances, identify "new" options, and articulate them to a wider audience. Such efforts can be effective, as the results of pteg's lobbying on urban bus services show, and it should be asked whether a similar outcome can be achieved on national rail policy.

This Review also builds on a stronger evidence base on the benefits, risks and practicalities of devolving rail powers based on recent experience. In Great Britain, passenger franchising powers have been transferred for key networks to Transport for London (London Overground) and Merseytravel (Merseyrail). The Welsh Assembly Government now has franchise co-signature and management responsibilities for the Arriva Trains Wales franchise. The powers of the Scottish Government, exercised through Transport Scotland, go further to include not only franchise responsibility for ScotRail, but specification and funding of where and how Network Rail invests in infrastructure maintenance and enhancement, effectively allowing Scottish Ministers to lead the HLOS process in Scotland independently of DfT. Northern Ireland is unique in maintaining a

state-owned vertically integrated railway, having never gone through the privatisation exercise which had such profound change in Great Britain.

The examples cited above, plus parallel evidence from Europe, raises an important hypothesis that **where rail powers are devolved, levels of investment, service and the passenger experience are substantially improved**. This Review seeks to test and develop this assertion further and consider the practical circumstances and prerequisites – and the limits – of where and how devolution can deliver real benefits at the city region level.

2.3 Opportunities and Challenges

In this context, the current times present both **opportunities** and **challenges** for the PTEs and their governing ITAs, and their ability to drive the rail agenda with Government, the rail industry and stakeholders within the overall debate on devolution of power.

The **opportunities** arise from the devolution agenda which presents the potential to hand decisions down from Central Government and give local and regional partners a greater say in how resources are allocated (and how risks are managed). The Local Transport Act, Local Democracy, Economic Development and Construction Act, Regional Funding Advice and Delivering a Sustainable Transport System (DaSTS) are key elements encouraging this shift, with the ITAs and PTEs receiving a broader remit and responsibilities (e.g. on Local Transport Plans) with further potential to strengthen and develop their governance arrangements. The Government's current encouragement of Total Place is also a positive step on this agenda. In addition, the Government's review of passenger franchising policy, recent ORR and Competition Commission examinations of the rolling stock leasing market, the continuing high capital and operating costs of the rail industry, and the imminent commencement of the retendering of Northern Rail present opportunities for the PTEs to clearly set out their expectations, aspirations and offer within revised arrangements for rail infrastructure and services.

There is also some evidence that the Government's policy for future passenger rail franchises is towards geographically longer contracts, offering greater scope for private operator investment and innovation and allowing greater responsiveness to problems of capacity and quality of service at more limited recourse to the taxpayer. The PTEs need to understand, selectively challenge, and articulate their objectives and priorities within this agenda, seeking to influence or define franchise specification, and manage delivery, in a manner already achieved by Transport Scotland and TfL Rail. On Merseyside, the debate is whether Merseytravel should take more powers beyond the existing Merseyrail franchise, including specifying some Northern services within the Liverpool City Region, or piloting vertical integration with the train operator also taking responsibility from Network Rail in funding, maintaining, and managing, line infrastructure and stations.

The **challenges** are underlined by the harsh economic environment and the virtual certainty of significant cuts to public sector funding after the next Spending Review. With transport likely to be one of the policy areas most at risk from cuts, as the Government attempts to cut the budget deficit over a number of years, capital investment for HLOS2 in England between 2014 and 2019 may be particularly constrained, especially as major projects such as Thameslink, High Speed Rail and the electrification of key inter-city routes are likely to involve substantial forward commitments. Revenue support for passenger franchises is also likely to be similarly constrained, placing the onus for substantial service improvements on TOCs themselves, and local and regional partners. The PTEs will have to demonstrate the value for money of their proposals in meeting this agenda, use statutory powers available to them to maximum effect, identify new funding streams, and indicate willingness to make, and stand by, tough choices on capital and revenue expenditure and sensitive issues such as the level of passenger fares.

This Review therefore aims to provide support to **pteg** in updating its evidence base and thinking in light of these developments, contributing to an updated Rail Vision which is effective, ambitious but realistic, and fit for purpose in the circumstances of the next few years.

3. Current PTE Powers on Rail

3.1 Introduction

This Chapter reviews the recent history of PTE roles and responsibilities in respect of urban rail. In particular, it is evident that PTEs have progressively lost powers and influence on urban rail, both through the legislative transfer of key management and investment decisions to Central Government, and the shift in operational responsibilities from the public to the private sector. More recently, Government shown more willingness to devolve responsibilities and resources to the sub-national level, as shown in the Local Transport Act and Local Democracy, Economic Development and Construction Act; however, this process is patchy and largely incomplete and more needs to be done to apply some of the good intentions displayed by some parts of Government to urban rail in the PTE areas.

3.2 Overview of ITA and PTE Powers

The powers to establish Passenger Transport Authorities (PTAs) and Passenger Transport Executives (PTEs) are contained in the 1968 Transport Act and the Local Government Acts of 1972 and 1985. The Local Transport Act 2008 renames Passenger Transport Authorities as Integrated Transport Authorities, effective from February 2009, and broadens their focus on public transport to a wider range of modes and policy themes.

An Integrated Transport Authority (ITA) is made up of elected representatives (Councillors) from the Metropolitan District Councils covering the area it serves. These representatives are nominated by the Councils reflecting their balance of population and political control, although the Local Transport Act allows variations to the basis for nominations. A Passenger Transport Executive carries out the policies of the ITA.

The responsibilities of ITAs and PTEs are set out in the 1968 Transport Act and are amended in a range of subsequent legislation, including the 1985 Transport Act and 2008 Local Transport Act. Principal duties and responsibilities have focused on securing the provision of public transport services for urban areas, including such functions as public transport strategy development, public transport information, planning and funding of socially necessary bus services, running of concessionary travel schemes, capital investment in new or improved public transport infrastructure, management and maintenance of bus stations and funding of supplementary suburban rail services into city centres. These functions are undertaken in close liaison with the Metropolitan District Councils within each ITA area. However, the 2008 Act extends ITAs' (and therefore PTEs') responsibilities to other areas of integrated transport policy and delivery, including preparation of the (Joint) Local Transport Plan, freight, demand management and walking and cycling. These wider responsibilities can be pursued as a basic minimum arrangement with the respective Metropolitan Districts or through the formal transfer of additional powers to the ITA through secondary legislation.

A fuller examination of current ITA and PTE powers across all modes is set out in *pteg* (2005), CfIT (2007), Atkins (2007) as well as a number of Governance Reviews carried out, or in progress, under the provisions of the Local Transport Act.

3.3 Powers on Urban Rail

The 1968 Transport Act (Section 20) gave the then PTAs and PTEs powers to secure the provision of public transport services in their areas, including responsibility for planning and financing rail services, and key capital infrastructure.

The subsidies, which had previously been paid to British Rail to operate socially necessary, but uncommercial rail services, were allocated to the PTA in each Metropolitan Conurbation to enable

it to finance public transport in its area. The objective of this approach was to encourage financial responsibility, with the Government making and allocating grant for PTE railways based largely on the route mileage of the network under PTE support.

These powers gave local politicians the responsibility for financing rail services in support of local objectives and priorities⁷. The PTAs and PTEs were also able to make capital grants to British Rail to fund new stations, track and signalling infrastructure, and rolling stock.

Privatisation

Privatisation of the UK rail system and the setting up of a new Non-Departmental Public Body, the Office for Rail Franchising (OPRAF), under the Railways Act 1993, had a significant impact in Metropolitan Conurbations. The legislation provided for the restructuring of the British Railways Board, and enabled the Secretary of State for Transport to transfer the separated parts of the railway to the private sector, for example through a new infrastructure company, Railtrack, and a number of Train Operating Companies (TOCs) running passenger services against franchises specified and managed by OPRAF. The legislation also created a new regulatory regime for the railways with the establishment of the Rail Regulator⁸.

The trains, stations, and station facilities that PTEs had purchased under their previous powers were transferred to Railtrack, and a number of privatised Rolling Stock Companies (ROSCOs)⁹.

Under Section 34 of the Act, PTEs retained powers to specify (to OPRAF) within passenger rail franchises the level and quality of services needed to meet public transport requirements in their area¹⁰, including the basket of fares to be charged for those services. The PTEs were also party and co-signatories of the franchise agreement. The PTEs retained powers to invest directly in new stations, track and signalling infrastructure, and rolling stock, through the provision of capital grants.

In this way, PTEs were able to continue to support rail services in their areas, although with responsibility for financing increasingly resting with OPRAF, later with the Strategic Rail Authority and subsequently with the Department for Transport.

Transport Act 2000

The Transport Act 2000 saw the replacement of OPRAF by the Strategic Rail Authority (SRA), another Non-Departmental Public Body set up to provide strategic direction for Britain's railway industry.

The Act also modified the powers of the PTEs to specify what was to be included in a franchise (Section 246). The PTEs retained their powers to specify service levels, quality requirements and fares regulations, but the SRA was required to include these specifications in passenger franchise agreements only if it considered that this would not compromise its national strategic duties and financial probity. The SRA and/or Train Operating Companies (TOCs) were also required to consult with the PTEs on any significant proposals for service changes, and the PTEs retained their co signature on relevant franchises within their area.

Railways Act 2005

The Hatfield crash, subsequent collapse of Railtrack, the major escalation of capital costs across the industry, and the failure of a number of passenger franchises effectively forced a rethink of the Government's rail policy as set out in the Integrated Transport White Paper and Ten Year Plan.

⁷ In principle, if a PTA believed it was better to spend some of the money previously used to subsidise rail services on the provision of more frequent bus services, it was free to do so. In practice, this was discouraged by Central Government due to concerns about the political damage that railway closures could cause.

⁸ Dealing with the monopolistic and monopsonistic elements of the industry, principally Railtrack, now Network Rail.

⁹ The value of those assets is reimbursed to PTEs via an annual 'deed of assumption' payment from Central Government.

¹⁰ The Franchising Director was obligated to act "economically and efficiently" in responding to these requests.

In particular, Ministers' desire to exert firmer control over rail financial support and investment levels, and a belief that negotiation and partnership were insufficient to address acute structural problems, led to a fundamental review in 2004, and proposals for changing the organisation of the industry.

These proposals were given legislative basis in 2005 through a new Railways Act. This wound up the Strategic Rail Authority (SRA), which had been established only a few years before, and passed its functions directly to the Secretary of State and to Network Rail. These included setting future policy and financing of the railway, franchise letting and management and business case development and approval of capital investment.

The powers of PTEs are affected by a number of provisions of the Act and DfT has issued further Guidance in this area¹¹. In particular, the PTEs cease to have an automatic right to co-specify and co-sign new franchises and are likely to cease to be a party to current franchises once the franchise comes to an end or is significantly revised as a result of a review. Clause 13 (7) of the Railways Act states that the Secretary of State has the discretion to allow PTEs to remain as co-signatories; however, he or she would not expect to exercise this discretion unless a PTE can provide evidence that their presence as a co-signatory added significant value to the management of the franchise and wider DfT objectives of improving performance and cost control. In 2007, Centro became the first PTE to cease being a franchise co-signatory when the London Midland franchise was awarded.

Under the 2005 Act, PTEs do retain a statutory right to be consulted on the specification for franchises that include services to, from, or within their area before an Invitation to Tender is issued or, in the case of extensions to existing franchises, prior to DfT entering a new franchise agreement. In addition, PTEs have the right to be consulted at various stages during the life of relevant franchises.

In addition, PTEs are able to inform the baseline franchise specification and capital investment through the processes put in place to produce Regional Planning Assessments (RPA), which, in principle, continue to form the basis for planning regional rail services over the medium to long term, and Route Utilisation Strategies (RUS), drawn up by Network Rail and setting out a detailed strategic framework for the best use of the network's available capacity. They may also propose capital schemes for prioritisation and support through Regional Funding Allocations (RFA), although take-up in practice has been limited.

The Act enables PTEs to buy additional services (or reduce fares or require new fare types to promote integrated ticketing or require better standards ('increments'), or reduce services (or increase fares or propose lower standards) and use any savings elsewhere within the PTEs jurisdiction ('decrements'), providing the changes reflect wider national, regional and local policies, can be funded by the PTE from its general budget, there is available network capacity, and subject to Secretary of State approval as franchise signatory.

A PTE is required to fund any 'increments' it wishes to request or negotiate; these are paid via DfT to the relevant TOC. Similarly, any savings arising from a proposed decrement would be paid by DfT to the PTE following a corresponding reduction in TOC payments. In parallel with the cessation of automatic PTE co-signature on passenger rail franchises, this means that Government funding for local rail services will increasingly be no longer routed via the PTEs¹².

Through the decrement process, the PTE can specify a reduced level of rail service, and retain the savings for investment in other modes, thus allowing a balance of support between rail, buses and, where relevant, trams. This has been accompanied by steps to make it easier to introduce Quality Contracts (QC) for rail replacement buses as part of a strategy which includes reductions

¹¹ The New System for the Role of the English PTEs in the Rail Franchising Process. DfT (2006).

¹² Grants from DfT to PTEs for supported rail services were £310 million in 2007/08, although £78 million is for grants to Merseytravel for the franchise management of Merseyrail.

in rail services (Section 39, 2005 Act), as well as subsequent legislation for easier introduction of Quality Contracts under provisions of the 2008 Local Transport Act.

Finally, the Act enables PTEs to enter into agreements directly with TOCs (rather than through franchise agreements) for minor ‘enhancements’: regulated access contracts and property leases/licences, promotion of local rail services, advertising contracts, publicity, branding and marketing, information requirements, routine station maintenance, station security, customer service duties. The cost and funding of such improvements is for negotiation between the PTE and the TOC in each instance.

PTEs have no explicit rights or responsibilities in relation to the ROSCOs and generally address rolling stock issues through their rights of consultation over new franchise specifications with DfT and their overall relationships with individual TOCs.

In summary, the 2005 Act significantly weakens the direct control of PTEs on urban rail services in favour of centralised managerial and investment decisions by DfT and Network Rail, but retains their ability to be consulted on, and therefore to influence these decisions, and buy variations to rail services on a contractual basis, subject to policy compliance and funding being available.

This approach to the Metropolitan Conurbations and the PTEs is in contrast to other provisions of the 2005 Act which actively devolves rail powers and responsibilities from Central Government in limited circumstances. These provisions apply specifically to:

- **London**, where franchise letting and management responsibilities have been devolved to the Mayor and Transport for London for selected passenger services wholly or principally within London;
- **Scotland**, where specification and funding of network capital maintenance and enhancement by Network Rail and letting and management of the ScotRail franchise has been devolved to the Scottish Government (and exercised by Transport Scotland); and
- **Wales**, where the Welsh Assembly Government has become a co-signatory to the Arriva Wales franchise and is now responsible for day-to-day management of the franchise in place of the DfT.

These exceptional cases, together with the passenger franchising responsibilities taken by Merseytravel for the Merseyrail network, stand in contrast to the removal of co-signatory powers from the PTEs and the critical issues and outcomes achieved in each instance are discussed further in Chapter 4.

Delivering a Sustainable Railway

Since the 2005 Railways Act, the DfT has continued to articulate its policy on urban passenger rail with relatively little change in the fundamental policy as it applies to PTEs. The focus remains on ensuring network reliability fully recovers from the downturn experienced after the Hatfield accident, that extra capacity is provided where necessary, mainly through train and platform lengthening, and that major bottlenecks across the network are tackled; all through a stable funding regime with tight management of costs and risks.

The 2007 White Paper *Delivering a Sustainable Railway* explicitly rules out further structural change to the industry and repeats the Government’s position on franchise co-signature on the basis that “contractual responsibility for specifying rail services should not be separated from the responsibility for paying for them.”

The White Paper does, however, welcome opportunities for working more closely with cities on rail matters within the current framework and suggests that revised approaches to passenger franchising developed in London “could be extended to other metropolitan areas.”

Summarising Existing PTE Powers on Rail

Existing PTE powers over urban rail may be summarised as:

- powers to secure the provision of public transport services in ITA areas, including responsibility for planning and financing rail services (1968 Transport Act);
- powers to develop a strategy and investment priorities for rail alongside other modes of transport to achieve a vision and wider objectives for the area (e.g. within the Local Transport Plan), and working with local authorities, national and regional stakeholders to deliver these priorities (2000 Transport Act, 2008 Local Transport Act);
- powers to extend ITA area of influence by up to 25 miles to develop sensible networks (1968 Act);
- powers to invest directly in new and improved stations, track and signalling infrastructure, and rolling stock, through the provision of capital grants (1968 Act);
- a statutory right to be consulted on the specification for passenger franchises that include services to, from, or within a relevant PTE area, and inform the baseline franchise specification through the Rail Regional Planning Assessment (RPA) and Route Utilisation Strategies (RUS) processes (2005 Railways Act);
- powers to specify additional franchise requirements – ‘increments’ (i.e. service specifications, fares, ticket types, quality standards, participation in concessionary fares schemes, information, publicity and branding, and new rolling stock), providing the requirements reflect wider national, regional and local strategic policies, can be funded by the PTE, there is available capacity, and subject to Secretary of State approval as franchise signatory. (2005 Act);
- powers to specify service reductions – ‘decrements’, fare increases or quality reductions (subject to the above conditions) and retain savings for investment in other modes if these offer better value for money solutions. (2005 Act);
- steps making it easier to introduce Quality Contracts for rail replacement buses as part of a strategy which includes reductions in rail services. (2005 Railways Act, 2008 Local Transport Act);
- powers to propose closure of certain services, lines and stations (1968 Act);
- the right to request to co-specify and co-sign new franchises, with the final decision being made by the Secretary of State. The PTE needs to demonstrate their presence as a co-signatory adds significant value to the management of the franchise and wider DfT objectives of improving performance and cost control. (2005 Act);
- powers to enter into agreements directly with Train Operating Companies (rather than through franchise agreements) for minor ‘enhancements’: regulated access contracts and property leases/licences, promotion of local rail services, advertising contracts, publicity, branding and marketing, information requirements, routine station maintenance, station security, customer service duties. (2005 Act);
- powers to require franchisees in their areas to participate in concessionary fares schemes, so long as the franchisee is held to be financially no better or no worse off through their participation, and the PTE meets the cost of any additional subsidy requirement (Transport Act 2000);
- powers to request the inclusion of information, publicity and branding requirements in the franchise agreement, providing any additional costs above the baseline specification are met by the PTE (Transport Act 2000); and
- ability to fund interchange improvements through the Local Transport Plan (Transport Act 2000).

Finally, under Section 56 of the Transport Act, Ministers may make grants and local authorities may make payments (PTEs or Districts) in respect of local rail improvements, such as new and improved stations or other capital schemes.

Case Study 1: Merseyside

Merseyrail is an electric urban rail system which feeds into an underground loop serving Liverpool City Centre. The 75 mile network extends as far as Southport, Ormskirk, the Wirral, and Chester. It is one of the most intensively used networks in the UK with over 780 trains on weekdays, and 30 million passenger journeys a year.

Merseytravel has always supported the rail network, and invested in improving the system. Prior to privatisation this was in cooperation with British Rail, and after privatisation as co-signatories (with the Strategic Rail Authority) of franchise agreements.

In July 2003 responsibility for the Merseyrail electric network (the Northern and Wirral Lines) was transferred from the SRA to Merseytravel. Merseytravel signed a new 25 year concession with Serco-NedRailways to operate the system.

Merseyrail is now one of the most punctual and reliable major heavy rail network in the country and:

- there is common branding, passenger information and level of service across the network;
- nearly every station is staffed from before the first train arrives until after the last train leaves and there is a clock face timetable throughout the week;
- there has been considerable investment in modernising existing stations (including installing lifts and rebuilding ticket offices). All stations on the network now have Secure Station accreditation and 75% have Secure Car Parks;
- every Merseyrail Electric train has now been refurbished;
- high priority has been given to improving accessibility and investing in walking and cycling improvements. Merseyrail has secured £1 million to become a Cycling Demonstration TOC with investment in cycle parking, hire and repair facilities ;
- fares have been capped to the retail price index for the length of the concession; and
- new stations have boosted regeneration, (for example the new Brunswick station in Toxteth enabled 120 people to take up jobs, and Liverpool South provides access to Liverpool John Lennon Airport.



Merseyrail and Merseytravel attribute their good performance to a combination of factors:

- a completely self-contained electrified network with no other interaction or through-running of other passenger or freight operations;
- a sophisticated, long-term, concession agreement which incentivises Merseyrail to perform, and provides the right framework for a stable partnership to develop between Merseytravel and Serco-NedRailways;
- local (PTE) management and control of the franchise replacing remote management from London;
- attention to detail, with a host of measures introduced to target specific reliability problems (for example much improved maintenance of the rolling stock), some of which was inherited from the previous franchisee; and
- commitment, drive and ambition from ITA members and the Director General and Directors of the PTE.

Despite the improvements in performance, Merseytravel believes that the majority of the delays on Merseyrail are attributable to Network Rail and are outside its control. As a response to this, Merseytravel has lobbied Government about creating a vertically integrated operation. Under these proposals ("Full Local Determination") responsibility for the Northern and Wirral Lines would transfer under a lease from Network Rail to Merseytravel which would then set up a joint venture 'infraco' with Serco-Ned Railways to maintain and renew the infrastructure, and run passenger operations alongside network management.

Merseytravel believes it could undertake infrastructure maintenance, operation and enhancement more efficiently and cost-effectively than through continued reliance on Network Rail. It believes that efficiency savings could equate to approximately £33 million over the life of the Merseyrail franchise, and that the exercise could also provide a useful benchmark comparator for Network Rail's stewardship of the national network.

The third line of the Merseyrail network – the City Line – is not segregated from other rail operations into Liverpool City Centre and commuter services on this line are operated by Northern with Merseytravel being a co-signature to the franchise for these services in the same way as other PTEs such as Metro and SYPTE. Merseytravel has ambitions to extend full franchising responsibilities for the City Line in due course. It also has ambitious plans to develop the Merseyrail network, including electrifying more routes and reopening lines to Bootle and Aintree. Merseytravel believes that this could be done more quickly and cost effectively if the network is integrated.

The Future of Rail Franchising, the Rolling Stock Market and DfT/ORR Review of Rail Costs

Whilst DfT believes that the current system of rail franchising works well, the well publicised failure of National Express East Coast and difficulties experienced by a number of franchise operators as a result of the economic recession, has forced a rethink on some key aspects of the policy. To this end, the DfT has recently issued *The Future of Rail Franchising* in which it proposes, amongst other reforms, to:

- extending franchise length to at least ten years, with longer franchise lengths negotiable based on additional investment by a bidder for the franchise, for example in rolling stock, line improvements or station upgrades;
- altering the franchise bidding process to place greater emphasis on innovation and alternative proposals for achieving the key objectives; and
- allow greater flexibility in franchise operation provided overall franchise objectives and Government policy aims are achieved.

The document is a useful summary of some key issues and some proposals – such as measures to encourage better facilities and services on stations, and greater levels of innovation and investment by operators – will undoubtedly be welcomed by the PTEs. However, notable by its absence is any mention of the role of PTEs on consultation on franchise specification, franchise co-signature or partnership working with TOCs to deliver local – as well as national – objectives and policy aims. Whilst the focus of the document is on the Essex Thameside, Greater Anglia and InterCity East Coast franchises, the outcomes of the consultation can be expected to influence franchising policy for Northern and Trans Pennine, and therefore the absence of any recognition of the roles and responsibilities of ITAs and PTEs, and indeed local authorities more generally, is a serious omission.

Alongside the current considerations on franchising, the Government remains concerned over the overall capital and operating cost base of the industry. The limited choice and high costs of leasing rolling stock through the ROSCOs established at privatisation has been an ongoing problem, for example, with ORR and the Competition Commission both holding recent investigations into whether, and how, these could be reduced, and the DfT itself apparently seeking to establish its own rolling stock company, Diesel Trains Ltd., to take forward procurement of new rolling stock for First Great Western, Trans-Pennine and Northern Rail¹³.

The DfT and ORR have also recently commenced a wider study into the costs of the rail industry¹⁴. This study will identify options for promoting efficiency, improving value for money for passengers and taxpayers and generating additional revenue. The study is due to report in 2011 and may drive further changes to national franchising policy, and indeed examine the costs, and potential efficiencies, in providing urban rail networks and services in city regions. As such, the study is of direct interest to *pteg* and an opportunity to influence national rail policy after the General Election.

¹³ At the time of writing, these procurement plans have been overtaken by the Government's subsequent announcement of electrification of key parts of the rail network with a shift of rolling stock requirement from Diesel Multiple Units to Electric Multiple Units. Firm commitments for procurement of a revised Rolling Stock Plan and decisions on the future of Diesel Trains Ltd, have yet to be made.

¹⁴ Improving Value for Money from the Railway – Terms of Reference. Department for Transport and Office of Rail Regulation (2010).

3.4 Reforming Urban Transport Governance

The City Region Agenda

Policy makers have recognised the significance of major urban areas as key contributors to regional and national economic growth. There has also been increasing awareness of the need for an integrated and efficient transport system – including rail – to facilitate economic growth and ensure that communities, businesses and citizens benefit from enhanced connectivity and access to employment, markets and other opportunities.

In this context, the Core Cities group of local authorities has promoted a City Region approach to Central Government in the strategic planning and development of large cities. This approach has raised transport onto the priority list for civic leaders and highlighted the barriers to effective transport provision emerging from the split of key roles and powers across a range of local authorities, national agencies and stakeholders.

This has far-reaching political and practical implications — transport impacts on the lives of all citizens, is a crucial factor in local ‘place shaping’ and is central to delivering wider economic, social and environmental goals. Transport facilitates access to jobs, housing, education, healthcare, leisure, markets and other opportunities that are central to quality of life and vitality in urban areas.

However, increased economic growth and demand for movement are associated with congestion, public transport overcrowding, noise, pollution and other economic, social and environmental costs. Furthermore, challenges arise from growing incomes and improved transport technology, which have extended journey-to-work patterns and provided enhanced locational flexibility to residents and businesses. Current municipal boundaries and arrangements for transport provision do not match the extended geographical horizons of passengers and service delivery requirements, nor do they facilitate effective business development.

In response, the Commission for Integrated Transport, amongst others, concluded that there was a direct relationship between the degree of functional integration of local authority governance, the delivery of key strategic transport powers and the achievement of results around the country (CfIT, 2006). In its 2007 paper *Better Transport for City Regions*, the Commission went on to make a direct comparison with the experience in London following the creation of the Greater London Authority and Transport for London, commenting that:

Aside from in London where, through massively increased investment, considerable progress has been made in breaking [the] cycle of declining public transport usage, increasing congestion and worsening pollution, generally other City Regions have struggled to make an impact on this increasingly significant problem. (CfIT, 2007, p5)

Such thinking led to a broad consensus, set out in the 2006 Local Government White Paper, and endorsed by PTEG itself in 2007, that changes to urban governance are essential if a more coherent and integrated approach to transport is to be achieved, better able to support local and regional regeneration, reduce the productivity gap between North and South, and sustainably develop the UK economy overall.

The Local Transport Act

The Government’s response, in the form of the Local Transport Act which received Royal Assent in November 2008, includes provisions for changes to transport governance which aim to produce a more coherent approach to transport across modes and policy areas, including:

- renaming existing PTAs as Integrated Transport Authorities (ITAs), reflecting a wider transport agenda, and with a new duty to take the lead in developing local transport policies and plans across all modes;

- allowing the establishment of new ITAs and executive arrangements, together with changes to existing ITA boundaries through the incorporation or removal of local authority areas, potentially enabling ITA areas to better reflect local travel patterns and local political aspirations for or against ITA membership; and
- enabling or directing local authorities in major urban areas to carry out Governance Reviews to identify and implement, as appropriate, a range of changes in transport powers, structures and processes which better achieve high level outcomes.

The provisions of the Act are enabling rather than prescriptive; they give considerable flexibility and discretion to local areas in drawing up appropriate governance models, and developing their own locally relevant transport policies and plans, whilst meeting the Government's objective for more integrated and coherent delivery. Importantly, they provide for greater influence over, or the potential transfer of, powers currently exercised by the Secretary of State from DfT to reformed ITAs in such areas as strategic highways and passenger rail if the case can be made and the proposals are shown improve transport outcomes, command local stakeholder and public support, and offer value for money.

Local Democracy, Economic Development and Construction Act

In addition, the Government has introduced the Local Democracy, Economic Development and Construction Act 2009 which includes provisions for reforming governance structures and processes in areas other than transport, including new statutory duty to assess local economic conditions, the development of Multi-Area Agreements (MAA) on a voluntary or statutory basis, and the creation of Economic Prosperity Boards or Combined Authorities. These provisions potentially enable City Regions to further develop their economic governance arrangements, merge them with transport structures, and exert greater influence on Central Government, national and regional agencies and stakeholders across a wide range of policy outcomes.

In parallel, the Greater Manchester and Leeds City Regions have been selected as City Region Pilots to take forward a renewed approach to governance linked to enhanced devolution. In the case of Greater Manchester, proposals have now been published for consultation¹⁵ on the creation of a Combined Authority as the long-term strategic decision making body for the City Region. Whilst GMITA will be dissolved in its current form and its functions formally transferred to the Combined Authority, a new Joint Committee – Transport for Greater Manchester (TfGMC) – will be created with delegated powers to act on behalf of, or make recommendations for approval by, the Combined Authority on transport matters. Collectively, it is hoped that the Combined Authority and TfGMC will have responsibilities and influence “comparable with the powers held by Transport for London” and provide a single voice on transport to Government and its Agencies. Proposals by Leeds City Region are less radical and have yet to be published, but are also likely to include reforms in respect of establishing a Joint Committee to plan and ensure delivery of a strategic transport agenda on a cross-boundary basis for the whole of the City Region.

Whilst proposals in both areas are still developing, they offer the potential to take on greater influence in a range of transport areas, including enhancing the role of rail. To this end, both have proposed Memoranda of Understanding or Protocols with DfT and Network Rail to cement relationships, to ensure that City Region priorities influence future DfT, Network Rail and, where relevant, TOC investment proposals, and to progress local priority schemes, such as the Northern Hub, longer trains and platforms, and new and improved stations, into HLOS2 and beyond.

¹⁵ Proposal to Establish a Combined Authority for Greater Manchester. Communities and Local Government (2010).

3.5 Implications

The current policy agenda sets ambitions – and expectations – that Central Government will devolve extensive powers and responsibilities to the most appropriate sub-national level in order to achieve wider economic, social and environmental outcomes. As highlighted above, much has recently been announced in this respect. This includes the prospect of city regions seeking – and receiving – much stronger powers, funding and resources and influence from Whitehall in exchange for reforming their governance arrangements in ways which provide strategic leadership, political and operational integration and accountability of local people and stakeholders.

The example of London and its proven success since 2000, together with the positive experience of devolution for Scotland and Wales, and the more recent prospects emerging from City Region Pilots in Greater Manchester and Leeds, are instructive in this context. They have effectively raised the bar on the key “Asks” of Central Government and provided evidence of what real decentralisation of decision making and resources looks like and can achieve in practice.

National rail policy, however, is somewhat divorced from this wider agenda. The DfT’s focus in recent years has been on controlling costs and dealing with the dysfunctional structure of the industry inherited from the previous Conservative Government, rather than seeking to devolve influence, powers and resources, except in a few circumstances. Whilst this may be an understandable and logical response, given the virtual implosion of the rail sector following the Hatfield crash, this position now looks increasingly at odds with the rhetoric and policies being pursued by other arms of Government, and indeed across different parts of DfT in respect of local and regional transport.

A particular concern lies with the cessation of the PTE right to request co-signature of passenger rail franchises set out in the 2005 Railways Act and repeated in the 2007 White Paper. This has already been applied to London Midland in 2007 and with the prospect of a repeat when the Northern franchise comes up for renewal in 2013. However, there are questions over whether arrangements in city regions need to go further and not only retain co-signature, but give PTEs or other local agencies a greater stake in franchise specification, management and monitoring with devolved powers in respect of socially-necessary supported commuter services.

There are also concerns in the areas of rail costs with two aspects being especially relevant. First is securing devolution of funding – as has occurred in London and Scotland, for example, through long-term funding settlements – and allowing city regions to raise a greater proportion of their resources locally, not only for commuter rail, but other aspects of local transport as well. Secondly, getting rail industry costs under control, securing efficiency savings and investing these back into infrastructure and passenger services must be a priority at a time when the publically-funded railway is likely to be facing real-term cuts in funding after the next Spending Review.

These interim findings provide a starting point for the next Chapter in this Report which considers the wider case for change from the current PTE role in rail in the city regions.

Case Study 2: The Northern Hub

The Northern Hub is a £530 million investment package to tackle congestion and transform rail travel in the North of England through better stations and quicker, more frequent services. The project would remove historic bottlenecks – such as around Manchester Piccadilly – and would allow faster line speeds, reducing journey times. New track and the development of Manchester Victoria as a major new interchange, and increased capacity at Manchester Piccadilly and Manchester Airport would give greater timetable flexibility. Other schemes would allow fast trains to overtake slower trains and run at higher average speeds, while providing space on the network for vital local stopping services and freight.

The benefits include a 40% increase in capacity for trains across the region – equivalent to 700 extra services per day. This will allow improved services between Newcastle, Liverpool, Manchester, Manchester Airport, Leeds and Sheffield. The Northern Hub would also increase capacity for freight. This will support economic growth and prosperity for the Greater Manchester City Region, and other parts of the North, to the equivalent of around £4 billion; the scheme has support from local authorities, GMITA/PTE, 4NW, the North West Development Agency and the Northern Way.



The initial economic assessment work was originally led by the Northern Way, with subsequent service development work being led by Network Rail. Following Network Rail's publication of indicative proposals for the investment package in February 2010, the Northern Hub will now be developed over the next two years with a view to confirming service changes, refining infrastructure requirements, defining associated rolling stock and securing capital funding so that implementation can commence in CP5.

Case Study 3: Birmingham New Street

The upgrade and modernisation of Birmingham New Street will relieve overcrowding and train congestion at a critical crossroads of the National Rail Network and provide a modern landmark for Birmingham City Centre. The current station operates at around double its design capacity and a review of rail capacity has shown that a programme of train lengthening, signalling improvements and timetable modification could deliver sufficient capacity to accommodate passenger growth to 2040 providing passenger handling capacity improvements at New Street are also implemented.



Against this evidence, the scheme has been agreed and promoted as the principal transport priority for the region with technical work and political advocacy to make the case to Government, with support from Network Rail, Birmingham City Council, Advantage West Midlands, Centro-WMITA and the West Midlands Joint Strategic Investment Board.

The £600 million scheme is being led by Birmingham City Council and Network Rail. The programme involves the redevelopment and enlargement of the station concourse and retail area, creating a station which is capable of handling significantly higher numbers of regional and national passengers, and of acting as a “gateway” to the West Midlands. This is intended to be a major catalyst to the regeneration of the conurbation and its wider city region.

The scheme is due for completion in 2013.

4. Evidence from PTE Engagement and Case Studies

4.1 Rail from a PTE Perspective

The Importance of Urban Rail

All six English PTEs contacted as part of this Review recognise the importance of their urban rail networks within the overall integrated transport offer for their conurbations. Rail is seen as essential for supporting economic development through connecting people and businesses to opportunities, tackling highway congestion and providing for social inclusion and environmental sustainability. It is also seen as strongly following the principles laid down by the Eddington Transport Study and meeting the five national strategic goals defined within the DfT's Delivering a Sustainable Transport System (DaSTS) framework.

The importance attached to rail is reflected in the fact that all six conurbations have produced dedicated rail strategies and investment programmes, at least as recently as LTP2 (2006) with three working on updated frameworks to reflect new evidence and changing metropolitan and city region priorities. The focus of these strategies is typically on passenger transport, although five out of the six PTEs also cite ambitions and plans for rail freight.

Changes to Industry Structures and Processes since Privatisation

The majority of PTEs believe that the planning and delivery of national rail infrastructure and services has improved considerably compared to the period immediately following privatisation. The structure of the industry is recognised as less complex, more efficient and geared towards improvements in performance and customer service compared to the early days of OPRAF, Railtrack and until more recently, the Strategic Rail Authority. Network Rail, for example, is seen as delivering improved performance of the rail infrastructure through a focus on asset management, investment in integrated control centres and closer joint working with Train Operating Companies and freight operators. It is promoting a number of major interventions, such as the modernisation of Birmingham New Street or the Northern Hub which are of direct benefit to regeneration and economic development of the city regions.

In particular, the planning process for rail is now seen as following a more logical process through the hierarchy of HLOS, Regional Planning Assessments (RPA) and Route Utilisation Strategies (RUS). This hierarchy, in principle¹⁶, provides a clearer framework for defining what Government wishes to achieve from the railway the costs of doing so and how the industry can respond. This helps provide certainty for all stakeholders and through formal consultation processes allows a wide range of stakeholders, including the PTEs, to input into, and influence, key decisions.

Recent exercises in the letting of passenger franchises – the issue of PTE co-signature excepted are also seen as more positive than early examples, such as First North West, which are seen as poorly performing and failing to meet customer needs. The latest franchises appear to be more clearly specified, focused on improved performance against defined outcomes and attracting some strong consortia, such as Serco-NedRailways, to manage and operate services. However, there remains some question over whether the focus within franchise specification, bidding and negotiation always has the right balance between satisfying national and local objectives. In particular, DfT's objectives on costs means that the focus on meeting passenger needs and

¹⁶ There are, however, issues of the phasing and timescales over which these various frameworks are developed, wider issues of affordability of rail-based interventions and the genuine responsiveness of DfT and Network Rail to engaging with all the aspirations put forward by the PTEs.

expectations may be diluted and the views and aspirations of PTEs and other regional bodies may not be given sufficient priority in defining the franchise baseline level of service or including costed options proposed by the DfT or bidders. There are also concerns over whether the current length of franchises allows sufficient time over which operators can obtain a return on investment in new rolling stock, infrastructure or service improvement, especially as trains and other rail equipment has an operating life typically in excess of 30 years.

Challenges and Priorities

In addressing urban rail, the PTEs consistently identify a number of operational and policy challenges. In many instances, the benefits of recent investment in new or improved rolling stock, line infrastructure and interchange are acknowledged, but raising demand means that problems of capacity bottlenecks, network congestion and train overcrowding remain and have become more acute, the impact of the past eighteen months of recession offering only limited and temporary relief. In some conurbations, such problems are exacerbated by the allocation of paths for long-distance intercity passenger services and freight trains which limit the capacity and flexibility of the network to accommodate commuter services in city centres, suburbs and satellite towns.

PTEs' concerns over whether the problems evident in their areas will be met are heightened by a perception that DfT, and to a lesser extent, Network Rail is more focused on investment for (revenue-generating) long-distance intercity services, and which address capacity issues within London and the South East rather than cities in the Midlands and North of England. The current DfT priority for the refranchising of InterCity East Coast, the investment being made in Thameslink and planned for Crossrail, and the problems emerging within the Department's Rolling Stock Plan are cited in support of this, although it is acknowledged that more recent announcements, for example around the Northern Hub, have been more positive.

Funding is also an issue, as already remarked in Chapter 3, with concerns that investment for infrastructure and service enhancements is likely to be cut substantially in Control Period 5 (2014-2019), as the Government seeks to bring the public sector deficit under control. The benefits of what remains are also likely to be eroded by the substantial ongoing costs in the UK of investing in rail infrastructure and rolling stock compared to other networks in Europe. In most PTEs' view, the lack of choice and high price of leasing even almost life-expired rolling stock, the limited options for train procurement outside the existing ROSCOs, and the substantial charges quoted by Network Rail for scheme preparation and delivery, are major constraints constraining available PTE funding "at almost any price." In response, a minority of PTEs see opportunities for a better way forward, although views are split on the optimum approach, some desiring action on direct procurement across the PTEs themselves, others wanting action from Government, for example on the purchase or leasing of new train fleets¹⁷, and others awaiting options emerging from the current DfT-ORR joint review of industry costs.

Despite the high cost base, PTEs generally regard their relationship with Network Rail as improving, but with the ability of regional management teams to support city region needs constrained by relatively inflexible national objectives, standards and processes. Relationships with TOCs are regarded as stronger, more flexible and locally focused. This is especially the case with Northern Rail where the existence of PTE co-signature is seen as exerting more local influence, compared to others such as Trans Pennine Express, although both franchise operators are seen as performing well with the resources they have available.

The relationship with the DfT attracts a range of comments, although it is evident that a majority of PTEs feel that the relevant Civil Servants with rail responsibilities in Department are more remote, unresponsive and conservative in seeking to understand and accommodate PTE concerns and requests, compared to other officials focused on local and regional transport, and indeed officials from other Government Departments. We are unable, at present, to comment on the validity of

¹⁷ Diesel Trains Ltd. See Chapter 3.

these views, but do note that there is a perception from PTEs that national objectives and priorities predominate DfT thinking, in particular around cost, with flexibility and responsiveness to local policies regarded as a secondary consideration. Whilst local concerns may need to be balanced with national consideration in respect of long-distance and inter-city services, where franchises are predominantly local or regional in their extent, this distinction is more of a concern.

Using Existing Powers

All six PTEs are fully aware of the statutory powers available to them under the existing legislation set out in Chapter 3. They are, to a greater or lesser degree, using these powers to secure better rail networks and services for their areas and indeed, using the 25 mile rule under the 1968 Transport Act, in some cases beyond their areas. In addition, existing and potential additional rail powers are being considered for example under governance reviews initiated under the Local Transport Act and Local Democracy, Economic Development and Construction Act, including the City Region Pilot for Leeds and the recently published proposals for a Combined Authority and TfGM Committee for Greater Manchester.

Nevertheless, there is some evidence of the existing powers not being used or realised to their full potential. A number of reasons are put forward for this, including difficulties in engaging with, and securing agreement from, DfT and Network Rail; meeting rail industry technical and business case requirements; and the considerable costs and contractual effort of investing in even relatively modest rail enhancements. All PTEs cite constraints on funding as an acute constraint and believe this will worsen over the next 12 months and into CP5, both in terms of capital, available through LTP Block and RFA Major Scheme funding, and revenue, with maintaining or increasing the ITA Levy from Metropolitan Districts becoming increasingly difficult to justify as councils seek to make cuts in discretionary expenditure.

There is also some evidence that PTE staff capacity and skills is a constraint for identifying and realising opportunities for rail improvements using existing powers. Where “rail teams” exist, they typically appear to number around half a dozen professional staff, split across a range of strategic planning, business case development, capital projects, and franchise management and monitoring. Only one of the six PTEs regards its resources as adequate for current needs, creating a reliance on Network Rail, TOCs and external consultants for resourcing.

All PTEs are also clear that taking on additional rail responsibilities will only have limited benefit if the PTE do not increase the staff capacity and skills available internally; however, devolution of powers would provide an incentive to make the appropriate organisational investment.

PTE Passenger Franchise Co-signature

Of the rail powers available, all six PTEs are consistent and very clear: the right to request to co-specify and co-sign new passenger franchises should be retained, either at the Secretary of State’s discretion or, preferably, through restoration as a statutory right. There is a feeling that this will result in franchise specification and management which is more closely aligned with city region objectives, constructively strengthen the relationship between TOCs and PTEs, reduce contractual complexity (and administrative costs) and support focused monitoring of franchises in terms of contractual obligations, performance and added value. Key arguments put in support of this position are as follows:

- ITA members and PTE officers are “close to the ground” in terms of monitoring the quality of rail services delivered on a day-to-day basis. They are best placed to continuously hold franchise operators to account for their performance, and thereby ensure maximum value for public money compared to relatively remote and periodic scrutiny by DfT officials;
- ITA members are indirectly electorally accountable for the quality of local transport, and therefore have an incentive to provide focus and ambition in the development of rail services;
- removal of co-signature does not sit well with other DfT and Government Department actions

towards devolution of responsibilities, powers and influence to an appropriate sub-national level, wider promotion of localism, and strengthening of transport governance;

- PTEs have built up franchise management and monitoring expertise through the co-signature process which should be retained and made available to the DfT;
- under current arrangements, DfT is effectively a service provider to ITAs and PTEs, in agreeing and channelling additional funding to TOCs for capacity and service improvements. A devolved approach would simplify contractual relationships locally;
- ITAs and PTEs are best placed to consider investment in rail alongside other modes within an overall integrated transport approach and should be in a position to action decisions based on these considerations efficiently and efficiently;
- the delivery of changes to franchises is made considerably easier with co-signature compared to a relatively “cumbersome” process of involving separate contractual negotiations with TOCs and DfT to agree and enact changes otherwise; and
- there is little evidence that PTE co-signature has reduced DfT or TOC flexibility in making franchise changes in practice, that insurmountable conflicts or differences in viewpoint have arisen, or that either party have experienced substantially increased costs or overheads.

The PTEs accept the basic proposition (made by DfT) that many of the benefits cited above can be achieved through active engagement and joint working between themselves, the DfT and TOCs. However, they contend that having the co-signature adjusts the balance in the relationship by providing a more formal and regular seat “at the table,” requires (rather than simply encourages) the franchisee to respond to local priorities and concerns, assists the DfT in performance monitoring, and does so at no or limited marginal cost to any of the parties.

The points are endorsed both by the five PTEs for the current co-signature on the Northern Rail franchise¹⁸, which they wish to see retained (or at least any preferred bidder consulted on retention) on any successor franchise arrangement, and by Centro on the basis of its experience in practice with the absence of co-signature on the London Midland franchise.

The Case for Change

Based on their own experiences of rail management and delivery, the success of Merseyrail and the positive benefits of devolution elsewhere, the PTEs believe there is a compelling case for change.

Distilling the points above into a single argument, there is a universal view that current PTE rail powers and levers are not adequate and whilst a basic minimum is to retain franchise co-signature where it exists, there is a need to go further in order to ensure that local priorities are considered and actioned on city region rail networks. Whilst there is a perception that Government’s and Network Rail’s focus appears often to be on intercity and long-distance services which connect the country and which offer greater commercial viability and returns, it is also the case that passengers often regard rail as an integral part of their local transport networks, daily experience and means of accessing employment education, retail, leisure and a range of other local opportunities. It is also important that rail is planned and delivered in a physically and operationally integrated way alongside other modes and with lines of command and communication which are as short as possible.

¹⁸ Our own discussions with Northern Rail as part of the Governance Review for Leeds City Region indicated that senior managers were broadly sympathetic to PTE co-signature being retained on any successor franchise and that they perceived no additional material cost to DfT or the TOC as a result of such an arrangement.

Case Study 4: The Tension between National and Local Priorities for Northern Rail

At a time of limited funding for enhancing the passenger rail offer, the letting of the Northern franchise by the Strategic Rail Authority in 2005 was on the basis of no additional investment and therefore implicitly on no or limited growth in passenger numbers. This was despite recent significant growth in patronage into Leeds and other urban centres. In contrast, the Local Transport Plans across the North West and Yorkshire and Humber contained targets for strong growth in rail movements requiring increases in network and rolling stock capacity. In West Yorkshire, the franchise was without enough capacity to accommodate even existing passenger numbers with some routes so overcrowded as to prevent commuters boarding peak hour trains.



Metro strongly question whether this approach leads to best value for the public sector and has lobbied consistently for additional rolling stock as well as a “growth package” of infrastructure and service improvements for the Leeds City Region.

In response, a £20 million partnership between Metro, Yorkshire Forward and Northern Rail saw passengers benefiting from almost 1,700 additional seats on peak-time trains services into and out of Leeds from December 2006. The additional trains, funded through a combination of the PTE, Yorkshire Forward and fare income, have provided extra capacity on busy peak-time services from York and Harrogate via Horsforth and from Halifax and Bradford on the Calderdale Line. Services into and out of Leeds from Huddersfield, Knottingley, Selby and Sheffield have also benefited. Surveys carried out after the introduction of the extra carriages showed that 96% of passengers thought the trains were less crowded.

Further responsibilities and powers are therefore needed to:

- provide consistency between DfT policy on urban rail and the devolution of responsibilities, powers and resources in other aspects of local transport, policies and services, as well as the wider CLG vision for an enhanced role for sub-national governance, with decisions made as close to the appropriate level as necessary and appropriate;
- provide greater incentives for Network Rail, TOCs and other rail industry stakeholders to understand, respond to and support the city region agenda and the economic, social and environmental objectives this implies;
- provide stronger integration between transport modes, policies and institutions which is at the heart of the Local Transport Act and Local Democracy, Economic Development and Construction Act;
- enable a lower cost base for the rail industry in key areas such as new rolling stock and enhanced station facilities, and support and facilitate the assembly of funding packages from a combination of national and local, public and private sector sources; and
- utilise and realise the benefits of the local knowledge and experience which exists within the PTEs from many years of planning, specifying and influencing urban rail networks; and
- relieve DfT on some of the burdens and risks of managing urban rail networks which absorb significant amounts of public funding and which present challenges and opportunities which are more difficult to manage effectively from the Centre.

The evidence suggests that where such arguments are accepted by Government and powers and resources are devolved to regional and city-region administrations committed and equipped to support their areas, levels of investment increase, levels of passenger service are improved and passenger satisfaction rise. This evidence, from a number of UK and European case studies, is discussed further below.

The Way Forward

Of the various options available, and discussed further in Chapters 5 and 6, there is most interest in changes to the specification, management and monitoring of passenger franchises, investment and management in stations, procurement of new rolling stock, branding and promotion of urban rail alongside other public transport modes and integrated fares and ticketing. There is a strong sense that devolution of funding – or the ability to raise funding locally – is an important part of the overall package in this respect in order to support any new functions effectively.

There are differing views on how franchise length, size and contractual parameters should evolve in future. Previous PTE perspectives have been that fewer and larger franchises provide a useful direction of travel, with less detailed specification and longer franchise periods to incentivise the private sector to innovate and invest in enhancements to rolling stock, stations and infrastructure. Merseyrail was let on this basis and it is recognised that this approach influences much of the DfT's current thinking. However, whilst this may remain the preferred approach for the "commercial" inter-city and long-distance franchises, opportunities for operators to grow revenue and returns in the highly-subsidised commuter networks covering the metropolitan conurbations may be considerably less, with a consequent need to consider different models. For example, shorter, more tightly specified and performance monitored franchise arrangements may be a more appropriate way forward, potentially with PTEs, rather than operators, taking the revenue risk. The London Overground concession, let by TfL for a seven year period with 90% revenue risk is an example of this model, although this contrasts significantly with the Merseyrail franchise which was let for 25 years and the operator taking the bulk of revenue risk.

Within the franchise models above, the PTEs believe that there may be some further opportunities to create and let smaller micro-franchises which are more closely mapped onto metropolitan or city region boundaries, with local specification, letting, management and monitoring of franchise conditions and performance¹⁹. Both the Merseyside and London cases provide (rather different) precedents in this respect, with arguments that such arrangements provide for closer alignment with local objectives and priorities, drive a focus on performance improvement and customer service, assist integrated planning and delivery across all public transport modes and allow for pooling of funding and other resources to bolster the rail offer. However, there is also recognition of the complex and overlapping nature of passenger services in many urban areas, the weaker economies of scale from smaller operators and the potential for loss of operational and managerial flexibility that comes from larger franchisees such as Northern deploying staff, rolling stock and other resources across a large area. Detailed planning around new micro-franchising would be required to mitigate such drawbacks.

As an alternative to micro-franchising for small local areas, there are suggestions for smaller, but still substantial, franchises across, rather than wholly within, city regions, for example between Greater Manchester, West Yorkshire and South Yorkshire. If devolved, this would require franchise management by more than one PTE (and adjacent local authorities) with the need for credible political governance arrangements. Alternatively – and with less structural change to existing arrangements – it may be possible to identify and separately brand and manage bundles of passenger services within a larger franchise operation, with separate business units providing local focus, engagement with customers and stakeholders and agreement of bespoke performance targets and investment plans linked to PTE specifications of infrastructure and services.

Compared to franchising policy, there is far less interest in taking direct control or ownership of infrastructure from Network Rail, although leasing or management contracts for commuter stations

¹⁹ PTEs were generally unable to explicitly identify potential services for such micro-franchising. However, possibilities include extending the Merseyrail network to include the City Line, a franchise based on the electrified Wharfedale and Airedale Lines in the Leeds City Region, and any subsequent extension of electrified services for example to York, and an extension of the Sheffield Supertram network to incorporate through-running onto the heavy rail network in South Yorkshire in the event of new tram-train services being introduced.

(and car parks) are the exception to this. There is, however, a strong desire for Network Rail to be more responsive to local priorities and for industry costs to be brought down, releasing savings for investment in capital and service enhancements. Merseytravel is the exception in pushing for vertical integration of the Northern and Wirral Lines of the Merseyrail network, at least as a pilot to test the feasibility, costs and benefits of this approach compared to a continued role by Network Rail. Other PTEs – as well as others such as TfL and Transport Scotland – are interested the approach, in principle, but reserve a definitive position to seeing how any pilot works in practice and the impact on performance and costs.

Finally, where significant reforms to current arrangements are sought, there is recognition that ITAs and PTEs will need to demonstrate credibility to Government in these “Asks” by accepting the need to take on risks (including financial responsibility and potentially revenue risk), strengthening their political governance arrangements in order to take hard decisions and committing adequate staffing and skills to create an “intelligent client” for industry suppliers and stakeholders. There is considerable interest in learning the lessons of recent examples of devolution in Scotland, Wales, Merseyside and London in this respect, as discussed below.

4.2 Evidence from the Case Studies

In addition to interviews with PTEs, we have investigated a number of case studies looking at experience where rail responsibilities and powers have been devolved, based on desktop evidence, online information and, where appropriate, structured telephone interviews.

United Kingdom

The case studies are:

- **London:** with a focus on the creation of a new rail directorate within Transport for London, the transfer of franchising and other powers and levers in relation to the former Silverlink Metro network, the creation of London Overground from 2007, funding of capital investment by Network Rail and increased TfL influence over the specification of passenger franchises serving Central London termini;
- **Merseyside:** with a focus on the role of Merseytravel in franchising the Merseyrail network from 2003, the key issues behind the apparent success of new investment in rolling stock and stations, and Merseytravel’s arguments for additional franchising responsibilities over parts of the Northern network and the arguments for and against vertical integration;
- **Scotland:** with a focus on the 2006 devolution of substantial powers on rail to the then Scottish Executive (now the Scottish Government), including the development of rail strategy, franchise management of ScotRail, specification of network requirements and available funds, and the development of capital programmes for delivery by Network Rail; and
- **Wales:** with a focus on the Welsh Assembly Government’s co-signature on the Wales and Borders franchise, the transfer of franchise management responsibility from DfT and WAG support for capital enhancements over and above Network Rail’s operation of the network.

We have also briefly examined the state-owned and vertically integrated Northern Ireland Railways (NIR) with details included at the end of this Chapter, although the unique historical and political circumstances of this case study mean lessons for the remainder of the UK are limited.

Table 4.1 sets out some key operating statistics for the devolved railways for Great Britain. Interestingly, these statistics indicate that the scale of the devolved rail networks is broadly equivalent in scale to those franchises serving the PTE areas²⁰ on almost every indicator. What is also apparent is the division between the two relatively compact, but intensively used, urban networks for Merseyside and London, and the more extensive networks covering Scotland and

²⁰ See Table 2.1. Merseyrail needs to be excluded from the comparison in order to avoid double counting.

Wales which incorporate a range of urban commuter services and regional services covering a mix of inter-city and rural services. In other words, there is no single dominant model for these devolved networks; nor, with the exception of Merseyrail are the networks completely self-contained, with overlapping services from other regional and inter-city operators²¹. Nevertheless, the evidence from these case studies does confirm that where rail powers are devolved, levels of investment increase, are more targeted on local priorities, and quality of service and customer satisfaction are improved.

Further details of these case studies are set out in Appendix B.

Table 4.1 - Key Statistics for Devolved Great Britain Railway Franchises 2008-2009

TOC	Passenger Journeys (m)	Passenger Km (m)	Timetabled Train Km (m)	Route Km Operated	No. of Stations	No. of Employees
Arriva Trains Wales	26	1,014	23	1,691	243	2,083
London Overground ¹	33	427	3	87	36	827
Merseyrail	32	378	6	121	66	1,150
ScotRail	84	2,601	39	3,042	342	4,353
TOTAL	175	4,420	71	4,941	687	8,413

Source: National Rail Trends Yearbook 2008-2009 Office of Regulation (2009)

¹ London Overground figures exclude East London Line Extension which is due to open in May 2010 and will add considerably to the network statistics for this concession, with further additions in 2011 and 2012.

Europe

We have also examined a number of European case studies. These include **Lille, Cologne, Karlsruhe, Copenhagen, Sweden and the Netherlands** as well as the “European approach” more generically. The evidence from this experience suggests that local and regional tiers have been given more extensive powers, compared to the English PTEs, to develop rail strategies at the appropriate spatial tier, link them to spatial plans and allocate or secure funding for their implementation. The latter is especially important, either through devolution of national funding (direct from Government or through the re-allocation of budgets previously provided to national rail companies) to the local or regional level or through sub-national taxation or charges²².

In particular, regions or consortia of local authorities appear to have more experience of direct franchising powers for all forms of public transport, including bus and rail, as well as providing specifications and funding to national rail agencies to implement agreed capital investment. Often there is a clear and well understood contractual framework and division of roles between national and regional/city regional tiers as to funding of different levels of intervention such as the purchase of additional services, new or improved line infrastructure, stations or rolling stock.

Further details of these case studies are set out in Appendix C.

²¹ For example, First Great Western operates services to Cardiff and Swansea, whilst Virgin West Coast, East Coast Trains and Trans Pennine all operate services into Scotland. London Overground shares some corridors into Euston and shares the Barking-Gospel Oak Line with freight services.

²² For example, the Versement Transport in France.

Lessons for PTEs

Distilling the key points from these UK and European case studies, we can draw a number of lessons of relevance to the PTEs.

However, these must be treated with some circumspection. European experiences reflect different historical and cultural traditions, for example, and a general presumption in favour of higher levels of state support for public transport for the wider social good. The UK cases may be more directly applicable; however, even here, evidence is patchy and still emerging of successful outcomes from devolution of rail powers. Most examples from Great Britain commenced relatively recently; London Overground only came into being in 2007, and infrastructure and service improvements are still being rolled out²³. Similarly, Transport Scotland and the Welsh Assembly Government only started to exercise their stronger rail powers from 2006. With the exception of Merseytravel, no devolved rail network has yet run a complete Control Period and it may be appropriate to await the end of CP4 (2014) before outcomes can be analysed fully and with certainty.

It is also true to say that no one size of devolution fits all circumstances. The case studies all have different geographies, mix of networks and traffic, degree of transfer of powers, governance structures and investment/risk profiles. However, no example, with the sole and unique instance of Northern Ireland, has received the maximum potential combination of devolved powers over infrastructure and services. Even in Scotland, infrastructure remains under ownership and day-to-day management of Network Rail and some long-distance inter-city franchises remain under DfT, rather than Transport Scotland, management. Safety, economic and market regulation also remain reserved matters. The vertical integration powers sought by Merseytravel for its Northern and Wirral Lines may represent the totality of devolution which can be achieved, but these have yet to be granted and exercised on the British Mainland.

Within these qualifications, local variances and limits, devolution of rail powers, however, does appear to deliver tangible benefits for localities and regions. These benefits are expressed in different ways in different areas, but include increased levels of investment, closer alignment with local goals and aspirations, improved service performance and quality, rising customer satisfaction, increased patronage and fare revenue, and visible improvements to the wellbeing of communities and economies within the catchment areas of the networks concerned. Further justification and evidence on the benefits of devolution is set out below.

The reasons why benefits have been delivered appear to include local administrations which provide more focus, greater appetite and drive to deliver improved performance, pressure from local politicians and a different balance of priorities for growing and improving the railway relative to minimising costs and risks. This is not to say the DfT rail policy is necessarily fundamentally flawed, but our impression is that Government officials lack a personal commitment to a particular area, are not politically challenged to achieve major local improvements and tend to take a more risk averse, short-term conservative approach which is focused on reducing costs, rather than prioritising the improvement of services to their maximum extent or focusing on customer needs. Devolved administrations seem to have a different sense of investment priorities and a desire to “make things happen” within their jurisdictions.

Devolution also offers benefits to DfT. Not only does such a trajectory deliver on commitments made, or implied, through the Local Transport Act and more recent support for the City Region Pilots, but devolution also offers a mechanism for transferring responsibility – and therefore technical, financial and political risk – for regional and local rail networks to bodies potentially better placed – and with an appetite and ambition – to focus time and resources on them. This

²³ The full London Overground network will not be complete, for example, until the East London Line Extension opens in May 2010, with further introduction of rolling stock and service improvements due later in 2010 and into 2011.

would leave Ministers and Government officials better able focus on national rail infrastructure and services which are rightly the concern of Central Government

Successful examples appear to have devolved funding for rail investment alongside actual powers. The European experience has already been mentioned. Both TfL and the Scottish Government have long-term settlements for funding and considerable freedom to commit resources for capital and revenue purposes across a range of modes. This enables them to support their aspirations financially as well as spreading and managing risks across budgets and matching transport funding with other local sources and contributions from the private sector.

It is also clear, however, that funding is more of an issue for cases in Great Britain compared to European examples due to the high cost base within the national rail industry. As has been noted in a number of studies, the costs of implementing certain infrastructure and service improvements are considerably more in the UK than elsewhere. In 2007 this prompted an investigation by the Competition Commission into the rolling stock market and the activities of the privatised ROSCOs; more recently, DfT and ORR have commenced a joint review of industry costs and efficiencies and whether the cost base of Network Rail can be further reduced. This raises the issue of whether there is scope for cutting industry costs overall, potentially to those in place before privatisation and the collapse of Railtrack, securing efficiency savings and investing these back into “frontline” infrastructure and passenger services.

To date, the principal examples of rail devolution in the UK relate to those which have been relatively easier to achieve in infrastructure and operational terms in the sense that they are mainly – although not exclusively – self-contained networks which can be managed separately from national infrastructure and services. With the exception of Merseyrail, the PTE areas are more operationally complex with a mix of long-distance and local services, and freight services, overlaid on each other, and franchises serving more than one city region. Hard decisions need to be made therefore on the use of the available capacity and the impact of service changes in one area on network constraints and opportunities in other areas. The challenge will be to devolve “local” services without impacting on national and wider regional services. This is not to say that such local decision making is (or should be) off the agenda, but negotiations will be required between PTE, DfT, ORR and Network Rail in respect of a balance and protocols for managing competing demands²⁴. Future improvements to capacity, including the development of High Speed Lines, may amplify the opportunity for devolution.

It is also evident from the case studies that devolution of passenger services is more common – and sought after – by local and regional bodies than ownership or management responsibility for line infrastructure. In other words, vertical separation of operations and infrastructure is usually maintained, with the sole exception in the UK of Northern Ireland. Vertical integration is seen as a step too far for many, including Transport Scotland and TfL, until the issues and risks are more clearly understood and a stronger case has been made. Merseyside is an exception and its ambitions for a pilot for the Northern and Wirral Lines, at least, might provide some useful comparative evidence between Network Rail and a new infraco.

²⁴ An approach to devolution which takes in franchising arrangements across a number of PTEs, rather than individual areas, may be one way to mitigate these operational constraints.

Summarising the Benefits of Devolution of Rail Powers	
<p>The evidence from the desktop review, PTE interviews and the UK and European case studies suggests a number of tangible benefits resulting from devolution of rail responsibilities powers, as set out below.</p>	
Benefit	Justification and Evidence
<p>Increased Investment</p>	<p>Where rail powers have been devolved, local and regional agencies either invest in enhanced infrastructure and services themselves, or create the conditions for the private sector to do so:</p> <ul style="list-style-type: none"> • new train fleets on order in for London Overground and ScotRail which will have greater reliability, operational efficiency and passenger comfort than the trains they replace. In the Netherlands, the introduction of new lighter passenger trains has reduced operating costs and wear and tear on the track; • the long-term Merseyrail franchise has provided for investment in train modernisation and enhanced methods of maintenance has dramatically improved rolling stock reliability; • new or improved stations have been delivered, such as Liverpool South and Brunswick on Merseyrail, a deep clean, staffing, branding and modernisation of all stations on London Overground, and Transport Scotland's Station Regeneration Fund; • line have been reopened or upgraded, including the Airdrie to Bathgate Rail Link in Scotland, the East London Line Extension and the Ebbw Valley Railway in Wales; and • in France and Germany, regional administrations can invest in enhanced rail infrastructure and services from taxes, such as the Versement Transport, which are raised locally.
<p>Focus, Drive & Incentivisation of the Industry</p>	<p>Where rail powers have been devolved, infrastructure and service operators are more closely incentivised to improve or maintain their performance and customer service by direct support, scrutiny and challenge by local politicians and officers who are closer to passengers, understand the daily travel experience and know where improvements are required:</p> <ul style="list-style-type: none"> • ScotRail's franchising relationship is with Transport Scotland which working directly on behalf of "locally" elected Scottish Ministers, with a franchise extension agreed to 2014 in return for strong performance and an additional £73 million of investment for passengers; • Merseytravel is able to develop a close partnership and hold Serco-NedRailways directly to account for the performance of its services, with political pressure for high investment, service quality, responsiveness & customer focus from the company; • TfL takes revenue risk on the London Overground concession, but backed by the Mayor, monitors LOROL's performance, and makes incentive or penalty payments; • the five Northern PTEs believe strongly that franchise co-signature gives them a "seat at the table", more regular contact, a stronger degree of influence, and easier capacity to secure changes to the operations of Northern Rail on a day-to-day basis than would otherwise be feasible, with benefits for passengers; and • passenger service tendering arrangements in the Netherlands means provincial bodies can re-incentivise or replace operators periodically within an increasingly competitive market.
<p>Responsiveness and Flexibility to Local Priorities</p>	<p>Devolution enables local and regional aspirations, needs and challenges to be addressed in a complementary manner to overarching national goals:</p> <ul style="list-style-type: none"> • long-standing evidence, for example from the Core Cities Group, Centre for Cities and Northern Way, shows that there is a close relationship between local and regional economic competitiveness and the extent to which economic and social powers, responsibilities and resources are devolved, with investment in urban transport generating economic multipliers of up to 25-30% on top of "traditional" transport benefits; • the Government's own Sub-National Review, Local Transport Act, and Local Democracy, Economic Development and Construction Bill, and City Region Pilots set out an ambitious agenda for city and sub-regions, rather than Central Government Departments, taking or influencing key decisions on investment in infrastructure and services; • PTEs contend that proposing and making changes to franchises when they are at least a co-signatory is easier, quicker and more efficient than where they are not. Centro's experience of London Midland, with co-signature removed, appears to support this view; • in Europe, regions and city regions specifying, funding and awarding or franchising rail infrastructure and services for sub-national networks is the rule rather than the exception.

Summarising the Benefits of Devolution of Rail Powers	
Benefit	Justification and Evidence
Stronger Performance	<p>The evidence suggests that devolved rail networks show strong operational performance, increases in patronage and rising customer satisfaction:</p> <ul style="list-style-type: none"> Merseyrail has been transformed from a failing railway to one of the best performing on the national network. Around 96% of trains now arrive on time, compared to around 80% prior to franchising by Merseytravel. Some 91% of passengers are satisfied with the service which has shown year on year patronage growth since 2002; ScotRail – Since the current franchise was let and transferred to Scottish Ministers, service delays have reduced by 50% and passenger volumes have risen by 20%. Around 90% of services now arrive on time and 89% of passengers are satisfied with the service; TfL investment in London Overground through replacing track and points and upgrading signals is expected to improve reliability and allow for increased frequency with signs that on completion of engineering works and introduction of new trains, customer satisfaction levels will rise, with 75% satisfied in Spring 2009 already up 10% on a year earlier; and whilst directly comparable data from Europe is not available, there is evidence that investment in new regional infrastructure, rolling stock and services in many areas has been accompanied by increasing level of service, patronage and levels of customer satisfaction. Public transport use in and around Lille, for example, increased 47% in a decade and the introduction of tram-train in Karlsruhe has transformed patronage levels in and around the urban area.
Integration	<p>Devolved specification, funding and management of rail allows closer integration with other public transport modes, policies and wider transport interventions:</p> <ul style="list-style-type: none"> Transport Scotland's Strategic Transport Projects Review (STPR) allowed evaluation of the case for rail alongside investment in roads, local public transport and maintenance; Merseytravel has been able to plan and deliver interchange enhancements across Merseyside has improved physical interchange with buses, and invested in walking, including Merseyrail winning funding as a Cycling Demonstration TOC and obtaining Secure Station status for all 66 stations across its network. 75% of station car parks are also Secure; Transport for London implemented Oyster PAYG on all London Overground stations soon after taking over responsibility for the franchise, allowing equal access to all other public transport modes in London within a single ticketing and fare arrangement; the Scottish Government, Welsh Assembly Government & Northern Ireland Assembly have introduced or are developing integrated bus and rail ticketing products across bus and rail; passenger service franchising arrangements in the Netherlands allow for combined franchising, management and branding of rail and bus services within a single area; and Merseytravel, Transport for London and Transport Scotland have introduced common branding for railway stations, trains, and information and promotion alongside other public transport modes and initiatives, providing a consistent image and identity to the passenger and reducing costs of rebranding, if and when franchise operators are replaced.
Costs and Efficiencies	<p>There is evidence that devolution can provide for efficiencies and cost savings which can be re-invested back into benefits for passengers:</p> <ul style="list-style-type: none"> in London and Scotland, a range of options for the purchase or leasing of new rolling stock may be more cost effective and flexible than reliance on one of the existing private sector ROSCOs; in London and Scotland, focused project specification, procurement and management is enabling Airdrie-Bathgate and the East London Line to be delivered on time and on budget; in Merseytravel, economies of scale in bringing rail planning, business case development and franchise management alongside other functions into a single organisation; in London, Scotland, and Merseyside, there are cost savings from maintaining a single rail brand which does not change with the replacement of a franchise operator; Merseytravel estimate that implementing vertical integration on the Merseyrail network would create cost savings of £33 million over the life of the existing franchise and provide a cost comparator to Network Rail. Separate evidence from Northern Ireland suggests lower capital and operating costs of the vertically integrated NIR network compared to Great Britain ; direct franchising responsibilities in Transport Scotland, TfL and Merseytravel removes duplication of focus – and therefore cost – with franchise managers within DfT; potential for bespoke local standards and specifications (e.g. on rolling stock specification, asset management regimes, station design standards) to reduce costs; and combined bus-rail franchises in the Netherlands reduce management costs for the franchise operator with the potential for savings passed onto the franchising authority.

Devolution – The Practicalities

In terms of arguing for, implementing and managing devolved rail responsibilities and powers, our discussions with the relevant authorities indicate the following key practical lessons for the PTEs:

- the case for devolution of (specific) powers needs to be clearly and unambiguously made in any proposition to Government. This includes a robust business case, and evidence of how and why a PTE could deliver more positive outcomes compared to existing arrangements or through closer partnership and joint working. The business case should also identify how risks would be managed, the financial implications and impacts on industry bodies, passengers and wider stakeholders. Such a case is required not only for DfT, but to confirm with local politicians that the “Asks” are realistic, achievable and do not expose the PTE (or ITA and the constituent local authorities) to unknown, poorly understood or unsustainable risks;
- devolution may come through a series of progressive steps rather than a single transfer of powers in one package. In some cases it may be better to commence with modest levels of devolution (e.g. limited transfer of powers, a single railway line or group of lines, stations or a pilot project) and achieve the desired outcomes from these – before making the case for further change;
- there needs to be an awareness of, and willingness to take on, a range of operational, technical and financial challenges and risks and manage these within the resources available. It is therefore vital to undertake an adequate due diligence exercise ahead of any transfer of responsibilities and powers, ensuring that resources are transferred sufficient to meet any subsequent liabilities, and that the appropriate skills are in place in sufficient strength in such areas as business case development, franchise management, rail engineering and operations, economics and planning;
- in order to achieve this, all the case studies have had to develop additional staff capacity and skills in order to fulfil their new roles and create meaningful engagement and joint working with the rail industry. Transitional arrangements to build up this capacity are important, including secondment, recruitment or periods of “shadow working” with the agencies from which powers are being transferred;
- the issue of rail powers cannot be treated separately from questions over wider devolution of responsibilities and powers to a city region level, including political leadership and robust governance structures. In particular, local politicians need to understand what responsibilities and duties are being taken on and be prepared to accept accountability for what may from time to time be perceived as unpopular local decisions²⁵. They may also need to consider wider questions of taking revenue risk related to certain service arrangements or investments. This links to the Government’s expectations of stronger ITA governance in most conurbations outside London and which is enabled by the Local Transport Act. However, there is evidence from Merseyrail that, for some aspects of devolution, significant changes in governance may not be required; and
- there is recognition that local control of rail services can be “hard work” to implement and manage in practice. This suggests PTEs will be on a steep learning curve if they are to be successful and must invest substantial time, effort, investment in staff and resources, as well as focusing on effective partnership and strong relationships with rail industry and other stakeholders, regardless of the precise structure they adopt. Again the experience of Merseyrail is instructive.

²⁵ For example to change or discontinue poorly performing passenger services, increase fares or prioritise investment on one line over another. There are also issues of how, and with what risks, issues of non-performance by an operator might be tackled.

The case studies suggest differing views of transfer of risk when it comes to future franchising models. More recent franchises have been let with private operators taking the risk, with sufficient franchise length, flexibility in managing key areas such as unregulated fares, and the ability to negotiate extensions to franchise periods, to justify a given level of investment. The franchises for Merseyrail, ScotRail and Arriva Trains Wales largely follow this pattern. However, the London Overground franchise, awarded by TfL for a seven year period against a tight specification with the franchising authority taking 90% of the revenue risk on the basis of gross costs, may be the forerunner for a new approach more in line with the social objectives of PTEs and their constituent local authorities. This issue deserves to be a major discussion point as the Government considers the future of passenger rail franchising.

Finally, the case studies suggest that investing and managing rail in Great Britain is expensive, and seemingly much more expensive than Europe. It is not clear that these costs would be greater per se under PTE stewardship compared to DfT and Network Rail control. However, the PTEs need to understand that this position may reduce what they can achieve unless Network Rail's cost base can be reduced, leasing costs of rolling stock can be brought down, some of the contractual relationships within the industry can be simplified, or they can identify technical or contractual arrangements which target and selectively reduce specific aspects of cost. The current DfT/ORR review of industry costs may present useful evidence on options in this respect.

In this respect, it is widely expected that funding for rail in CP5 is likely to be very tight, especially given commitments to a number of priority investments. Authorities involved in the case studies are themselves realistic about the need to identify and make economies. This suggests that the PTEs need to manage expectations about what may be achievable in the short-term; they also need to build a case for devolution of powers based on efficiencies and cost reduction, transfer of risk from Central Government, innovation and affordability. The argument here is that it is local and regional authorities which are best placed, rather than remote Government Departments, to decide where tough spending choices should be made in a way which maximises efficiencies whilst reducing the impact on frontline services which serve predominantly local needs.

4.3 Summing Up the Case for Change

This Chapter has presented a wide range of evidence around the views of PTEs on whether there is a case for change on existing arrangements for rail, reinforced by the findings from a number of case studies. From this, we conclude that there is such a case, at least in relation to the retention of current PTE responsibilities and powers for passenger franchise co-signature, but also for additional powers, especially in the areas of franchise letting, management and monitoring on a case-by-case basis.

This case is based on the following factors:

- passengers themselves often regard rail as an integral part of their local transport networks, daily experience and means of accessing employment and other opportunities;
- the Government has already devolved substantial powers and funding for passenger rail franchising to regional and local bodies with the train km and passenger km transferred broadly equivalent in scale to those operations serving the PTE areas and their hinterlands;
- where powers are devolved, the evidence confirms that investment increases, there is a closer alignment with local and regional priorities, and this seems to translate into a higher level of passenger service, performance and satisfaction;
- all six PTEs consider the current structure and distribution of powers, whilst an improvement on the post-privatisation period, to be unsatisfactory and continuing to involve an excessive degree of central decision making by those responsible for DfT rail policy. This is at a time

when other parts of DfT, and Departments elsewhere in Government, are more committed to, and using the rhetoric of, further devolution of responsibilities and powers;

- the PTEs have a long track record of investing in, and improving, their rail networks and see continuing to do so as central to their statutory remits and duties, including delivering the objectives set out in their Local Transport Plans and, where relevant, City Region Development Programmes. They also see continued investment in transport infrastructure and services, especially local public transport, as essential to maximise the economic competitiveness of their city regions and secure the most rapid recovery from the current recession²⁶;
- with funding likely to be curtailed in, and possibly before, CP5, local and regional authorities believe they are best placed to decide, on the basis of their local understanding, where tough choices should be made on city region commuter networks, especially if cost savings, efficiencies or new sources of funding can be identified; and
- it is clear that following the high-profile failure of, or a need to renegotiate, a number of passenger franchises and the continued debate over high costs within the rail industry, the Government itself may be looking for new and innovative solutions to resolve the challenges facing the sector, providing an opportunity for the PTEs to engage.

This is not to say that devolving rail responsibilities and powers to PTEs, or other local or regional bodies, should be seen as an easy option. Indeed, this Chapter has emphasised the practical challenges, steep learning curve, and need to develop skills in breadth and depth, faced by devolved administrations taking on an enhanced role on rail. It is essential that the PTEs understand these issues before deciding which set of existing or new arrangements to take forward with Government.

The next Chapter now considers what shape such new arrangements might take.

²⁶ For example, see Transport Works: The Case for Investing in the City Regions. Passenger Transport Executive Group (2010).

Case Study 5: The Netherlands

The basis for the Dutch rail industry structure was created by the Passenger Transport Act 2000, under which the Dutch Government required that all urban and regional public transport should be publically tendered and operated under concession agreements. Under the Concession and Railways Acts 2005, this was paralleled with the separation of rail operations and infrastructure and new approach to passenger rail franchising. This aims to reduce risk in the market, deliver greater value for money and offer quality service to the passenger.

Unlike the UK approach, the Netherlands has taken the approach of defining a core (national) rail network with one exclusive infrastructure company (ProRail) to secure the benefits of franchising and avoid the complexities of excessive fragmentation. The core network is regarded as socially and economically crucial to the well being of the Netherlands and the Dutch Government wants to have a clear role in its development and operation. Currently NS has a 10 year franchise for operating national passenger services until 2015, with an annual specification review and requirements to invest in service improvements and rolling stock. The Government agrees annually an operations contract with ProRail; subsequently ProRail and NS agree a track access arrangement which includes charges for the variable costs.

Aside from the core network the Government's policy is to fully devolve rail powers, including service franchising, financial control, service specification and monitoring, to regions and the large cities. All regional services must be publically tendered. This has led to some important changes, for example:

- Syntus (SYnergie tussen Trein en BUS which means Synergy between Train and Bus) has an intermodal 10 years franchise for the eastern part of the Netherlands in an arrangement which includes bus and rail services, with the Provincial Administrations monitoring the services for punctuality, reliability and customer satisfaction.
- this approach has been successful in delivering better integration of services and delivery so that costs could be reduced, while at the same time passenger satisfaction has been increased;
- based on this same model also all public transport in the south of the Netherlands has been recently franchised to Veolia, and in the north to Arriva; and
- responsibility for two major rail lines has been given to the city councils of Rotterdam and The Hague. These are being converted to light rail and integrated with local tram/metro systems.



The regions have no ownership or control of rail infrastructure; this is granted to ProRail. In addition, the Government is strongly promoting and providing incentives for station development, coupled to integration with local economic and social needs. Stations are regarded as drivers for regeneration and the Government makes direct investments, together with the station facility operator and the local authorities.

The Government has initiated the introduction of a unique nationwide smartcard scheme for all modes of public transport including rail. The benefits will be ease of use for passengers and expected growth of patronage. The initiative is industry led by a consortium of five parties (including NS) and is a good example of public-private partnership.

Case Study 6: London Overground

The 1999 GLA Act gave the Mayor of London extensive responsibilities for transport across Greater London. These responsibilities did not extend to the National Rail network, however, and in many ways, the Mayor and his executive agency, Transport for London, had fewer powers on rail than the PTEs. This position was altered significantly under the 2005 Railways Act which devolved significant powers to TfL at least equivalent to, and in some important respects exceeding, those of other city regions.

London Overground is an orbital inner London rail service which is operated as part of the National Rail network under TfL control & branding. Since the start of operations in 2007, the franchise has consisted of four routes; the Gospel Oak to Barking Line, North London Line, West London Line and Watford Line. During 2010 the East London Line will join the network. This Line was formerly part of the London Underground and is being upgraded and extended to Highbury and Islington in the north and West Croydon/ Crystal Palace in the south.



The London Overground concept dates from 2003 when TfL introduced consistent information displays, station signage and maps on selected routes in South London. Although this pilot was purely an exercise in branding, and had no statutory basis, this was the first instance of TfL having a visible influence over National Rail services in London. Subsequently, TfL put forward proposals for a "London Regional Rail Authority," which would give it extensive regulatory powers over rail services in and around Greater London. A new TfL Rail Directorate was also created, with access to considerable technical, planning and business case resources, to drive the proposal forward with considerable political lobbying of DfT by the Mayor.

Following DfT's review of the rail industry in 2004 and under the 2005 Railways Act, part of the Silverlink Metro rail franchise was transferred to TfL control, with undertakings to improve service frequencies, staff all stations, improve station facilities, introduce new rolling stock and allow Oystercard PAYG throughout the network. A £326m upgrade to the network is continuing and involves:

- a station deep-clean, cosmetic improvements, TfL branding and staffing;
- upgrading more than 200 signals, renewing 7km of track and 69 sets of points;
- lengthening 30 platforms and making general improvements to a further seven stations;
- improving CCTV, lighting and passenger information, and installing lifts in some stations; and
- introduction of new rolling stock.

Funding for these improvements is being provided by under TfL's Ten Year Investment Programme, Network Rail, the Olympic Delivery Authority and DfT. The franchise has been let to LOROL under a tightly specified seven year contract, with TfL taking 90% of the revenue risk and making payments to the operator based on a range of performance measures. Successful outcomes are already evident through improved service levels, improved station security, accessibility and reduced crime, and rising passenger satisfaction.

London Overground is currently the only agreed development towards establishing the London Regional Rail Authority which TfL proposed in 2004, although TfL retains aspirations to take over the franchise letting and management of other inner suburban London services (especially in South London) if the initial four lines emerge as successful. These plans are supported by London Councils, and TfL is also likely to be the franchising authority for Crossrail services when these commence in 2017. TfL has no plans, at present, to seek vertical integration of infrastructure and operations and prefers working with Network Rail as the infraco rather than seek to replace it with an in-house body or private-sector infrastructure manager.

Under the Railways Act, TfL also acquired powers similar to the PTEs in respect of being consulted on specifications for new franchises (for example, Southern), being able to request additions in the base service requirement, being able to negotiate (and pay for/receive savings from) increments and decrements, and investing in new or improved stations. For example, as part of the extension of Oyster PAYG to all National Rail stations in London, TfL has paid for all of the IT equipment installed.

TfL has increased its resources to meet the challenges presented by its new rail powers. Whilst some roles are split between London Overground, the Docklands Light Railway and Tramlink, these resources include policy and strategy, communications & liaison, infrastructure planning and franchise management. The task of building this capacity and skills base was assisted by TfL experience of a range of other urban rail-based systems (including the Underground and DLR) and the recruitment of managers from the former-SRA.

Case Study 7: Scotland

As part of the Government's review of the UK rail industry in 2004, it was agreed that greater responsibility for railways and rail transport in Scotland would be devolved to Scottish Ministers, who already had substantial transport responsibilities under the 1998 Scotland Act. Following the 2005 Railways Act, the Scottish Government, through its executive agency Transport Scotland, now has responsibility for the majority of rail powers in Scotland, enabling services to be planned and investment to be targeted in line with Scottish Government's Purpose and Strategic Objectives. These powers include:

- transfer of the Strategic Rail Authority's powers to let, manage and monitor the performance of ScotRail passenger services;
- powers to take long term, strategic decisions about future investment; and
- powers to fund and specify where resources are targeted by Network Rail on track maintenance and investment in Scotland, effectively mirroring the HLOS process in England.



Safety and the licensing of railway operators remain reserved to UK Ministers and are these functions are discharged through the Office of Rail Regulation. Network Rail also remains as infrastructure owner and operator, but increasingly takes investment decisions in line with Transport Scotland priorities.

Devolved powers on rail were initially handled within the Transport Directorate of the Scottish Executive, accountable to Parliament and the public through Scottish Ministers. However, most roles were transferred to Transport Scotland, as the new national planning and delivery agency of the Scottish Government, formed in January 2006. Rail is progressed through two of the six Directorates of Transport Scotland covering Strategy & Investment and Rail Delivery. The Scottish Government was careful to undertake a thorough due diligence exercise on rail infrastructure and services prior to the transfer, fully understand the risks being taken on and ensure proper transfer of rail-related knowledge and skills, for example by recruiting managers from Network Rail and the Strategic Rail Authority.

Devolution has given a major impetus to rail investment in Scotland, over and above that experienced by many regions in England. A range of major improvements have been or are being progressed, including Larkhall to Milngavie, (2005), Stirling - Alloa - Kincardine (2007), Edinburgh Waverley re-modelling (2008), Airdrie to Bathgate Rail Link, creating a fourth link between Edinburgh and Glasgow (due to open in late 2010), and Scottish Borders Railway from Edinburgh to Tweedbank (out to tender and commencing construction in 2011). There are also proposals for further enhancements between Edinburgh and Glasgow, by electrifying the Central Belt network and accelerating journey times. Progress on other key projects is not without problems, however, especially due to the high costs of investing in rail, as the recent abandonments of plans for the Edinburgh Airport Rail Link (EARL) and Glasgow Airport Rail Link (GARL) have shown.

The ScotRail passenger rail franchise is one of the biggest contracts let by Scottish Ministers, worth around £2.5 billion, and is managed by Transport Scotland. The contract was awarded by the SRA to FirstGroup plc, operating as First ScotRail Limited, for 2004 to 2011. On taking on the franchise in 2006, Transport Scotland and ScotRail announced the introduction of a fleet of new trains from late 2010. The procurement process, worth over £200 million, was led by ScotRail with a resulting contract to be funded by Transport Scotland to provide 130 new rail carriages, adding 9,000 seats to the Scottish network. The trains are seen by the Scottish Government as essential to meet growing passenger demand, promote modal shift and support economic and environmental goals.

ScotRail is seen as performing well. Delays have been reduced by 50% since franchise commencement and passengers have increased by 20%. Investment has been made in refurbishing rolling stock and stations. Under the terms of the original franchise agreement there was an option to extend by three years, and Scottish Ministers have now exercised this. The franchise extension award brings additional investment from First worth £73 million, which is being reinvested in 28 projects, including a Stations Community Regeneration Fund, supporting service enhancements and improvements at stations and on trains.

Transport Scotland has also used its role as franchise manager to reposition the ScotRail brand to a new format, incorporating Scotland's flag, the Saltire. This is intended to reinforce the identity of the network with the people of Scotland as well as deliver savings to taxpayers by providing a consistent look which will not change with a new franchise operator.

Case Study 8: Lille

Lille is the administrative and economic centre of the Nord Pas de Calais Region in Northern France. Together with Roubaix and Tourcoing it forms Lille Métropole with a population of 1.1 million, and over 2.5 million in the surrounding hinterland. It was once seen as an industrial city in decline, but is now a vibrant and attractive centre which has become a focus for services and tourism. The TGV links to Brussels, Paris and the Channel Tunnel, and excellent local and regional public transport have been central to its recent renaissance.

The French rail network reforms of 1997 transferred authority for passenger rail to France's (directly elected) Regional Councils, with the further transfer, in 2000, of responsibility for the management of the Trains Express Régionaux (TER). Accompanied by this transfer was an increase in the grant from Central Government with the objective of improving service quality and allowing Regions to invest in line with their own priorities.

The Regional Councils became Transport Commissioning Authorities, each one negotiating an agreement with the French National Railways (SNCF), and laying down the operating and funding terms for the provision of TER and other regional railway services, including designated routes, connections, fares and service levels. In Nord Pas de Calais after a successful pilot phase, these powers were further devolved to Lille Métropole.



The Lille Métropole's scope of competencies includes economic development, strategic planning and investment, as well as public transport. It has a much bigger investment capacity than individual municipalities, with resources coming from local taxes and Central Government grants. In 2009 the regional budget was €2.1 billion with more than one third spent on transport. This allows strategic decisions on transport (rail) which closely fit with regional development priorities.

The Region has responsibility for the provision of rolling stock and in recent years has received over 30 new double deck two car electric multiple units. SNCF funded 30% of total costs of € 750 million and the Region the remaining 70%. The Region is also supporting local operation and stopping of high speed TGV services to provide fast links between Lille and other cities.

Apart from farebox revenue and money from the local communes, the Regional Council receives almost 60% of its costs from the Versement Transport, a tax payable by companies according to the number of people employed. It is calculated on employees' wages and can be increased if the Region plans to implement, or has already implemented, a high-grade transit service within its own right-of-way. Regions transport spending is therefore more locally funded and accountable to local needs. There is no British equivalent to the Versement Transport.

Between 2001 and 2010 there was an almost 47% increase in the number of people using public transport in Lille. This is attributable to the improvements in the quality and quantity of service, including the regional/local rail network, modernised tram and subway and bus network and employer-supported subsidies for season tickets. Co-operation between Lille Métropole, the Region, SNCF and the local transport operator, Transpole, have also supported fare and ticketing integration.

SNCF's monopoly is one area where the French system is at a disadvantage: in negotiating the TER contracts, the Regions have to enter into a contractual relationship with the state-run incumbent operator. There is not the competitive tension between private sector companies that exists in Great Britain. It is also true that the French Regions may not be sufficiently well resourced to assess the costs and revenues attributed to the service specification, and so are unable to challenge SNCF to reduce costs.

Forty years after its establishment Lille Métropole is proud of its network successes. By 2015 it expects to have 200 million travellers per year. It is investigating the idea of technically adapting metro stations to double the number of trains which is expected to be necessary by 2017.

5. Future Rail Options for PTEs

5.1 Overview

Chapter 4 demonstrated that there is a case for making improvements to the arrangements by which urban rail in the city regions outside of London is planned, funded, delivered and monitored. This case is based on the evidence that suggests that where powers and resources for rail is devolved, levels and the focus of investment increase, local priorities are more directly served and the passenger experience is significantly improved. In principle, there is also likely to be a stronger link between the technical and operational management of the railway and wider economic, social and environmental goals and aspirations of city region leaders and stakeholders.

The case for making such improvements is strengthened by the risks to rail funding for CP5 and potentially towards the end of CP4, as a result of continuing high costs of investing and managing within the current industry structure and cost base, and the Government's need to reduce spending in order to reduce public sector debt. Under these circumstances, the risk is that Central Government will use a blunt instrument of starving metropolitan commuter networks and services of vital funding necessary to support a resumption of economic and demographic growth, without considering or allowing local solutions to come forward which may introduce efficiencies and facilities new forms of funding.

Our contention is that the PTEs – and their governing ITAs – are best placed to take the lead on any new arrangements. This is based on their long track record of sponsoring improvements in infrastructure, rolling stock and stations, as well as supporting new or enhanced services, many of which predate the privatisation of the industry in the 1990s and the 2005 Railways Act. PTEs are also seen as key partners with established relationships with Central Government, local authorities and industry stakeholders and have the wider role – strengthened through the 2008 Local Transport Act – of promoting multi-modal transport and balanced investment and integration across modes. Rail is therefore a natural PTE competency provided that they show leadership, demonstrate the ability to take decisions in a mature manner, informed by the evidence and value-for-money considerations, operate in an effective and efficient way and ensure local accountability to their ITAs and ultimately constituent local authorities.

In discussing the retention or addition of powers over rail, it is clear that the PTEs start from different places and that “one size fits all” approaches are unlikely to be successful. Merseytravel, for example, has strong franchising letting and monitoring powers over the Merseyrail network, for example, and is seeking to expand these in breadth (spatially) and depth (through integration of decision making with infrastructure). Franchise co-signature exists in the other conurbations, but may be under threat with the renewal of Northern in 2013 and has, of course, already been ended for Centro in the case of London Midland. The railway also plays a different role and level of importance in different city regions, being central to urban commuting in Leeds and Birmingham, for example, but balanced with metro, light rail and tram modes in Sheffield, Greater Manchester and Tyne and Wear.

5.2 The Options

The challenge, therefore, is to develop a set of potential reforms which allows a focused discussion on the way forward. To this end, we suggest that options are developed and grouped under four principle headings, as developed from *pteg's* Terms of Reference, previous studies and literature and our own judgement and experience. The options are not mutually exclusive or equally applicable to each PTE area; they should be regarded as a “flexible toolkit” available to be taken up and assembled in different combinations based on local geography, technical and operational circumstances, funding structure and level and political ambitions and dynamics.

The four categories of options are as follows:

- retention and better use of existing rail powers;
- co-ordinated planning and strategy;
- enhanced control of passenger services; and
- supporting infrastructure investment, operation and management.

The following sections explain each of these categories and the options within them.

Retention and Better Use of Existing Rail Powers

It has already been noted that the PTEs retain substantial statutory powers on rail under various acts of legislation, most recently the 2005 Railways Act. Enabling provisions of the Local Transport Act and Local Democracy, Economic Development and Construction Act may allow the creation of new governance structures and processes, and the transfer of certain powers, which maximise the outcomes which can be achieved through these mechanisms.

Options under this category include:

- planning and promotion of rail as part of the integrated transport network for urban areas (alongside, and integrated with, other public transport modes) and engagement with DfT, Network Rail, and TOCs to support city region goals and aspirations;
- use of existing powers such as concessionary fares and ticketing, statutory consultation on franchise specification, input into Network Rail RUS, increment/decrement over and above existing franchise baselines, direct agreements to specify and support minor works, and well being;
- overall strengthening of transport governance under Local Transport Act and Local Democracy, Economic Development and Construction Act, including stronger ITAs, Economic Prosperity Boards and Combined Authorities; and
- retention of right of co-signature on existing passenger franchises.

Co-ordinated Planning and Strategy

There are a range of options for ITAs and PTEs to take more of a strategic planning and specification role on rail, enhance engagement and partnership working with key industry stakeholders and (with Government and Network Rail agreement) increasingly influence or direct how rail-related capital and revenue resources are allocated on city region networks.

The two City Region Pilots in Greater Manchester and Leeds may offer some evidence on the effectiveness of this approach which may enable city region and local priorities to be better integrated into planning and investment decisions made by the industry.

Options under this category include:

- development of a formal Rail Strategy/Plan as a stand-alone framework or combined with other frameworks (e.g. LTP, DaSTS, MAA);
- memoranda of understanding (or equivalent) with DfT, Network Rail, ATOC and/or TOCs;
- linking rail (infrastructure and services) into planning process (LDFs, master planning);
- greater focus on rail within smarter choices (e.g. station travel plans);
- ITA/PTE representation on/to the Board of Network Rail and the Boards of TOCs; and
- influence, direction or specification of investment priorities and funds available for Network Rail.

Enhanced Control of Passenger Services

Following the highly-publicised failure of a number of franchises on economic and financial grounds, passenger rail franchising presents an area of some rethinking within Government, although the current Future of Rail Franchising consultation document in a number of respects to the PTEs. In particular, it needs to be questioned whether a “one size fits all” approach to franchising is any longer appropriate between those inter-city and long-distance operators which pay premia on their contracts and those, including a number of local and regional operators which continue to be highly dependent on public subsidy. The London Overground franchise sets an important precedent in this respect with its short, tightly-specified concession and the franchising authority taking on revenue risk, and may represent an approach for the PTEs to consider further.

Other options, under this category, include:

- right of co-signature on new passenger franchises (either “automatic” or at SoS discretion);
- enhancement of PTE responsibilities to support concessionary fares and ticketing (including 25 Mile rule:1968 Act);
- PTE management and monitoring of passenger rail franchises (on behalf of DfT as agent);
- passenger complaints and representation (alongside Passenger Focus);
- local branding of network and services (e.g. “Metro Train” “London Overground”);
- financial support for purchase or lease of rolling stock, either through individual PTEs, TOCs, jointly with DfT, or through the creation of a PTE-owned rolling stock ROSCO;
- direct passenger franchising including franchise specification, tender, management and monitoring (with or without revenue risk), either for individual city regions (e.g. similar to Merseyrail or London Overground) or on a pan-regional basis; and
- powers and responsibilities for train-tram vehicles, concessions and network development.

Supporting Infrastructure Investment, Operation and Management

The PTEs have a record of supporting improvements in infrastructure, especially around new or improved railway stations, but also extending to promotion line re-opening, electrification and other enhancements. There are issues over whether existing powers should be taken further, for example through the transfer or lease of stations to local management and control, or the vertical integration (or “Full Local Decision Making”) of infrastructure and services under a PTE managed or contracted infraco. Options under this category include:

- investment and management of local stations (e.g. suburban, including branding, staffing, information, integration with other modes) including car parking (capacity, pricing);
- investment and management of major stations (e.g. city centre);
- control (delegated, leased or transferred) of rail infrastructure (vertical integration), including the creation of new PTE-managed or private infraco(s); and
- a greater role in determining infrastructure and access to the rail network for freight.

5.3 Packaging Options

Options can be considered individually or in packages, depending on the starting position in each PTE area, degree of change required and level of city region ambition. Ideally, complementary and mutually-reinforcing packages of reform are preferable since they allow a holistic approach to be taken to planning, funding, delivery and monitoring, and also make a closer link between PTEs’ overall approach to rail and wider city region goals and aspirations.

As has been noted, issues of extended powers on rail also cannot be separated from wider issues of reforms to urban governance, powers over other aspects of integrated transport planning and delivery and funding. Transfer of powers from Whitehall will require Ministers to have confidence that there are strong governance arrangements capable of making decisions in an effective, mature and efficient manner, with adequate executive arrangements to carry them out. Equally, ITAs or city region leaders may only consider taking on the complexities and risks of managing elements of the rail network if they are satisfied that adequate funding has been transferred from the DfT. Greater powers for an ITA on city region rail with reach well beyond the immediate metropolitan boundary may also prompt calls from neighbouring authorities for suitable checks and balances on service planning decisions and potentially representation on the ITA itself.

A simple “pick and mix” approach from the list of options above is therefore unlikely to work; complementary, internally-consistent packages should provide the basis for discussion, ideally linked to wider reforms to governance for integrated transport across a city region as a whole. For the options above, we believe there are four generic models which could be considered.

Status Quo

With the exception of Merseytravel, this would largely retain all current PTE rail powers where they stand, for example, on franchise consultation, continued co-signature on existing franchises, developing rail strategy and planning, supported and integrated fares and ticketing, minor capital investment and progression of some capital projects through the RFA process.

Enhanced Rail Partnership

This model would reinstate (and potentially extend) the automatic right of PTE co-signature to new franchises, and reinforce this with local franchise management and monitoring with the PTE acting as the DfT’s agent. Memoranda of Understanding would be drawn up to agree levels of service and investment priorities with Network Rail, with the PTE specifying and developing funding packages for capital enhancements, and extending network branding, information and promotion.

This model is essentially informed by arrangements for the Welsh Assembly Government and under development for Greater Manchester and Leeds under their City Region Pilot status.

City Region Franchising Authority

This model would retain all existing PTE powers, but would substitute co-signature over certain rail services to full franchising responsibilities, allowing PTEs to specify, tender, manage and monitor services in line with city region priorities and aspirations and with appropriate levels of funding transferred from the DfT, reinforced by local sources. Franchise responsibilities could be extended through leasing, management and maintenance of stations, direct purchase or leasing of rolling stock, smartcard ticketing, as well as linking to city centre tram and light rail schemes.

This model is informed by arrangements for Merseyrail, London Overground and ScotRail.

City Region Rail Authority

As the ultimate stage, a PTE would gain full powers to brand, specify, finance and manage all aspects of city region rail networks and services, including vertical integration of infrastructure and operations. This would lead to the transfer of infrastructure responsibilities from Network Rail to a locally-managed or contracted infraco which would be managed alongside, or within, a passenger franchise, with access for long-distance and intercity operators to the network agreed with DfT.

This model is informed by the manner in which many metro systems operate (including London Underground), Northern Ireland Railways and Merseytravel’s proposals for Merseyrail.

Table 5.1 attempts to set out the key elements of each model, based on a hierarchy through which city regions might conceptualise, seek and receive stronger combinations of powers over planning, passenger services and infrastructure depending on their objectives, current circumstances and level of political and professional ambition.

Table 5.1 - A Generic Package Approach to City Region Rail Responsibilities and Powers

Package	Strategy and Planning	Enhanced Control of Passenger Services	Infrastructure Investment, Operation & Management
Status Quo	<p>Inclusion of rail (passenger and freight) within remit and competency of Integrated Transport Authorities</p> <p>Development of rail strategy and investment programme alongside or within established statutory/non-statutory plans (e.g. LTP, CRDP) & contribution to regional priorities (e.g. RFA)</p> <p>Co-ordination of public transport strategies covering bus and rail</p>	<p>Requirement/request/funding for TOCs to support concessionary fares, information, branding and publicity in PTE area (and up to 25 miles beyond)</p> <p>Co-signature of some <u>existing</u> passenger franchises (e.g. Northern) and right of consultation on franchises within PTE area</p> <p>Right to buy increments or sell decrements (subject to funding)</p> <p>Powers for direct agreements with TOCs for minor service enhancements</p>	<p>Lobbying and partnership working with Network Rail/DfT to develop and progress agreed infrastructure enhancements (including through HLOS, SRBP and RUS)</p> <p>Direct investments in infrastructure through capital grants to Network Rail/TOCs and powers to enter into direct agreements for these</p> <p>Investment in station complementary works (e.g. bus interchange, signage, cycle parking)</p>
Enhanced Partnership	<p>Formal arrangements for incorporating city region proposals into statutory frameworks and processes e.g. through Memoranda of Understanding/Protocols with DfT/Network Rail etc.</p> <p>Closer/more frequent/formalised contact between ITAs/PTEs and DfT/Network Rail/TOC senior management</p> <p>Planning rail investment within context of city region economic development and spatial plans</p>	<p>As above, but with formal agreement across most/all TOCs within PTE area on key standards, and voluntary agreement to extend beyond 25 miles</p> <p>Right to be consulted on specification of all franchises including services within PTE area</p> <p><u>Continued and extended</u> co-signature of relevant passenger franchises on tender (e.g. Northern, TPE)</p> <p>PTE management and monitoring of franchise agreements on behalf of DfT</p> <p>Powers for direct agreements with TOCs for minor service enhancements</p>	<p>As above, but with formalised agreements with DfT, Network Rail and TOCs for developing, approving and progressing business cases and capital investment which supports city region goals and aspirations</p> <p>Working with a range of stakeholders to support major transformational projects (e.g. major city centre termini, new cross-city connections)</p> <p>Identification of additional sources for rail investment</p>
City Region Franchising Authority	<p>Development of rail strategy and investment programme, with extension of strategies and plans to detailed specification and management arrangements for agreed passenger rail franchises, together with associated capital requirements</p> <p>Co-ordination of franchise letting, management and monitoring arrangements between rail and bus (Quality Contracts)</p>	<p>Specification, letting, management and monitoring of designated passenger franchises, including franchise length, operational standards, performance criteria and balance of revenue risk</p> <p>Purchase or leasing of rolling stock</p> <p>Alignment of franchised services with investment in stations, line infrastructure (& identification of funding sources)</p> <p>Enhanced rights to co-opt operators on integrated fares & ticketing (inc. smartcards), information and branding</p> <p>Right of consultation and requests on other non-managed franchises</p>	<p>As above, but with formalised agreements with Network Rail and TOCs for progressing capital investment which supports city region goals and aspirations, and aligns with locally managed passenger franchises</p> <p>Long-term funding settlement with Government, allowing capital and revenue investments to be progressed and risks to be managed</p> <p>Identification of local sources for rail investment (revenue & capital)</p>
City Region Rail Authority	<p>Comprehensive strategy and plan for rail for city region, fully integrated with other modes and spatial plan and supported by all necessary powers, resources and tools to directly deliver.</p> <p>“Total Public Transport Offer” between rail, bus and other modes</p> <p>Stronger planning and specification for rail freight</p>	<p>As above, but with PTE franchising responsibilities extended to most/all services operating commuter services within city region</p> <p>Possible extension of franchise powers beyond 25 miles (subject to neighbouring authority and regional governance issues)</p> <p>Stronger right of request/influence on inter-city and long-distance services starting and commencing in the city region, including interchange/feeders with local rail and bus services</p>	<p>PTE ownership/leasing of stations from Network Rail for management, branding, investment plans etc.</p> <p>Transfer of selected track and signalling infrastructure from Network Rail to local infraco under management or contracted by PTE with thresholds for availability, performance, target costing etc. and capital/asset management plan.</p> <p>Development of common infrastructure and service approaches across bus, tram, trains</p> <p>Separate or single contracts for infrastructure and services, depending on complexity, separation of cost accounting, risk etc.</p>

Case Study 9: Wales

The 2005 Railways Act makes provision for the Welsh Assembly Government to become a co-signatory to the Wales and Borders franchise and provide financial assistance to the franchisee. Under this arrangement, the WAG may specify levels of service, including fares, for passenger services within Wales, and whilst the DfT remains responsible for the few services under the franchise wholly in England, The Secretary of State cannot tender or enter into any new franchises for Welsh services without consulting and securing the agreement of the Assembly.

The Wales and Borders franchise is currently held by Arriva Trains Wales (ATW) under a contract awarded by the Strategic Rail Authority in 2003 for 15 years. By agreement, in April 2006 responsibility for the management of the franchise was passed from DfT to WAG, with an annual subsidy of £140 million. The WAG now have in place a Franchise Management team which works to ensure ATW follows, to the best of their abilities, the expectations outlined in the Franchise Agreement. The Department of Transport retains a minor interest in the few ATW services that operate in England-only.

In addition, the WAG may develop and fund infrastructure enhancement schemes and invest in improving the journey experience for rail users, over and above the steady state for maintenance and operations undertaken by Network Rail. It may also fund rail freight improvement schemes through Freight Facility Grant (FFG) and give financial assistance to any organisation for the purpose of developing Welsh railways.

Using these powers, WAG's is progressing an agenda for improving rail services in Wales. The Welsh Transport Strategy "One Wales: Connecting the Nation" supports a number of strategic rail proposals, and the Wales Rail Planning Assessment, produced jointly with the DfT, influenced the development of HLOS as well as the WAG programme for rail improvements across Wales. The strategy includes re-opening closed lines, increasing service frequency, increased train and station capacity, additional rolling stock, station security and passenger safety.



Results are being seen on the ground. For example, the Ebbw Valley Railway Line re-opened for passenger services on in February 2008, with 6 new stations and an hourly service between Ebbw Vale and Cardiff. Passenger services last operated on the line in 1962. The cost of the project was circa £30 million and funding was provided by Welsh Assembly Government, Corus Regeneration Grant and the European Objective One Programme.

Similarly, the Vale of Glamorgan Railway Line re-opened in June 2005, after a break of over 40 years and an investment cost of £17 million. The Cardiff to Merthyr Tydfil Frequency Enhancement Project has increased train services between Cardiff Central and Merthyr Tydfil from hourly to every half hour. The new service follows the completion of the Pontypridd to Merthyr Frequency Improvement Infrastructure Project, a £22m project, part-funded by the European Union's Objective One Programme between the Welsh Assembly Government and the South East Wales Transport Alliance (SEWTA). The project was delivered by Network Rail, which provided an improved station at Abercynon and associated track and signalling works.

The WAG is also using revenue-based measures to promote rail. For example, it is operating a concessionary fares rail pilot scheme for people aged 60 or over and disabled people of all ages in defined areas of Wales. It has also implemented an integrated bus and rail ticket allowing passengers to travel across Wales with the Freedom of Wales Flexi Pass. There are four types of pass, which offer unlimited travel on all mainline rail services in Wales plus most scheduled bus services for periods of either four or eight days.

It should be noted that the framework set out in Table 5.1 is generic and indicative only, rather than a single rigid blueprint or final recommendation or destination. Since the specific powers and circumstances on rail are different for each ITA and PTE, each area will have its own more detailed stages of each model and therefore options for considering reform. It is for each area to decide its starting and endpoint. Nevertheless, we believe the hierarchy is useful for considering how certain changes in particular areas may be taken forward.

Given our discussions with the PTEs as part of this Review, it is clear that all wish to go beyond the status quo (at the very least to protect passenger franchise co-signature where it is still in effect) to the Enhanced Rail Partnership model. Most see merits in the proposals for a City Region Franchising Authority, building on the recent and current experience of Merseyside, Transport for Scotland and Transport for London, although with some recognition of the operational, economic and contractual complexities this may entail. Whilst only one PTE – Merseytravel – has aspirations for the ultimate City Region Rail Authority model at this time, most are interested in a less radical transfer or leasing of stations and would follow any pilot exercise for leasing of line and signally infrastructure around Merseyrail with considerable interest.

Case Study 10: Vertical Integration of Rail Infrastructure and Services

A number of stakeholders have advocated restructuring parts of the rail industry to allow for what is termed as “Full Local Decision Making” (FLDM) – or vertical integration of rail infrastructure and operations. This arrangement continues to exist within Northern Ireland (See below), and has been proposed by Merseytravel for introduction to the Northern and Wirral Lines of the Merseyrail network.

Under this model, Merseytravel would set up a joint infrastructure company (infraco) with the current franchise operator Serco-NedRailways. This would replace Network Rail for the maintenance, management and enhancement of the track, signalling and station infrastructure.

Merseytravel has developed a business case for FLDM, believing it offers a number of benefits:

- improved network and operational performance in terms of service reliability and punctuality;
- clearer lines of responsibility leading to greater control and accountability, as well as the removal of duplication of some planning and management functions across the TOC and Network Rail;
- increased investment and refurbishment of existing assets;
- more responsive maintenance works through shared information and joint training.



The business case prepared by Merseytravel projects a net cost saving over the life of the Merseyrail franchise of around £33 million. FLDM on Merseyside would also provide the potential for benchmarking costs in regards to Network Rail in order to establish whether the national infrastructure operator is operating in an efficient manner and offering value for money.

Whilst vertical integration may be suitable for small self-contained regional franchises and networks, the views of others suggest it may be less applicable to the national rail network more generally. In many cases, track is shared by a number of franchise operators, and by passenger and freight services. In this situation, control of the infrastructure by one operator might act as an obstacle to competition. In addition, Network Rail believes many of the benefits of vertical integration can be achieved through closer cooperation and partnership with the TOCs, whilst retaining a range of network benefits and economies.

For these reasons, the House of Commons Transport Committee concluded in 2006 that the application of vertical integration across the entire national rail network would be a retrograde step. However, the approach may have benefits in self-contained areas such as Merseyside and the Committee recommended the design and carrying out of pilot projects in suitable locations to explore the costs and benefits in further detail and to inform future policy on this topic. The Conservative Party has also suggested a pilot on Merseyside “and a second project along similar lines on another part of the network” as part of its recent Rail Review.

Case Study 11: Northern Ireland

Northern Ireland Railways (NIR) operates 330 kilometres of railway on six key corridors, as a subsidiary of the Northern Ireland Transport Holding Company (NITHC), a public corporation established under the Transport Act (NI) 1967 to oversee all public transport modes. NITHC's responsibilities also include bus operators Ulsterbus and Metro, and all three subsidiaries operate under the brand name Translink. The Board of NITHC is accountable to the Department (and Minister) for Regional Development, and ultimately to the Northern Ireland Assembly, for the operation and strategic direction of its operations, including NIR.

The rail network in Northern Ireland is not part of the national rail network of Great Britain. Because of this separation, NIR is the only passenger rail operator in the United Kingdom to operate a state-owned vertical separation model. NIR therefore has responsibility of all aspects of the network including operations, fares and ticketing, stations, maintenance, management and enhancement of line and signalling infrastructure, with capital grant and revenue support coming from the DRD. The franchising model operated in Great Britain does not apply to Northern Ireland, although NIR as a whole is heavily reliant on public subsidy.



Prior to the creation of the Northern Ireland Assembly, the rail network suffered from under-investment, declining standards and inability to compete with private modes. At various points, there has been consideration of closing the network entirely. However, since devolution from Westminster, NIR appears to have undergone somewhat of a renaissance with track rebuilding, station improvements and the renewal of rolling stock. Of particular importance was the purchase of a new fleet of 3000-Class (C3K) trains under a £80 million investment approved by the Assembly and delivered in 2004, with a funding contribution from the European Commission. The development of the railways has been linked by local politicians to the economic growth of the region, and as a way of reducing the levels of highway congestion.

The investment is having positive outcomes. Between 1999/00 and 2006/07, passenger journeys increased by 60%, with 9.5 million passenger journeys made in 2007-2008, up 12% on the previous year, and 10.2 million in 2009/10. The latest performance figures for NIR according to Translink are 99% of trains arriving at the final destination within 5 minutes and 100% within 10 minutes of the scheduled time. Customer satisfaction has increased and among other accolades, NIR won the UK Rail Business of the year for 2008.

In 2008, NIR invited tenders for additional C3K trains, expected for delivery in 2012, allowing further replacement of older rolling stock and an enhanced level of service on a number of lines. Furthermore, the Regional Development Minister announced an £86 million upgrade of the main line between Belfast and Londonderry which will reduce journey times by up to 30 minutes. Looking ahead, NIR is proposing possible re-opening of the Lisburn-Antrim line, including a new station to serve Belfast International Airport.

There are no firm plans to move away from the current model of predominant state-ownership and vertical integration for NIR, or the concept of a single company and brand providing integrated services across all public transport modes. Indeed, Translink has recently introduced iLink, a new integrated bus and rail smartcard which is available on a travelcard or Pay As You Go basis across the whole of Northern Ireland. Nevertheless, the current governance structures and accountabilities remain highly centralised on the Northern Ireland Assembly and DRD. As part of wider Local Government Re-organisation, however, there have been discussions for greater local authority involvement in the design and specification of (principally bus) services, as well as potentially the creation of a "Passenger Transport Authority" which will specify, regulate and monitor Translink service levels and quality, and allow limited market entry and competition by private sector operators. Firm proposals have yet to be produced or implemented.

It is difficult to say whether the NIR model offers lessons to the separation and passenger service franchising model found elsewhere in the UK. The geographical, economic and political circumstances of Northern Ireland are unique, and the network is tiny, having some 320 route kilometres and 58 stations compared to 15,795 kilometres and 2,520 stations in Great Britain. However, outcomes under devolved rule, as noted above, have been positive and it is also interesting to note that rail costs do not appear to have increased by anywhere nearly as much as Great Britain following privatisation. For example, Salvesson (2001) found that the re-instatement of the Bleach Green-Antrim route was undertaken on time and within budget at a cost of only £0.7 million per kilometre, substantially less than the equivalent rate for Railtrack or latterly for Network Rail.

6. Option Assessment

6.1 Assessment Criteria

In determining which of the options set out in Chapter 5 should be taken forward, in what packages and combinations, and under what conditions, it is vital to have a consistent and transparent set of standards on which to base any decision. These standards provide a common terms of reference through which the ITAs, PTEs, their constituent local authorities, the Government and other stakeholders can discuss the case for, and nature of change, understand the costs and benefits of particular approaches, and subsequently judge the performance of the changes put in place.

We believe the following principles should be central to the ongoing debate:

- arrangements should fit with wider city region goals and aspirations;
- new arrangements should offer greater effectiveness in delivering agreed objectives and desired outcomes and demonstrate overall value for money;
- arrangements should be practical and deliverable and there should be a good understanding and weighing up of costs, benefits and risks;
- there should be a match between PTE responsibilities and powers and their capacity, competencies and skills sets.

We have developed a qualitative assessment framework for the options based on these principles, showing both strengths (arguments favouring the PTEs' position) and weaknesses (arguments against the PTEs' position).

6.2 Assessment

Table 6.1 sets out the results of the option assessment, based on the four categories and 24 options set out in Chapter 5 against the stated criteria. This evidence set out in this framework suggests that all the options in the table could work for each of the PTEs in some form or other, but most will involve issues of practicality, political decision making around priorities and the allocation of scarce resources, and a balance between powers and processes which support local goals and aspirations, and those which support national objectives.

In respect of the latter, there is merit in proposing, as a basic principle, the division of the rail network for England into a core “national” set of routes and services and a second tier of regional and local importance. Whilst Ministers legitimately should retain primary responsibility for decisions and funding relating to the former, there should be a presumption – or even a duty – to devolve adequate powers and funding to the regional and local network to the appropriate sub-national level so that local areas are better able to decide for themselves their key investment and service parameters, provided these are consistent with national objectives, basic operational and technical parameters are met, and minimum standards of good governance are put in place.

Such a proposal has clear parallels with the recent devolution of rail powers to Scotland, Wales and London, as well as the recent experience of devolving public transport responsibilities and resources to regions and cities in the Netherlands, France, Germany and other countries in Europe. It is also consistent with wider DfT and CLG policy and applies to rail, some principles which Government has already applied to responsibilities for the national highway network and the roles and funding of the Highways Agency in respect of national and regional routes. As such, we believe the proposal is worthy of further consideration and an overarching proposal for discussion with Ministers.

Within this overall principle, few individual options automatically “drop out” as an optimum way forward. Indeed, it will be for each PTE, its partners within each city region, or in collaboration with its neighbouring local authorities, to weigh up the evidence and decide their own way forward based on their current powers, technical and operational aspects of their respective rail networks, relationships with DfT and industry partners, level of political ambition and attitude to taking on, or transferring, risk.

However, the assessment does suggest considerable merit in **pteg** and the PTEs developing further policy, advocacy and communication activity around the following:

- clear, evidence-based and viable rail strategies and programmes for each city region, developed with close engagement with DfT, Network Rail and TOCs and with the aim of securing closer and more timely alignment between these local frameworks and the HLOS, RPA and RUS processes which guide strategic planning and investment in the rail sector;
- conditions which better facilitate the use of PTEs’ existing powers, such as statutory consultation on franchise specification, increment/decrement and concessionary fares, especially around questions of political leadership and decision making at the city region level, engagement and leverage with Government, devolution of funding, new funding sources and wider efficiencies to the rail industry’s cost base. The Memoranda of Understanding being drawn up for the City Region Pilots in Greater Manchester and Leeds City Region may help explore these conditions with greater certainty;
- a basic minimum proposition for the retention and extension of PTE franchise co-signature, at least in relation to Northern Rail, or its successor franchise(s) when it is retendered, linked to the PTEs taking on local franchise management on behalf of DfT;
- extension of direct franchising responsibilities, either for specific PTE areas, building on the Merseyrail and London Overground models, or more ambitiously on an expanded basis through the creation of ITA/PTE led pan-regional franchising arrangements for the North of England with devolved powers and funding from the DfT. Further discussions are needed on governance, franchise scale, specification, length and treatment of revenue risk;
- options which address the shortage of rolling stock, the poor range of choice and high costs of leasing via the ROSCOs. These include incentives for TOCs to invest in new train fleets, PTE engagement with DfT for shared purchase and the creation of a PTE-owned ROSCO. These should aim to ensure a consistent approach within franchise baselines, and allow for franchise amendments which support patronage growth and complement infrastructure investment. Approaches should balance passenger needs, PTE requirements and the need to secure economies of scale in purchase or leasing exercises;
- whilst there is the case for adopting vertical integration as a basic structural model for the railway is weak, there is scope for a stronger role for PTE engagement and consultation in the specification of plans for maintenance and enhancement of city region rail networks, building on the existing RPA and RUS processes and feeding into programmes which may emerge from DaSTS and HLOS; and
- in combination with the Better Railway Stations Report recommendations, investment and management of commuter stations, through transfer of ownership, leasing or long-term management contracts, linked to integrated transport arrangements in each area and proportionate scheme approval procedures for rail property and infrastructure; and
- carefully specified and supported pilot exercises for a number of new, but largely untested, approaches, including vertical integration on the Merseyrail network and introduction of tram-train in South Yorkshire, with lessons informing policy and practice in other areas.

Whilst some of these options can be exercised at the level of each individual PTE area or surrounding city region, a number could be taken forward through collaboration across a number

of PTEs. This is especially the case where passenger services are operationally complex across the network, where decisions in one area impact create benefits or dis-benefits in another, or where there are advantages of economies of scale or synergy through joint action. In particular, devolution of passenger franchising powers and the procurement of new or replacement rolling stock are two themes where a joint PTE proposition to Government may carry more substantial weight than individual pitches from PTEs acting unilaterally. Most ambitiously, devolved pan-regional passenger rail franchising arrangements could be considered which would take on powers to fund franchise, manage and monitor local and regional passenger services for the area currently served by Northern Rail, and potentially Trans Pennine, and combine this with investment in stations and rolling stock. Such a proposition would need to be carefully thought through, and effective governance arrangements would be crucial to reconcile strategic and local objectives and priorities, but in principle, this might be a worthwhile conversation with Government.

Finally, following the General Election, *pteg* should hold early discussions with DfT and Network Rail on these options, but should seek to engage with, and influence, in particular:

- the wider role of city region rail networks and services within the regional DaSTS and RFA process, and through this to the next HLOS for England. The distinction between national and local and regional rail networks, introduced above, may assist in informing this process;
- the current DfT discussion document on the Future of Rail Franchising and evolving thinking on the procurement of new diesel and electric rolling stock for services in the North of England;
- enhancing the PTE role on station management and enhancement in light of the Better Stations Report;
- early thinking by Ministers on the retendering of the Northern Rail franchise, in light of decisions taken on Scotland, Wales and London Overground, as well as medium-term opportunities for enhanced capacity and services which may be created by the Northern Hub; and
- the current and ongoing review of rail industry costs and efficiencies, including attempting to address some of the increased costs to PTE areas which result from the current industry structure and allocation of network costs between regional and long-distance services.

Table 6.1 - Assessment of PTE Rail Options

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
Retention and Better Use of Existing Powers						
RE1	Promotion of rail as a key part of the integrated transport network for urban areas (alongside other public transport modes) and engagement with DfT, Network Rail, TOCs etc. to support city region goals	CRDPs and LTPs in PTE areas already make reference to the importance of urban rail and the need to invest in infrastructure and services	Effectiveness dependent on technical and business case, funding availability and strength of city region in making the case (including political leadership and support)	Practical and deliverable since largely matches current powers and practices and intentions of Local Transport Act Risks that rail aspirations are unrealistic, unaffordable and impose negative impacts on national rail services – may also be undeliverable without funding from Government	Matches existing PTE skills and competencies as well as broader remit under Local Transport Act Additional skills on rail planning and business case needed in some instances	Effectiveness partly dependent on willingness and ability of DfT, Network Rail and TOCs to engage at city region level
RE2	Use of existing (including recently granted) powers (e.g. financial support for rail, integrated ticketing, input to franchise specification, consultation on RUS, increment/ decrement, LTP, RFA priorities, well being)	If used effectively in combination, potentially a strong fit with city region goals and aspirations.	Can be effective and allows PTE proposals to be tested for affordability and value for money. Costs of improving rail in PTE areas inflated by end of marginal costing for regional services and new access charging regime following privatisation.	Growing evidence base of PTEs using powers to secure improvements to rail (e.g. increments over and above franchise commitments) Risks that proposals prove to be unaffordable given level and structure of industry costs and financial climate into CP5	Matches existing PTE skills and competencies as well as broader remit under Local Transport Act Additional skills on rail planning and business case needed in some instances	Effectiveness partly dependent on willingness and ability of DfT, Network Rail and TOCs to engage at city region level, and wider issues of devolution of funding to the city region level to increase PTE purchasing power.
RE3	Overall strengthening of transport governance under Local Transport Act and Local Democracy, Economic Development and Construction Act (do minimum and changes under formal Governance Scheme)	Both Acts allow for a strengthening of governance structures and processes which can support strategic decision making, political leadership and leverage and closer partnership working with stakeholders across a city region to achieve shared objectives	Costs of governance changes per se likely to be limited, but have potential to substantially improve decision making and make the case for devolution of powers and resources	Local determination of governance changes will influence the scale/scope of reform which is possible. No or limited change in political governance and leadership may weaken city regions' ability to engage with Government and make the case for devolution of powers across a range of areas, including rail	In principle, governance reviews should consider whether executive arrangements (as well as political governance) need to be enhanced.	No formal governance scheme as yet published, although Greater Manchester proposing Combined Authority to provide city region leadership and decision making All governance reviews considering rail responsibilities and powers to some extent

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
RE4	Retention of right of co-signature on existing passenger franchises	<p>“A seat at the table” ITAs/PTEs closer to the ground in monitoring and reporting on franchise performance.</p> <p>Stronger ability to influence franchise specification and management of franchise in line with city region objectives and make franchisee aware of wider economic and social goals for the area.</p> <p>Franchisee more aware and responsive to CR agenda and aspirations.</p>	<p>All PTEs feel approach adds value at no or limited additional cost.</p> <p>Changes to franchises made considerably easier and quicker than relatively “cumbersome” contractual mechanisms of increment and decrement.</p> <p>Discussions with franchise operators have indicated that marginal costs and risks of PTE co-signature may be limited.</p>	<p>2005 Railways Act removes value at no or limited additional cost.</p> <p>No change required in short-term and co-signature could be retained when franchises come up for renewal at Secretary of State approval.</p> <p>Continuing DfT objective to align investment and management decisions with financial responsibility and belief that most PTE objectives can be achieved through other existing powers.</p> <p>However, limited evidence that PTE co-signature has reduced DfT and TOC flexibility and increased risks in practice.</p>	<p>Closely matched to PTE skills sets since co-signature and related activities carried out over a number of years.</p> <p>PTEs have the established relationships, skills and resources.</p>	<p>Limited signs of DfT changing its policy (to remove co-signature as franchises are re-let), e.g. London Midland, although WAG is co-signature to Arriva Trains Wales.</p> <p>PTE co-signature continues for Northern Rail until 2013.</p> <p>Position on arrangements for new franchise for which preparations commence in 2011 are unclear.</p>
Co-ordinated Planning and Strategy						
CP1	Development of “Rail Strategy/Plan” as stand-alone or combined with other frameworks (e.g. LTP, DaSTS, MAA)	<p>ITAs/PTEs closer to the ground in understanding the needs of the city region and rail in particular.</p> <p>Strong fit with influencing and driving forward the objectives of the city region agenda.</p> <p>CRDPs and LTPs in PTE areas already make reference to the importance of urban rail and the need to invest in infrastructure and services.</p>	<p>Can be effective in getting key local priorities onto the agenda and allows PTE proposals to be tested for effectiveness, affordability and value for money, alongside other interventions.</p> <p>Proposals should improve the ability of city regions to define and deliver their own aspirations, including linking structures and decision making to funding and resources.</p>	<p>Relatively straightforward to achieve – and largely undertaken now.</p> <p>Risks that rail aspirations are unrealistic, unaffordable and impose negative impacts on national rail services – may also be undeliverable without specific funding from Government.</p> <p>Risks that strategy/plans are not accepted by other stakeholders – and no “hardwire” into HLOS, RPA, RUS etc.</p>	<p>Closely matched to PTE skill sets - significant experience in developing strategic policies and plans – either alone or in collaboration with city region or equivalent support structures.</p>	<p>DaSTS process may require a re-evaluation of rail priorities.</p> <p>Effectiveness partly dependent on willingness and ability of stakeholders to engage at city region level.</p> <p>May be given additional impact through lobbying and representation through relevant elected members, Members of Parliament etc.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
CP2	Memoranda of Understanding (or equivalent) with DfT, Network Rail, and/or TOCs	<p>Being promoted as part of the Greater Manchester and Leeds City Region Pilots.</p> <p>Allows PTEs/ITA a “seat at the table” with stronger ability to influence franchise and investment plans in line with city region objectives.</p> <p>Requires/necessitates industry stakeholders to explicitly acknowledge city region goals.</p>	<p>Should improve the ability of city regions to define and deliver their aspirations, including linking structures and decision making to funding and resources, at limited additional cost.</p> <p>MoU will need to be as specific as possible (e.g. include particular schemes) and identify funding sources. Vague statements of principle on their own unlikely to have impact.</p>	<p>Easy in principle to deliver, since no requirement for legislation. – being pursued in Greater Manchester and Leeds City Region Pilots.</p> <p>Risks that MoU are too vague, not adhered to and cannot be enforced on industry players.</p> <p>Unclear whether MOUs will or should include a (statutory) duty to cooperate on DfT and Network Rail.</p>	<p>MOUs signed by city region bodies (e.g. AGMA Executive) rather than ITAs/PTEs directly.</p> <p>PTEs have the established relationships, skills - although resources around rail technical and industry knowledge might need to be increased.</p>	<p>Effectiveness dependent on willingness of industry to engage, agree specific outcomes and “cooperate.”.</p> <p>DfT may require stronger city region governance arrangements and willingness to make tough decisions as part of MoU.</p> <p>Need to follow GM and LCR Pilot experiences.</p>
CP3	Linking rail (infrastructure and services) into planning process (LDFs, master planning)	<p>Strong fit with influencing and linking the needs of planning/development and rail objectives with the city region agenda.</p> <p>Links logically with provisions of Local Democracy Act.</p>	<p>In itself, could be low cost to Govt. and high impact if achieved, although effects are longer-term.</p> <p>Effectiveness will be dependent on strength of city region in making the case (including political leadership) and cooperation across boundaries.</p>	<p>Requires local authorities consider spatial planning, development control etc. across boundaries.</p> <p>Risks that proposals are unrealistic, unaffordable and impose negative impacts on national rail services – may also be undeliverable without funding from Government.</p>	<p>PTEs do not have core land use planning skills or statutory powers in this areas – would need to develop additional expertise or link with expertise within local authorities or city region support structures.</p>	<p>Planning, rather than highways and traffic, law likely to be relevant here – may be beyond scope of Local Transport Act.</p>
CP4	Greater focus on rail within smarter choices e.g. station travel plans	<p>Positive link with city region goals and aspirations in respect of mode shift, low carbon, and increases the impact/effectiveness of rail investment.</p>	<p>Range of recent research and evidence – e.g. Sustainable Travel Towns – sees these types of measures as low cost and high impact.</p> <p>Support for STPs in 2007 Rail White Paper and National Pilot Programme under way by ATOC between 2008 and 2012 covering 31 stations.</p>	<p>Smarter choices likely to be a key element of LTP3 and represent a “win-win” for local authorities, ITAs/PTEs, Network Rail and TOCs.</p> <p>Fits with Network Rail/TOCs CSR objectives/duties.</p> <p>Issues of capital/revenue funding to be resolved, as well as precise roles and responsibilities between TOCs, PTEs and authorities.</p>	<p>PTEs already promoting smarter choices to varying degrees, so this would be a logical extension.</p> <p>Where National Pilot stations are within metropolitan areas, PTEs are already involved.</p>	<p>Investment likely to be in staff, data collection, publicity and promotion etc. rather than significant capital measures, although could be combined with these.</p> <p>Additional funding possible if National Pilots are evaluated as successful.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
CP5	ITA/PTE representation on/to the Board of Network Rail and the Boards of TOCs	Stronger ability to influence investment plans in line with city region objectives “from the inside.”	In themselves limited cost (time, travel and subsistence of individual members or officers), although issue of whether ITAs/PTEs should be represented individually or collectively. Public members of Network Rail exceed 100 – PTE influence within such as large number may be limited.	Risks are that ITA/PTE representation on/to Boards would only be symbolic only without firm powers and rights to direct or influence the decisions of the Executive. Potential conflict of interest if PTE has external control or influence over appointing company (e.g. franchising powers).	PTEs have the established relationships, skills- although resources would need to be increased. <i>Pteg</i> already represented on Network Rail Board.	Effectiveness partly dependent on willingness and ability of Network Rail and TOCs to engage at city region level. Limited support from PTEs engaged under this Review. May be better tackled as part of wider review of Network Rail’s governance arrangements.
CP6	Influence/direction/ specification of investment priorities and funds available for Network Rail	ITAs/PTEs closer to the ground in specifying the right place and timings for rail investment within the city regions. Performance.	Effective in Scotland and, to a lesser extent, Wales and London. Likely to more effective if given statutory powers and identified funding. If so, proposals should improve the ability of city regions to define and deliver their own aspirations, including linking structures and decision making to funding and resources.	Formal power of specification or direction would require statutory processes otherwise, effectiveness dependent on willingness and ability of Network Rail to engage at city region level and link local aspirations into RUS etc. May weaken HLOS/DaSTS process nationally if taken up on an extensive basis. Requirement of Network Rail to balance investment between inter-city, long-distance, regional and local and freight services in terms of use of available capacity.	PTEs have the established relationships, skills- although resources and industry knowledge would need to be increased. May require coordination across PTE and other local areas if impacts of investments are felt across boundaries or preclude certain interventions elsewhere.	Much may be possible through closer engagement and joint working with Network Rail. If granted, essential that powers to specify investment is matched by adequate funding sources – as is the case in Scotland, Wales and London. Important that costs of rail capital investment are proportionate and reflect outcomes of DfT/ORR Review currently under way.

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
Enhanced Control of Passenger Services						
PS1	Right of co-signature on new passenger franchises (Either “automatic” or at SoS discretion)	<p>“A seat at the table” ITAs/PTEs closer to the ground in monitoring and reporting on franchise performance</p> <p>Stronger ability to influence specification and management of franchise in line with CR objectives</p> <p>Franchisee more aware and responsive to CR agenda and aspirations</p>	<p>Shown to work through Northern Rail franchise</p> <p>Closer consideration of rail alongside investment decisions on bus and other modes</p> <p>Changes to franchises made considerable easier and quicker than relatively “cumbersome” mechanism of increment and decrement</p> <p>Discussions with franchise operators have indicated that marginal costs and risks of PTE co-signature are limited</p>	<p>Straightforward to achieve. Co-signature could be retained when franchises come up for renewal through Secretary of State approval – no specific legislation needed, although would be required if “automatic” right is reinstated</p> <p>Continuing DfT objective to align investment and management decisions with financial responsibility, and belief that PTE aims can be achieved through other existing powers.</p> <p>However, limited evidence that PTE co-signature has reduced DfT/TOC flexibility and increased risks in practice</p>	<p>Closely matched to PTE skills sets since co-signature and related activities carried out over a number of years.</p> <p>PTEs have the established relationships, skills and resources.</p>	<p>Removal of automatic franchise right runs counter to wider devolution agenda and even other DfT policies</p> <p>PTE co-signature continues for Northern Rail until 2013, but position on arrangements for new franchise are unclear.</p> <p>A clear priority for all six PTEs engaged during this Review.</p>
PS2	Enhancement of PTE responsibilities to support fares and ticketing (inc. 25 mile rule)	<p>Allows ITA/PTE policies and investment to be made beyond formal statutory boundaries to reflect wider travel-to-work areas.</p> <p>Already carried out in a number of PTE areas e.g. Merseyrail to Ormskirk.</p> <p>Multi-Operator City Region Smartcards are an aspiration in some areas (e.g. Leeds City Region).</p>	<p>Proposals should improve the ability of city regions to define and deliver their own aspirations, including linking structures and decision making to funding and resources.</p> <p>Can be effective and allows PTE proposals to be tested for affordability and value for money.</p> <p>Question over whether 25 mile rule from 1968 should be expanded.</p>	<p>Straightforward to achieve in principle, but dependant on adequate funding, TOCs being no better or worse off, and political agreement with neighbouring authorities.</p> <p>Issue of whether PTE or operator takes revenue risk and under what circumstances.</p> <p>Extensive role beyond PTE boundaries raises issues of political accountability and neighbouring authorities being “free riders” without ITA levy requirement.</p>	<p>Closely matched to PTE skills sets. Likely to require further strengthening of resources.</p> <p>Will need to involve member and officer engagement and work with neighbouring authorities.</p>	<p>At the margins, limited issues, but significant extensions raises issues of affordability, risk, political accountability and ITA/PTE governance and representation. Unlikely therefore to be separable from wider city region governance issues.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
PS3	PTE management and monitoring of passenger rail franchises (as agent on behalf of DfT)	ITAs/PTEs closer to the ground understanding, monitoring, and reporting on performance Stronger ability to influence day-to-day management of franchises.	May reduce DfT franchise management costs. Effectiveness dependent on providing an enhancing understanding of the franchise “offer” and where applicable holding the franchisee to account in the event of non-compliance.	Already done by WAG for ATW franchise and PTEs already deploy quality inspectors etc. Relatively straightforward to achieve subject to a management decision by DfT. Some risks of differing objectives between PTE and DfT and weak link between management and financial responsibility.	PTEs would require resources and skills strengthening	A logical combination with other PTE roles and powers, including franchise co-signature and responsibility for stations and leasing/purchase of rolling stock. Supported by majority of PTEs engaged for this Review.
PS4	Passenger complaints and representation (alongside Passenger Focus)	ITAs/PTEs closer to the ground in understanding the needs and concerns of passengers across a city region .	Proposals should improve the ability of city regions to define passenger needs and issues. Some duplication with Passenger Focus role and possible confusion by passengers over who to complain to.	Practical and deliverable subject to agreement with Passenger Focus. Risk that public would blame PTEs for aspects of rail services they have no direct responsibility for. PTEs would need mechanisms to follow up complaints and take action.	Closely matched to PTE skills sets and related activities carried out over a number of years. PTEs have the established skills and resources – although resource strengthening would be required	PTEs already take this role on for bus services – so extension to rail is a logical progression.
PS5	Branding of network and services (e.g. “Metro Train” “London Overground”)	Allow for a strengthening of the city region “brand.” Already done in Merseyside, West Yorkshire, London, but more limited Network West Midlands within London Midland branding and information.	Initial upfront investment, but costs relatively small. Common brand would avoid need for rebranding on change of franchise operator with continuity for passengers and cost savings. Would need careful positioning so as not to create confusion with the public as to responsibilities and reach of franchise.	Straightforward to achieve where enshrined within a Franchise agreement. Would have to be negotiated elsewhere. Reduced TOC/DfT/ROSCO flexibility to deploy trains. May be confusing to public where multiple franchises overlap. DfT and TOCs may wish to promote their own brands.	Core PTE competency, with precedents already set. Stronger if matched to concessionary fares, integrated ticketing, public transport information etc. In principle could be extended to buses (through partnerships or contracts).	A logical combination with other PTE roles and powers, including franchise co-signature and responsibility for stations and leasing/purchase of rolling stock. Supported by majority of PTEs engaged for this Review.

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
PS6	Financial support for, purchase or lease of rolling stock (via existing ROSCO mechanism)	<p>ITAs/PTEs closer to the ground in understanding the needs of passengers across a city region to achieve shared objectives.</p> <p>Supports additional capacity and service quality consistent with city region goals.</p> <p>Following no new trains for five years, Northern Rail fleet in need of replacement in CP5.</p>	<p>Preferred strategy to get new trains incorporated into franchise baselines, funded by DfT and/or TOCs.</p> <p>If funded by TOCs, longer franchise periods may be required to provide incentive for investment.</p> <p>Limited choice and high price of rolling stock leasing via existing ROSCO channels – already examined by DfT, ORR and the Competition Commission.</p> <p>Additional leasing for individual PTE areas unlikely to be efficient and cost effective in providing wholesale modernisation and increased capacity.</p>	<p>In principle, straightforward to achieve where funding is available, where PTE and TOC agree need for investment and where rolling stock is available. However, in reality limited choice and availability, and high price, of rolling stock in the leasing market.</p> <p>Risk is that rolling stock can be transferred across the country to where a ROSCO can secure greatest returns.</p> <p>Linked to national cascade of stock from Thameslink which is controlled by DfT.</p>	<p>Not necessary to involve DfT and can be done under existing increment/decrement process.</p> <p>PTEs have experience of purchasing or leasing rolling stock (e.g. Yorkshire Six).</p> <p>PTEs do not generally deal directly with the ROSCOs rather than via TOCs.</p>	<p>Inadequate amount and quality of rolling stock, especially for Northern Rail, a major political concern for ITA members – recent <i>pteg</i> lobbying of Government.</p> <p>Questions over whether PTE or TOC take revenue risk on investment.</p>
PS7	Financial support for, purchase or lease of rolling stock (DfT or PTE ROSCO)	<p>ITAs/PTEs closer to the ground in understanding the needs of passengers across a city region to achieve shared objectives.</p> <p>Supports additional capacity and service quality consistent with city region goals.</p> <p>Would allow for wholesale modernisation of PTE area train fleets.</p>	<p>Priority to get new trains incorporated into franchise baselines.</p> <p>Arguably cheaper and offering better service than working through existing ROSCOs.</p> <p>Would be more cost effective for PTEs to purchase or lease new trains collectively or with Government to get economies of scale on procurement – also useful if common PTE train specification</p>	<p>DfT has already set precedent through establishment of Diesel Trains Ltd. although logistical issues around balance of diesel and electric rolling stock requirements and cascade of Thameslink rolling stock which have not been resolved.</p> <p>A PTE-owned ROSCO would expose the PTEs to a wide range of commercial, legal and technical risks which would be contractually complex to resolve.</p>	<p>PTEs have experience of purchasing or leasing rolling stock (e.g. Yorkshire Six), but do not have experience of procuring train fleets on this scale.</p>	<p>Inadequate amount and quality of rolling stock, especially for Northern Rail, a major political concern for ITA members – recent <i>pteg</i> lobbying of Government.</p> <p>PTE train fleet decisions linked to key decisions on infrastructure, including platform length and investment in line electrification (e.g. Liverpool-Manchester).</p> <p>Questions over whether PTEs, DfT or TOC take revenue risk on investment.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
PS8	Direct passenger franchising for individual city regions/PTE areas (e.g. similar to Merseytravel or TfL) including specification, tender and monitoring	<p>PTEs become “Masters of own Destiny.”</p> <p>Stronger alignment of franchise level of service, branding, investment levels to CR objectives and priorities.</p> <p>Shown to be effective on Merseyside and in London – and can extend beyond metropolitan boundaries.</p> <p>Franchise management can be linked to branding, station enhancements, new or upgraded rolling stock etc.</p>	<p>Evidence suggests where implemented substantial improvements in investment levels, service quality and passenger satisfaction.</p> <p>May reduce DfT franchise management costs.</p> <p>Overlapping nature of passenger services within most PTE areas creates operational complexity.</p> <p>Possible diseconomies of scale and loss of operational flexibility on.</p> <p>Alignment of resources for rail with other modes (e.g. Quality Contracts, LTPs).</p>	<p>Logically builds on franchise co-signature.</p> <p>Essential to undertake due diligence exercise so PTE is clear what is being taken on.</p> <p>Would be more attractive with the re-introduction of marginal costing for regional services – but this is unlikely.</p> <p>Wider range of risks falls on PTE – rather than DfT – to resolve, although decisions needed on whether these are passed onto operator.</p> <p>Issue of whether PTE or operator takes revenue risk including full risk or various cap and collar arrangements.</p>	<p>Some additional skills and capacity needed within PTEs, but co-signature provides sound basis.</p> <p>Possibly some skills transfer required from DfT.</p> <p>Likely to be a requirement to develop stronger political governance arrangements – including willingness to take tough decisions around scarce funding.</p> <p>Issues of “operator of last resort” if a franchisee fails or needs to be replaced.</p> <p>Could be combined with franchises for bus services (cp. Syntus in NL).</p>	<p>Re-letting of Northern and TPE franchises offer opportunities.</p> <p>PTEs have differing views over of this approach compared to co-signature.</p> <p>West Yorkshire Electrics, South Yorkshire tram-train, London Midland and Merseyside City Line may be within scope.</p> <p>Issues of length, degree of prescription, and revenue risk within franchise – Merseyrail & London Overground concessions suggest more than one approach.</p> <p>Possible role for regional bodies.</p>
PS9	Direct pan-regional passenger franchising across city regions (e.g. in Northern England and Midlands)	<p>Franchise management can be linked to branding, station enhancements, new or upgraded rolling stock etc.</p> <p>A pan-regional franchise would require other priorities to be reflected alongside city region agenda (e.g. rural services, regional links etc.).</p> <p>Wider fit with the Northern Way agenda.</p>	<p>May reduce DfT franchise management costs.</p> <p>Would address problems of diseconomies of scale and loss of operational flexibility resulting from a number of city region micro-franchises.</p> <p>Franchise specification, approach to rolling stock etc. could target greater efficiencies from available resources.</p> <p>Alignment of resources for rail alongside other modes (e.g. through Bus Quality Contracts, LTPs).</p>	<p>Governance arrangements across ITAs, local authorities, regional bodies and others could be complex and may be difficult to reach agreement in practice.</p> <p>Essential to undertake due diligence exercise before transfer so PTE is clear what is being taken on.</p> <p>Wider range of risks fall on the Authority – rather than DfT – to resolve, although decisions needed on whether and how these are passed onto franchise operator(s).</p>	<p>Executive arrangements need to be separate from PTEs with recruitment/ secondment etc. to develop capacity. Likely to require skills transfer from DfT.</p> <p>Will be a requirement to develop strong political governance arrangements, including LTAs outside of ITA areas.</p> <p>Issues of “operator of last resort” if a franchisee fails or needs to be replaced.</p> <p>In principle, could be combined with franchises for bus services.</p>	<p>Sharp difference of opinion across PTEs on viability of this approach and may well be rejected by DfT.</p> <p>Balance of roles for ITAs, other LTAs and regional bodies unclear and would need to be resolved.</p> <p>Re-letting of Northern and TPE franchises offer opportunities.</p> <p>Issues of length, degree of prescription, operator incentives.</p> <p>Issue of whether Authority or operator takes revenue risk including full risk or various cap and collar arrangements.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
PS10	Specific powers and responsibilities for tram-train vehicles, concessions, network development etc.	Largely consistent with above – and several city regions considering tram-train. Options include city region tram-train franchises on rail and on-street infrastructure. ITAs/PTEs closer to the ground in understanding the needs of passengers across a city region to achieve shared objectives.	European case studies demonstrate effectiveness – e.g. Karlsruhe – and already essentially done on a number of UK tram schemes e.g. Manchester Metrolink. Effectiveness dependent on technical and business case, funding availability and strength of city region in making the case (including political leadership and support).	Manchester Metrolink offers an already successful model. Implementation may require combination of rail and highway and traffic powers, technologies and systems. Essential to undertake due diligence exercise before taking on additional powers. Issue of whether PTE or operator takes revenue risk and under what circumstances.	Closely matched to a number of PTE skills sets since the introduction of trams – although some additional skills and capacity needed.	Tram-train may provide congestion relief to heavy rail networks and city centre termini (e.g. Leeds). Sheffield-Rotherham trial of tram-train should consider financial and governance issues of street-running into Sheffield City Centre.
Supporting Infrastructure Investment, Operations and Management						
INF1	Investment and management of local stations (e.g. suburban, including branding, staffing, information, integration with other modes) and car parking (capacity, pricing)	ITAs/PTEs closer to the ground in understanding the needs of passengers and local issues. Network Rail tends to focus on revenue gains and less on other passenger benefits. ITA/PTE branding of stations would avoid/reduce need to change signage and design when franchise operators are replaced, providing clarity to public and reducing costs of changing branding. Promotion of park & ride for city centre access.	Range of improvements – from deep-cleaning, staffing, repainting, secure car parks etc. to major structural enhancements linked to longer trains new accesses. Effectiveness dependent on technical and business case, funding availability and strength of city region in making the case (including political and support). Effectiveness on passengers likely to be increased if matched with investment in rolling stock, better information, service enhancements. Subsidy required for car parking if objective is to promote park and ride.	Small-scale improvements can be funded through LTP Block and ITA Levy. Significant issues around railway approvals. There is a need to have a streamlined approach /mechanism introduced to aid process and speed up approvals. Costs of station enhancements increased significantly after privatisation and remain higher than equivalent investments on the highway. Issues of who funds/takes risk on capital and on-going (operating/maintenance) costs, as well as who takes secondary revenue from retail, advertising, car parking etc.	Closely matched to a number of PTE skills sets– although some additional skills and capacity needed. PTE's have significant experience of developing and delivering station enhancements. Consistent with current PTE ownership and management of bus stations. Need to prioritise stations, but perhaps focus initial on sites with major train, bus and tram interchange and suburban town centres.	London Overground and Merseyrail networks provide positive examples. Leasing or management agreements may be more deliverable than outright transfer of ownership. “PTE” stations may still need to serve some long-distance or inter-city services. Note need to integrate with recommendations of Better Railways Report, including proposal for Minimum Station Standards to be included in baseline for new franchises.

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
INF2	Investment and management of major stations (e.g. city centre, major interchange points on national network)	<p>Major stations can be catalysts of growth and support regeneration (e.g. Sheffield, Birmingham New Street)</p> <p>ITAs/PTEs closer to the ground in understanding the needs of passengers across a city region to achieve shared objectives.</p> <p>City centre stations tends to serve a range of operators including long-distance and inter-city routes, and have a pivotal role in the National Rail Network.</p>	<p>Effects may go beyond conventional transport measures e.g. land value uplift, employment areas.</p> <p>Effectiveness dependent on business case, funding availability and strength of city region in making the case (including political leadership and support).</p> <p>Multiple impacts may allow additional sources of funding e.g. DfT, RDA, PTE, local authority, Network Rail, private developer.</p> <p>Substantial potential for secondary revenue from retail etc. supporting investment elsewhere.</p>	<p>Likely to be “a step too far”</p> <p>Support for investment and incorporation of PTE plans into wider investment packages may be more realistic than full transfer. Key stations remain the direct responsibility of Network Rail.</p> <p>Significant issues around railway approvals. There is the need to have a streamlined approach /mechanism introduced to aid the process and speed up the railway approvals.</p> <p>Capital and on-going (operating/maintenance) funding needs to be addressed.</p>	<p>Major city centre termini likely to remain under direct management of Network Rail, but PTEs can support, including interchange with local feeder public transport.</p> <p>Closely matched to a number of PTE skills sets– although some additional skills and capacity needed.</p> <p>PTE's have significant experience of developing and delivering station enhancements.</p>	<p>A number of major stations upgraded in PTE areas in recent years e.g. Leeds, Manchester Piccadilly, Sheffield, Newcastle.</p> <p>Birmingham New Station represents an important current example of a multi-faceted, multi-funding package.</p> <p>National and regional, as well as city region, bodies may have an interest and this can make partnerships large and complex to manage.</p>
INF3	Control (through transfer or lease) of track and signalling infrastructure with local infraco taking maintenance and operational responsibilities from Network Rail (Vertical integration/Full Local Decision Making)	<p>Provides clearer and more accountable link between city region objectives and policies and investment and management of network.</p> <p>Rail network associated wholly with city region and local interests.</p> <p>Potential for tension and conflict between city region, regional and national rail operations without revised regulation.</p>	<p>Appears to work well in Northern Ireland and at lower costs than GB.</p> <p>Complements franchising powers and allows complementary capital and revenue investment.</p> <p>Local infraco may be more cost effective than Network Rail, and deliver improved performance.</p> <p>Possible consistent asset management across road and rail.</p> <p>Likely diseconomies of scale for Network Rail – if applied widely.</p>	<p>Untested in Great Britain post-privatisation – therefore practicality is unknown</p> <p>May only be practical where network infrastructure is relatively self-contained from national passenger and freight operations</p> <p>Costs unclear at this stage, although start-up and operating costs of local infraco could be offset by efficiency savings on maintenance and renewal work.</p> <p>Opportunity for cost benchmarking between Network Rail & local infraco.</p>	<p>Provides single point of decision making by removing duplication of roles and duties within different management structures</p> <p>PTEs would need to develop (through recruitment and training) new staff skills and competencies and supporting systems and processes – directly and with TOC.</p>	<p>Likely to be limited to isolated locations on the National Network.</p> <p>Proposal for pilot exercise with Merseyrail with lessons learnt determining potential application elsewhere.</p> <p>Current review of industry costs may identify efficiencies for Network Rail in managing & enhancing infrastructure.</p> <p>2006 HoC Transport Committee recommendation.</p>

No.	Option Category and Option	Fit with City Region Goals & Aspirations	Effectiveness & Value for Money	Practicality, Deliverability, Costs & Risk	Match with PTE Competencies and Skills Sets	Other Comments
INF4	<p>Greater role in identifying determining infrastructure and access to the rail network for freight</p>	<p>Focuses on some aspects of City Region agenda (e.g. access to ports, intermodal depots etc.) as well as getting freight off the highway network.</p> <p>Key issues around enabling freight lines to be utilised for passenger services – Making best use of the existing infrastructure and meeting city region objectives.</p> <p>Delivery reliant on partnership working with key industry players such as Network Rail, FOCs, FTA etc.</p>	<p>Rail freight has grown since privatisation and is increasingly competitive and market focused.</p> <p>Proposals should improve the ability of city regions to define and deliver their own aspirations.</p> <p>Potential support role for Freight Facilities Grant.</p>	<p>Limited ITA/PTE statutory role, although Local Transport Act does broaden ITA remit to include freight.</p> <p>Difficulties in getting this on the urban transport agenda relative to passenger services, Potential conflicts between different uses for available track capacity.</p> <p>Some issues – e.g. location of inter-modal depots – including planning as well as transport considerations, and cover road as well as rail access.</p>	<p>Management of freight is a very different business than (social) passenger services – not currently a core PTE competence.</p> <p>Key competencies in terms of VfM and strategic assessments.</p> <p>Specifically, in respect of freight PTEs would need to develop (through recruitment and training) new staff skills and competencies and supporting systems and processes, as well as partnerships with FOCs.</p>	<p>Unlikely to be a priority compared to passenger infrastructure and services, at least in the short term, but may be important in some city regions e.g. port access.</p> <p>TfL Freight Unit provides a model that PTEs may wish to examine.</p>

7. Conclusions and Recommendations

7.1 The Role of the PTEs

Rail in the city regions matters. Trains are a major travel mode and means of urban mobility, and their performance has significant implications for economic well being, access to employment and other opportunities, as well as the ability to promote urban growth in an environmentally sustainable manner. Passengers often regard rail as a key part of their local transport networks and means of access to employment and other opportunities, and rightly demand a service specified and managed with their needs in mind.

In addition, rail demand has also grown substantially in the past decade, in many city regions outstripping national trends and developments in London and the South East. In many ways, this has been a positive development; however, complex governance arrangements combined with inadequate investment in expanding network capacity, rolling stock and improving levels of service, have created or exacerbated problems of network and train overcrowding, falling reliability and punctuality, and declining quality of passenger service. In short, despite considerable cost to the public purse, rail in the city regions is not achieving its full potential.

This latter point especially important in the current economic climate. Investing in transport – as emphasised by Eddington – promotes wider economic benefits, through agglomeration, increased competition between firms, labour force participation and productivity. Recent work suggests these benefits would be greatest in large conurbations with high order service sectors, with wider economic benefits estimated to increase the Benefit Cost Ratio (BCR) for London rail projects by a multiplier of around 1.5 and for other urban networks as a whole Eddington suggesting a multiplier of 1.25. Such a multiplier is confirmed by recent work on the Leeds City Region where wider economic benefits are estimated as 25% of benefits for improved access to the City Centre, 16% for improved links between centres within the City Region and 12% for upgraded Leeds to Manchester links²⁷. It may be concluded that wider economic benefits strengthen the case for providing rail services in and between city regions, on top of direct transport user benefits, and in addition to the safety and environmental benefits associated with modal shift. It can be argued that current complex governance arrangements prevent local rail from achieving such benefits, or indeed in assisting city regions in the North and Midlands hit hard by the current recession to make the maximum recovery in the shortest possible time.

Within this bigger picture, the ITAs and PTEs represent urban areas across England with a population of 11 million people as well as wider economic hinterlands. Whilst the range of powers, levers and resources available to them have changed continuously since 1968, they have played a full and positive role in the development of local rail services, seeking to ensure that:

- the rail network plays an enhanced role in meeting transport objectives as an integral part of local and regional transport strategies;
- the benefits of past investment are fully exploited and that rail is fully integrated with buses, tram and light rail and local highways;
- decisions on passenger services are accountable to local people who use and benefit from them; and
- decisions by Central Government and its agencies give due consideration and weighting in respect of local and regional goals, policies and priorities.

²⁷ The Case for Better Transport Investment: Agglomeration and Growth in the Leeds City Region. Marshall and Webber (2007).

The focus of the PTEs is on local and regional passenger services, which under the post-privatisation vertical separation and franchising model adopted in Great Britain covers Northern Rail, Trans Pennine, London Midland, and Merseyrail. These operations, which carry close to 200 million passengers per annum, require substantial public sector subsidy exceeding £300 million a year to continue to provide connections within and between the city regions.

The PTEs have a strong record of planning, investing in and promoting their rail networks, for example, through new or enhanced passenger services, new or improved interchange, or the re-opening or increase in capacity on key commuter lines. It is not in question that this role should continue, but how current barriers can be addressed, the key strengths built upon and how rail policy can be brought into the wider devolution agenda.

7.2 The Current Direction of Travel

The PTEs, and their governing ITAs, aspire to a rail offer which offers modern, safe, reliable and high quality connections within and between their city regions. They wish rail to be integrated with other modes within an overall transport system and for passengers to receive a high quality of service, accessible and easy to understand information, attractive fares and ticketing products and clear lines of redress and accountability when things go wrong. Above all, they seek the combination of powers, governance structures and funding to bring these outcomes about.

In this respect, the governance arrangements for the rail industry post privatisation are anything but simple, and are certainly not what we would invent today. There is no doubt that the Government's reforms in 2004 and 2005 have made improvements on a poor inheritance and have supported a partial return to health for the industry following the Hatfield crash, the collapse of Railtrack and the failure of a number of passenger franchises. Performance has recovered and Network Rail's approach to asset management, and the DfT's more outcome-orientated approach to passenger franchising, have delivered benefits for passengers, freight customers and taxpayers. However, key decisions and funding remain highly centralised, limiting the progress that ITAs, PTEs, and indeed other local authorities, can make in delivering high-quality and well integrated rail services for their areas. In this respect, rail policy appears increasingly unresponsive and out of kilter with the wider trend towards devolution across a range of sectors, including other initiatives – such as the third round of LTPs, or Regional Funding Allocations – being pursued by the Department itself, as well as the agendas of other Government Departments such as CLG. The more recent emphasis being placed on such initiatives as Total Place, and the City Region Pilots for Greater Manchester and Leeds, only serves to exacerbate this contradiction.

DfT's response to this – that Ministers and their officials are best placed to take, and be held accountable for, decisions on taxpayers' money, control costs and manage risks in a sector which has seen funding requirements multiply massively since 2000 – is understandable given the recent history of the rail industry, but rather misses the point. Even with the best of intentions and the most inclusive of consultation arrangements on the part of Central Government, it is still elected local authorities on the ground which are best placed to understand how rail can support the economic, social and environmental well being of individuals, local businesses and communities and which are best placed to decide – within suitable governance structures and executive arrangements – how scarce resources can be allocated to maximum public benefit. Whilst Whitehall – either directly or through executive agency arrangements – should legitimately retain a leadership role and interest in national rail networks, we believe there is a case in favour of a devolved approach which has already been adopted for Scotland, Wales and London and is commonplace across much of Europe. The experience of the latter cases is the devolution is a positive experience, bringing greater focus, levels of investment, alignment of rail with local and regional objectives, operational performance and scope for efficiencies and cost reductions.

The way forward is best expressed as a clear definition of a “national” rail network, for which Central Government and Network Rail retain a lead policy and investment role, together with a presumption – or even a duty – to devolve adequate powers and funding over local and regional

rail networks to the appropriate sub-national level. This will reflect passenger perceptions and needs and ensure that local areas are better able to decide for themselves their key investment and service parameters, provided these are consistent with national objectives, basic operational and technical parameters are met, and minimum standards of good governance are put in place.

7.3 The Case for a New Approach

From the available evidence, there is a case for a different way forward, at least in relation to the retention of current PTE responsibilities and powers for passenger franchise co-signature, but also for additional powers in the areas of franchise letting, management and monitoring, station management and infrastructure specification and funding. This case is based on the following factors:

- passengers themselves often regard rail as an integral part of their local transport networks, daily experience and means of accessing employment and other opportunities;
- the Government has already devolved substantial powers and funding for passenger rail franchising to regional and local bodies with the train km and passenger km transferred broadly equivalent in scale to those operations serving the PTE areas and their hinterlands;
- where powers are devolved, the evidence confirms that investment increases, there is a closer alignment with local and regional priorities, and this seems to translate into a higher level of passenger service, performance and satisfaction;
- all six PTEs consider the current structure and distribution of powers, whilst an improvement on the post-privatisation period, to be unsatisfactory and continuing to involve an excessive degree of central decision making by those responsible for DfT rail policy. This is at a time when other parts of DfT, and Departments elsewhere in Government, are more committed to, and using the rhetoric of, further devolution of responsibilities and powers;
- the PTEs have a long track record of investing in, and improving, their rail networks and see continuing to do so as central to their statutory remits and duties, including delivering the objectives set out in their Local Transport Plans and, where relevant, City Region Development Programmes. They also see continued investment in transport infrastructure and services, especially local public transport, as essential to maximise the economic competitiveness of their city regions and secure the most rapid recovery from the current recession²⁸;
- with funding likely to be curtailed in, and possibly before, CP5, local and city region authorities believe they are better placed to decide where tough choices should be made on city region commuter networks compared to DfT officials remote in London, especially if cost savings, efficiencies or new sources of funding can be identified; and
- it is clear that following the high-profile failure of, or a need to renegotiate, a number of passenger franchises and the continued debate over high costs within the rail industry, the Government itself may be looking for new and innovative solutions to resolve the challenges facing the sector, providing an opportunity for the PTEs to engage.

Whilst the case for devolution for local and regional rail is a strong one, our research for this Review also emphasises the steep learning curve faced by devolved administrations taking on a significantly enhanced role on rail. Undertaking effective due diligence at the outset, being clear about the identification and management of risk, having the political governance in place to take difficult decisions on investment, services and fares, and supporting local politicians with adequate professional capacity and skills are some of the challenges which must be addressed. Devolution to date has also focused on networks and services which are relatively (although not wholly) self-

²⁸ For example, see Transport Works: The Case for Investing in the City Regions. Passenger Transport Executive Group (2010).

contained within political and administrative boundaries; by contrast, the physical and operational complexities of rail services between the cities of the North and the Midlands are greater and should not be under-estimated.

It is also clear that investing in rail, at least in Great Britain, remains an extremely high cost activity. Some of this appears to relate to the structure of the privatised industry itself, and the methods by which the level of track access charges and the costs of rolling stock and infrastructure are worked out. Other costs certainly increased massively following the Hatfield crash and the need for Network Rail to get its asset base and supply chain on a firmer footing. The result is that in many cases investments on the railway seem to incur charges which are substantially above other transport assets and services, and which may be considered affordable. High costs clearly limit the capacity of the PTEs to support enhancements to their local networks and services regardless of where the responsibilities and powers sit. This is an unacceptable situation and in this context the DfT's and ORR's current joint review of rail costs and efficiencies is highly welcome and should be supported as it progresses to recommendations in 2011.

7.4 Future Options

Within the overall paradigm of greater levels of devolution of powers and funding from Central Government to the appropriate sub-national level, we have put forward and assessed a wide range of options available, including continued and re-energised use of existing powers, greater focus on strategic planning and programming, greater powers on passenger franchising and stronger influence or control of rail infrastructure. Since all the PTEs start with different combinations of powers and differing configurations of rail networks and services, there is no "one size fits all" solution or model. Individual areas will need to undertake their assessment of the options in detail and decide the way forward based on technical and operational constraints, funding availability, political ambition and attitude to risk. Based on the volume of passenger journeys taken in the PTE areas, action on Merseyside, in the West Midlands, and in Greater Manchester and West Yorkshire is likely to be especially important to help rail achieve its full potential.

The PTEs are already developing plans which link rail more closely to wider city region agendas for economic growth, spatial planning, skills and environment, and promoting these through closer and more focused partnerships with DfT, Network Rail and TOCs. This needs to continue and the experience of the City Region Pilots for Greater Manchester and Leeds may be instructive in reinforcing key outcomes. Technical work in this area, supported by the LTP3 and DaSTS processes, should create evidence-based, technically-robust and operationally feasible investment plans which bring local priorities and industry goals more closely into alignment. These will be in a better position to influence HLOS beyond 2014, Network Rail's Strategic Business Plan and DfT specifications for the baseline requirements, as well as priced additions or bidder proposals, for new regional franchises. The Northern Hub is likely to be a priority, although capacity bottlenecks elsewhere should be clearly identified. The PTEs, though their governing ITAs, must back this up with firm governance, continued leadership and targeted information to bring the key messages to Government and the industry.

Of the additional powers which may be considered we see most potential in passenger franchising – most of our case studies relate to this and the evidence from Scotland, Wales, Merseyside and London is persuasive. With the Government itself reviewing its approach to passenger franchising, there may be an opportunity to engage in, and influence, the wider debate.

The PTEs should aim, at least to retain co-signature on the Northern Rail franchise when this is re-tendered for 2013 and it is essential that they all speak with one voice on this issue. In deciding whether to invoke the Secretary of State's discretion on whether co-signature should be retained, DfT should seek the views of interested bidders for the franchise. Experience from London Midland suggests their concerns, in practice, may be marginal and that close PTE involvement is likely to improve, rather than detract from, the efficient and effective management of the franchise.

There is also scope to broaden PTE involvement through direct franchise management and monitoring as an agent of DfT, effectively following the Welsh model. This is likely to result on closer scrutiny of TOC performance and easier dialogue to identify and implement improvements for passengers than is possible with thinly-stretched franchise managers within DfT. Given the complexity of services across all the PTE areas, it may be necessary to involve PTEs working together to provide a co-ordinated response. **pteg** itself, regional bodies, and others such as the Northern Way, can play a role.

Beyond this, there is merit in the PTEs seeking further direct franchising responsibilities, where it is operationally and economically feasible to do so. The focus could be on broadly self-contained service bundles with distinct routes and rolling stock which can be distinguished separately from other services across the network. Examples within the current network configuration include the current and proposed electrified network of the Leeds City Region, further expansion of the Merseyrail franchise (at least to the City Line), West Midlands, and South Yorkshire in the context of tram-train. Where major infrastructure enhancements are implemented, further franchising possibilities may present themselves. Where the resulting franchises go significantly beyond an ITA boundary, there may be a need to explicitly consider views of neighbouring authorities, and possibly make changes to ITA membership and governance to reflect these cross-boundary interests. Options should be explored.

Developing the latter point further, there may be potential for ITAs – and neighbouring local authorities – to seek collective, rather than individual, franchising powers over passenger rail at a pan-regional level. These could combine the benefits of devolved decision making and funding with the scale economies and operational flexibility likely to be required to make future passenger franchises manageable, practical and affordable.

Investment in new city region rolling stock will be a priority towards the end of CP4 and into CP5 as much of the current Sprinter and Pacer fleet comes up for replacement. Whilst there is scope for other PTEs to repeat the success of Metro and Yorkshire Forward with Yorkshire Six, this initiative was largely a reaction to the limited growth assumptions built into the original Northern Rail franchise; in future, such assumptions should ideally be addressed in the baseline specification when the franchise is renewed rather than in a reactionary way after contracts have been signed. In addition, there should be joint PTE engagement with DfT in ensuring consistent and stable approaches to rolling stock specification and procurement within all future franchise baselines as they come up for renewal. These approaches, which may include outright purchase of rolling stock or more long-term and structured forms of leasing, should balance PTE requirements, passenger expectations, viable industry returns and the need to secure economies of scale, best value and allocation of risk in any procurement exercise. The creation of an arms-length PTE-owned or contracted ROSCO, potentially in parallel with pan-regional passenger franchising arrangements, is one option which should also be considered.

With the exception of specific instances such as Merseyrail, there is a limited case for PTEs taking direct control of substantial stretches of rail infrastructure. However, **pteg** should certainly engage in the current DfT/ORR review of the cost base of the industry and press Government to identify efficiencies and cost savings within Network Rail's operations. PTEs should also seek stronger roles of engagement and consultation in the specification of future plans for the future maintenance and enhancement of city region rail networks, building on the existing RPA and RUS processes and feeding into programmes which may emerge from the DaSTS and HLOS processes from 2014 onwards.

A clear area where PTEs can take a more direct role on infrastructure is in respect of leasing or agreeing management contracts for commuter stations, and associated interchange and parking facilities, where Network Rail and TOCs have insufficient incentive to invest and where there is scope for PTEs to repeat the success they have had in constructing and managing new bus interchanges and rail stations. Action here should be combined with a number of useful recommendations made to Government in the Better Railway Stations Report, including Minimum

Station Standards to be incorporated into the baseline specification of new franchises, as well as the wider roll-out of Station Travel Plans, subject to the experience of the current ATOC National Pilot Programme due to report by 2012.

Finally, **pteg** should also follow the House of Commons Transport Committee in supporting the case for a pilot on the Merseyrail Northern and Wirral Lines to establish whether a PTE can effectively establish and manage a local heavy rail infraco and realise opportunities for cost benchmarking with Network Rail. Other locations should be identified by exception. The outcomes of this exercise should inform the case for whether further locations should follow, although we do not believe the approach is likely to be viable across the entire rail network as a general policy.

7.5 Recommendations

Following the completion of this Review, there will be a need for further discussion by the PTE Rail Group and PTE Director Generals on the way forward. These discussions need to agree technical positions as well as campaign messages and strategy, seeking to build on and emulate the successful work that **pteg** has carried out on buses in recent years.

In developing any position, **pteg** should be mindful of the need for any proposals around revised arrangements for rail to provide demonstrable efficiencies, cost reductions and other impacts which represent benefits locally for passengers at limited additional outlay from the national taxpayer. Recognition should also be made of the balance, and the interfaces, between national long-distance routes and services and local and regional networks. This balance may in time be impacted by the development of High Speed Rail, allowing a greater proportion of current network capacity to be allocated for local and regional services for the benefit of city region economies.

Alongside the publication of its proposed “Rail Vision”, **pteg** should hold early discussions with DfT and Network Rail, allowing them to respond to the findings and options presented in this Report. The findings should be used in light of these discussions to provide a common framework for further dialogue. **pteg** and individual PTEs should then develop appropriate “route maps” towards implementation of those reforms likely to be most effective, feasible and deliverable.

In seeking subsequent engagement and influence with the Department and Network Rail, **pteg** should focus on the following particular areas:

- the wider role of city region rail networks and services within the regional DaSTS and RFA process, and through this to the next HLOS for England. The distinction between national and local and regional rail networks, introduced above, may assist in informing this process;
- the current DfT discussion document on the Future of Rail Franchising and evolving thinking on the procurement of new diesel and electric rolling stock;
- enhancing the PTE role on influencing the specification of infrastructure, with a particular focus on station management and enhancement in light of the Better Stations Report;
- early thinking on the retendering of the Northern Rail franchise, in light of decisions taken on Scotland, Wales and London Overground, as well as medium-term opportunities for enhanced services which may be created by the Northern Hub; and
- the ongoing DfT/ORR review of rail industry costs and efficiencies, including raising and appraising a range of options which may address some of the high costs to PTE areas which result from the current industry structure, and the allocation of network costs between regional and long-distance services.

As has been demonstrated by the case studies, taking on significantly greater responsibilities on rail should not be undertaken without comprehensive due diligence to identify and address risk, and developing the skills and capacity to deliver. Equally, it will be important that a funding settlement is reached commensurate with the roles being taken on, and to meet any liabilities that are transferred.

Appendices

Appendix A – References

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Appendix B – Case Studies - UK

B.1 Scotland

Overview

As part of the Government's review of the UK rail industry in 2004, it was agreed that greater responsibility for railways and rail transport in Scotland would be devolved to Scottish Ministers, who already had substantial transport responsibilities under devolution from the late 1990s. Following the 2005 Railways Act, the Scottish Government, through its executive agency Transport Scotland, now has responsibility for the majority of rail powers in Scotland, enabling services to be planned and investment to be targeted in line with Scottish Government's strategic priorities.

Devolution has brought considerable benefits in terms of focused planning, increases in funding and delivery, and benefits for passengers across Scotland. As the former Chief Executive of Transport Scotland has said *"Because of the closer structure of the industry in Scotland and the higher proportion of public financial support that it requires, we are more hands-on than DfT. We make no apologies for this, because our Ministers have given a high priority for railways, and both they and the Scottish public have a right to expect active stewardship of their interests."*²⁹

Background

Scotland's rail network has around 3,000 kilometres of track and 340 stations; over 81 million passenger journeys are made on the network each year. The rail network in the west of Scotland is the most heavily used commuter network in the UK outside London and caters for around 60% of passenger journeys made in Scotland.

Railways in Scotland receive over £600m of public funding each year, together with - in the case of the ScotRail franchise - an additional more-than-£200m in passenger fares.

As with the rest of the UK, Scotland's rail network was nationalised in 1947 and privatised in 1993, when Railtrack became responsible for the infrastructure and various private companies became responsible for passenger and freight services. In January 2004, Secretary of State for Transport Alistair Darling announced a review of the structure of the rail industry; this resulted in the 2005 Railways Act under which the Scottish Executive (now Scottish Government) and the UK Government agreed that Scottish Ministers would take greater responsibility for rail powers in Scotland. These powers included:

- transfer of the Strategic Rail Authority's powers to manage and monitor the performance of ScotRail passenger services;
- sole responsibility for securing future ScotRail franchises;
- powers to take long term, strategic decisions about future investment; and
- powers to fund and specify where resources are targeted by Network Rail on track maintenance and investment in Scotland.

Safety and the licensing of railway operators remain reserved to UK Ministers and are these functions are discharged through the Office of Rail Regulation.

The transfer of rail responsibilities was designed to herald the start of a period of stability, sustained growth and integration for the rail sector in Scotland. In advance of the transfer of these

²⁹ Scotland – "We are more hands on" – Railway Gazette (March 2008).

powers, the Scottish Executive published its own White Paper, Scotland's Transport Future, setting out the Scottish Executive's vision for an integrated transport system for the Nation.

Rail Strategy & Investment

Following the Railways Act 2005, Scottish Ministers have a new power to produce a long-term Rail Strategy. This gives the Scottish Government an opportunity to ensure that the rail network and services in Scotland are the best they can be.

Between October and December 2005, the Scottish Executive (now Scottish Government) consulted widely on what should be the strategic priorities for Scotland's railways for the next 10 to 15 years. In December 2006, Scotland's Railways was published, setting out Scottish Ministers' vision for the rail network over the next 20 years. This framework accompanies the National Transport Strategy, showing how rail can contribute to achieving the three strategic outcomes for transport of improving journey times and connections, reducing emissions and improving quality, accessibility and affordability. This will be achieved through:

- offering world class train services which connect Scotland's city regions and major towns, providing journey times and quality of service that are competitive with car and air;
- providing access to inter-urban services through high quality interchange stations that link with feeder rail services from intermediate stations and offer transfer from car, bus, tram, subway, ferry, cycle and walking
- making commuter train services attractive to passengers by ensuring that the journey to work is a high quality, reliable travel option and by ensuring that our rolling stock choices take account of environmental considerations, including air quality and noise emissions;
- supporting heavily loaded freight trains carrying an increasingly wide range of products with effective interchange to road and sea; and
- achieving a rail industry that delivers efficiently and effectively to support our aims and vision.

In parallel, Network Rail produced a Route Utilisation Strategy (RUS) for Scotland, identifying options for making the best use of the current network. Both Scotland's Railways and the RUS were informed by the Scottish Planning Assessment.

In July 2007, the Scottish Government published the first High Level Output Specification for Scotland. This sets out the detail of what Scottish Ministers want the rail industry to deliver between 2009 and 2014 on behalf of Scottish rail passengers and freight users. It is provided to the Office of Regulation under the provisions of the Railways Act 2005 to support the Office of Rail Regulation's periodic review of Access Charges.

Transport Scotland

Devolved powers on rail were initially handled within the Transport Directorate of the Scottish Executive, accountable to Parliament and the public through Scottish Ministers. However, most roles were transferred to Transport Scotland, as the new national planning and delivery agency of the Scottish Government when it was formed in January 2006.

Rail is progressed through two of the six Directorates of Transport Scotland:

- the Strategy & Investment Directorate carries out appraisals of capital projects, advises on rail investment decisions, and provides the specification of railway outputs that the Scottish Government wishes to buy. The Directorate also provides input from a Scottish perspective on reserved rail issues such as European directives, the Disability Discrimination Act, safety and standards; and
- the Rail Delivery Directorate is responsible for managing the ScotRail franchise contract. It funds Network Rail's delivery responsibilities in Scotland and takes the lead on the delivery of

key rail projects, including infrastructure, rolling stock and timetable changes. It provides expert rail advice to inform policy choices.

In considering potential future rail developments, Scottish Transport Appraisal Guidance (STAG) is applied as an evidence based, objective led, multi-modal framework approach to identifying the most appropriate solution to a transport problem. In addition, Transport Scotland has undertaken a Strategic Transport Projects Review (STPR) for all transport modes, against clear criteria on safety, environmental impact and meeting the economic needs of Scotland. The Review considered and prioritised transport infrastructure investment across Scotland to 2020 and beyond across all modes, a process now being undertaken in England under DaSTS. In principle, the STPR identified how the future development of Scotland's transport infrastructure can most effectively support the Scottish Ministers' objectives for transport, the environment, the economy and well-being.

Funding and Delivery

Devolution has given a major impetus to rail investment in Scotland, over and above that experienced by many regions south of the border. Transport Scotland aims to work with the rail industry to provide a modern, efficient rail network by:

- optimising the use of the network by devising the best timetable for passenger and freight services;
- improving existing rail infrastructure;
- delivering a programme of major projects;
- upgrading the existing train fleet and introducing new trains to the network;
- adding new stations and freight terminals to the network;
- ensuring that services are accessible to everyone.

A range of major improvements have been or are being progressed, including:

- Larkhall to Milngavie (delivered December 2005);
- Stirling - Alloa - Kincardine (completed 2007).
- Edinburgh Waverley re-modelling (completed 2008).
- Airdrie to Bathgate Rail Link, creating a fourth link between Edinburgh and Glasgow (under construction and due to open in late 2010);
- Scottish Borders Railway from Edinburgh to Tweedbank (currently out to tender and commencing construction in 2011).

Proposals also exist for substantial further enhancements between Edinburgh and Glasgow, in part by electrifying the Central Belt rail network and accelerating journey times. This is in contrast to policy in England where the policy emphasis has been on controlling costs.

Progress on key projects is not without problems, however. Plans for the Edinburgh Airport Rail Link (EARL) were abandoned in 2007 shortly after the election of the Scottish National Party to Government. In addition, plans for the Glasgow Airport Rail Link (GARL) were abandoned in September 2009 following significant cost escalation in preparatory works. Both decisions have been strongly criticised by Opposition parties in Scotland and impact on Scotland's ability to host the Commonwealth Games in 2014.

ScotRail Franchise

The ScotRail passenger rail franchise is one of the biggest contracts let by Scottish Ministers, worth around £2.5 billion, and is managed by Transport Scotland. Following an earlier franchise,

which lasted from 1997 to 2004, the contract was awarded to FirstGroup plc, operating as First ScotRail Limited, for a period of 2004 to 2011.

As part of its franchise bid, First ScotRail committed to spending £40m, of which over £30m has already been spent, to enhance frontline facilities over the initial seven years of the franchise. This includes train refurbishments leading to improved reliability, and a £10m Station Improvement Plan to provide shelters, waiting rooms, toilets and telephones at stations, and £3.5m to improve information and communication links for passengers at all stations. First ScotRail has also fulfilled its commitment to provide secure cycle facilities at all stations in Scotland. Funding was also provided in 2007 by Transport Scotland as part of a £9 million train refurbishment programme to increase cycle spaces on a number of trains.

In 2008, Transport Scotland and ScotRail announced the introduction of a fleet of new trains across Scotland from late 2010. The procurement process, worth over £200 million, was led by ScotRail with a resulting contract to be funded by Transport Scotland to provide 130 new rail carriages, adding 9,000 seats to the Scottish network. The trains are seen by the Scottish Government as essential to meet growing passenger demand, promote modal shift and support economic and environmental goals.

The new trains will provide extra capacity in Ayrshire and Inverclyde in effect creating a new sub-fleet in the West of Scotland which will accommodate predicted future passenger growth in the Glasgow suburban network. They will also allow the release of rolling stock to operate on other key routes such as Airdrie-Bathgate. The new trains will run new passenger services on the planned Glasgow Airport Rail Link. The deal will also lead to 134 new jobs being created in Scotland to operate and maintain the new fleet and expanded depot facilities.

Transport Scotland is also funding a programme of platform extensions across Ayrshire and Inverclyde to accommodate the introduction of longer trains. Development and feasibility work is currently underway by Network Rail to enable delivery by December 2010.

ScotRail is generally seen as performing well under the franchise to date. For example, delays have been reduced by 50% since franchise commencement and passenger numbers have increased by 20%. Under the terms of the original franchise agreement there was an option to extend by three years, and Scottish Ministers have now exercised this, recognizing the strong performance to date and providing certainty and continuity for passengers.

The franchise extension award also brings a number of benefits for passengers worth £73 million. This money is being reinvested in the railways to pay for 28 initiatives and projects, including a Stations Community Regeneration Fund, which will see service enhancements and other improvements at stations and on trains.

Transport Scotland has also used its role to reposition the ScotRail brand. The refreshed brand was launched in September 2008 to coincide with the 25th anniversary of the ScotRail name. By the end of that year, the ScotRail brand was applied to all printed material produced by First and can now be seen on all leaflets, timetables and posters. The new branding incorporates Scotland's flag, the Saltire, and means Scotland's trains will have a uniform look for the first time. This reinforces the identity of the network with the people of Scotland. It is being extended across all First ScotRail managed stations and trains during routine maintenance cycles to ensure it is carried out at no additional cost to taxpayers.

It is intended the new brand will deliver savings to taxpayers by providing a consistent look which will not change with a new franchise operator. In the past, trains and stations were rebranded with each new franchise, which proved expensive and unnecessary. The fragmented appearance also created confusion for the public with differing signage, colours and brands, so a clear and consistent visual identity has been created for ScotRail.

B.2 Wales

Background

The railway in Wales encompasses around 1,400 kilometres of railway and over 200 stations. The network includes strategic routes such as the North and South Main Lines, urban networks supporting key centres which include the South East Wales Valley Lines network, and more rural routes comprising the Cambrian and Heart of Wales Lines and branch lines in North and West Wales.

The Railways Act 2005 transferred most of the functions of the Strategic Rail Authority to the Secretary of State for Transport in the UK Government. The Act made provision for the Welsh Assembly Government (WAG) to be a joint signatory with the Secretary of State for Transport to the Wales and Borders Franchise for train services operating within Wales.

The Railways Act 2005 and the Government of Wales Act, enables the Assembly Government (in some cases the Assembly itself) to;

- become a co-signatory to the Wales and Borders franchise and provide financial assistance to the franchisee (the current subsidy of some £140 million has transferred from the Department for Transport);
- specify existing rail services and set the fares. The Secretary of State will be responsible for the few services under the franchise wholly in England and cannot enter into any new franchises for Welsh services without the agreement of the Assembly;
- develop *new* rail passenger services, specify the services and regulate fares;
- develop and fund infrastructure enhancement schemes and invest in improving the journey experience for rail users;
- fund rail freight improvement schemes through Freight Facility Grant (FFG);
- give financial assistance to any organisation for the purpose of developing Welsh railways;
- publish guidance jointly with the Secretary of State in relation to and make any proposals for closures of services or facilities that it funds (there is a current joint consultation over new closure procedures);
- designate, where applicable, new services it funds as experimental for a trial period of up to five years; and
- appoint a member to the Rail Passenger Council (operating under the name Passenger Focus);

The Assembly government must also be consulted in the following ways;

- the UK Secretary of State for Transport is required to consult the Assembly before issuing a statement of policy on exercising his powers under Section 23 (1) of the Railways Act 2003 to provide for passenger services to be provided under franchise agreements; and
- the UK Secretary of State for Transport is required to consult the Assembly before giving guidance to the Office of Rail Regulation and consult the Assembly before issuing an invitation to tender for, or before entering into, a franchise agreement that includes Welsh services. Welsh services are those that run within or to/from Wales.

There are four regional transport consortia in Wales, these are SWWITCH (South West Wales Integrated Transport Consortium), TAITH (North Wales), Mid Wales Partnership (TRACC) and SEWTA (South East Wales Transport Alliance). Their responsibilities include the development of strategies to encourage greater use of public transport in their regions.

The regional consortia are also required by the WAG to produce Regional Transport Plans which set out an integrated and sustainable transport strategy for the regions and is a bidding document to Government with a Five Year Programme for Capital investment.

On April 1st 2006 responsibility for the Wales and Borders Rail Franchise was passed from the Department of Transport in London to the Welsh Assembly Government in Cardiff.

The franchise is currently held by Arriva Trains Wales (ATW), part of the Arriva Group. Their contract was awarded in 2003 and runs for 15 years. The Franchise Agreement in place with ATW details all aspects of what is expected in terms of running the service and involves a budget currently running at around £140 million per annum.

The WAG have in place a Franchise Management team who work to ensure ATW follows, to the best of their abilities, the expectations outlined in the Franchise Agreement. Included in this agreement are annual targets for a variety of factors ranging from punctuality to cancellation rates, as well as the Performance incentive regime for the Franchise.

ATW has a fleet of 125 trains covering a route of over 1,009 miles, supported by 2,050 employees. It operates 955 services per day, resulting in trains travelling 13.7 million miles each year. On average, ATW's services handle around 65,000 passenger journeys a day, with the ability to carry over 12,000 customers at any one time. They operate 244 stations throughout England and Wales of which 53 are currently staffed.

The Department of Transport retains a minor interest in the Wales and Borders franchise in that it will be responsible for funding the few ATW services that operate in England-only.

Network Rail is responsible for maintaining and operating the railway in steady state condition. The Assembly Government is working in partnership with Network Rail to fund enhancements to the railway infrastructure.

Overall Assessment

The WAG is now responsible for the financial and performance management of rail passenger services and any enhancements to it. This formed a major contribution to driving forward the WAG's agenda for improving rail services in Wales.

Much like England and Scotland, Wales has experienced a significant growth in the number of people using trains in recent years. In 2005/06, there were approximately 20.1 million rail passenger journeys beginning or ending in Wales. This was a 2% increase in rail usage over the previous year, continuing a trend of growth over the past 10 years.

Around 13 million of these journeys were entirely within Wales, with Cardiff the destination for a significant share of these (close to 40 per cent).

However rail passengers experience crowded trains on some parts of the network. This occurs especially at peak commuting times in south east and north east Wales (where rail has a significant market share of commuting trips), on the South Wales Main Line and on north-south services, particularly during peak holiday periods. Significant rail freight services also run east to west and north to south with the largest in south Wales.³⁰

In 2008 the WAG produced the Rail Forward Programme, a list of schemes, which the WAG will look to implement over the current term of government. Up until 2008 rail infrastructure projects were delivered through local authorities using Transport Grant arrangements.

The move to Regional Transport Plans means that rail projects will now be delivered according to the priorities of the Assembly Government as set out in One Wales (an overarching strategy document to improve the quality of life of people in Wales).

³⁰ *One Wales: Connecting the nation* – The Wales Transport Strategy

The WAG has also produced The Wales Transport Strategy “One Wales: Connecting the Nation” supporting the following strategic rail proposals;

- swifter rail services between north and south Wales, the differences between the north-south road and rail network means that for some journeys travel by road is substantially quicker than by rail. Adding to the challenge of attracting potential passengers to use train services;
- the emerging TrawsCambria network should aim to supplement rail and commercial coach services by providing long distance coach services across Wales;
- to take action to make more use of carbon efficient modes such as: shifting freight from road to rail;
- that wider objectives require an increase in freight moved over rail and water, which in turn requires effective integration with the road network that form part of the strategic Trans-European Networks;
- the Wales Rail Planning Assessment (working in partnership with the DfT) sets out how rail can contribute to achieving the objectives in “Connecting the Nation”;
- plan for better integrated transport by: Securing better joint working between public transport operators, both rail and bus, to ensure better national and local connectivity; and
- support the integration of more sustainable modes by: detailed feasibility studies of the options for rail improvements set out in the Wales Rail Planning Assessment.

The Wales Rail Planning Assessment (2007) – a joint production with the Department for Transport - focuses on how railways can deliver wider social and economic objectives, drawing on the contribution of a range of stakeholders. The study has been used to influence the UK Government’s statement of what it wants the railway to deliver in England and Wales between 2009 and 2014. It will also inform the WAG programme for rail improvements across Wales.

Rail Investment

WAG has invested heavily in initiatives to increase the amount of passenger travel by rail. The strategy has included re-opening closed lines, increasing the frequency of services and increasing the capacity of trains and stations including substantial investment in additional rolling stock, improved station security and passenger safety.

The following improvements have been authorised under devolution of the rail powers;

- the Ebbw Valley Railway Line re-opened for passenger services on Wednesday 6 February 2008. Passenger services last operated on the line in 1962. The cost of the project was £30 million and funding was provided by Welsh Assembly Government, Corus Regeneration Grant and the European Objective One Programme. Six new stations (Rogerstone, Risca & Pontymister, Crosskeys, Newbridge, Llanhilleth, Ebbw Vale Parkway) were built Arriva Trains Wales now operate an hourly service between Ebbw Vale and Cardiff;
- the Vale of Glamorgan Railway Line re-opened in June 2005. Passenger services last operated on the line in 1964. The project cost £17 million and was funded by the WAG. The project includes a £2.5m Transport Grant Investment in the interchanges at Llantwit Major and Rhoose Cardiff International stations. Arriva Trains Wales now operate an hourly service between Rhoose and Cardiff. With new stations and 3.5 miles of new track and 6.5 miles of track upgraded to allow trains to travel at higher speeds. The line provides an important rail link to Rhoose Cardiff International Airport station, which is connected directly to the airport terminal via a short shuttle bus journey;
- the Cardiff to Merthyr Tydfil Frequency Enhancement Project has increased train services between Cardiff Central and Merthyr Tydfil from hourly to every half hour. The new service follows the completion of the Pontypridd to Merthyr Frequency Improvement Infrastructure

Project, which was a £22m project, part-funded by the European Union's Objective One Programme, between the Welsh Assembly Government and the South East Wales Transport Alliance (SEWTA). It was delivered by Network Rail, which provided an improved station at Abercynon and associated track and signalling works;

- in 2008 a £13.2 million project to extend 42 platforms to enhance passenger capacity was completed. The 42 stations were on three of the Valleys routes which experience high demand: the Rhymney Valley Line, the Treherbert to Cardiff Line and the Maesteg to Cheltenham Spa line Funding came from the Transport Grant from the WAG;
- Llanharan Station was re-opened for passenger services in December 2007. The station was originally closed in 1964. This £4.3 million scheme has provided a new station in the village of Llanharan. It was part of the South East Wales Transport Alliance (SEWTA) Sub-regional Objective 1 bid, which was approved by the Welsh European Funding Office (WEFO) and match funded by Transport Grant from the Welsh Assembly Government;
- Improvements are planned for the Newport Area, this is a 2-phase project to improve and upgrade the standard of signals, the line, track and services in and around the Newport area. A new platform was added to Newport station at a cost of £5.5m, further works will continue until 2014. This project is jointly funded by the WAG and Network Rail with a total cost of £22 million;
- rail improvements in progress include the Cardiff Area Signalling Renewal. A joint project with the WAG, Network Rail and Department for Transport to improve and upgrade the standard of services available on the Valleys Lines. It includes provision of 4 through platforms at Cardiff Queen Street, a new bay platform for the Cardiff Bay shuttle service and additional Valleys platform at Cardiff Central. An extra 900 seats per hour will be made available, which could increase to 1200 additional seats per hour when completed in 2014;
- the WAG and Network Rail are investing £13m to enhance infrastructure on the Cambrian Railway Line. The WAG will spend £8m on capital improvements, which will be matched by £5m from Network Rail. To help achieve new levels of service reliability and punctuality between the West Coast of Wales and the West Midlands;
- the WAG is operating a concessionary fares rail pilot scheme for people aged 60 or over and disabled people of all ages, in defined areas, including the Borderlands Line, Cambrian Coast Line, Heart of Wales Line and the Conwy Valley Line; and.
- the WAG also implemented an integrated bus and rail ticket allowing passengers to travel across Wales with the Freedom of Wales Flexi Pass. There are four types of pass, which offer unlimited travel on all mainline rail services in Wales plus most scheduled bus services for periods of either four or eight days.

Key Lessons

Since the Railways Act of 2005 the following has happened;

- numerous investment initiatives to increase the amount of passenger travel by rail. The strategy has included re-opening closed lines, increasing the frequency of services and increasing the capacity of trains and stations.
- plans for better integrated transport by: Securing better joint working between public transport operators, both rail and bus, to ensure better national and local connectivity.
- devolution of power ensuring the people of Wales have a strong voice in the development of their rail services. The UK Secretary of State for Transport must consult the Assembly upon any agreement or issue that includes Welsh rail services.

- the WAG are making greater use of the powers provided by the Railways Act, up until 2008 rail infrastructure projects were delivered through local authorities using Transport Grant arrangements.
- improved services, capacity and performance provided under the new timetable and close partnership working between the WAG, Arriva, Network Rail and the local authority consortia to deliver service and frequency improvements.
- a major step forward in practical, joined-up government, enabling substantial improvements to deliver a transport network that delivers greater prosperity throughout Wales.

B.3 London

Overview

The Greater London Authority Act 1999 restored directly elected metropolitan government to London with the creation of a directly elected Mayor and London Assembly. The Mayor acquired significant powers and resources to plan, fund and deliver across a range of transport modes, including the London Underground, Docklands Light Railway and Croydon Tramlink. These were exercised through a new executive agency, Transport for London, which inherited the roles and powers of a range of predecessor bodies, including London Regional Transport and the Traffic Director for London.

The GLA Act did not, however, transfer responsibilities for National Rail services within and into London which remained with the DfT, Strategic Rail Authority and Network Rail. In many ways, TfL's powers on rail were less than those applying to PTEs in other metropolitan areas (e.g. co-signature on passenger franchises).

Despite this, a pilot scheme was launched in 2003 to bring National Rail services operated by multiple operators under one branding umbrella within London. Using the Overground Network (ON) brand, TfL introduced consistent information displays, station signage and maps on selected routes in South London. Although this pilot was purely an exercise in branding, this was the first instance of TfL having a visible influence over National Rail services in London. The Overground Network pilot has since been withdrawn.

Following the Government's review of the UK rail industry in 2004, and a Mayoral campaign for a London Regional Rail Authority, the Mayor and TfL acquired enhanced responsibility and influence over parts of London's rail network through the Railways Act 2005. This Act, whilst transferring lesser powers than those sought:

- provides a duty on the Secretary of State and TfL to co-operate in respect of rail services;
- requires the Secretary of State to consult TfL before issuing an invitation to tender (or when entering a franchise agreement for which an ITT has not been issued) for railway passenger services to, from or within London;
- enables TfL to specify and pay for increments to certain suburban rail services going beyond the London boundary, in consultation with local authorities outside of London and London Travelwatch. Equally, TfL may request decrements, but only with the agreement of local authorities outside of London;
- enables changes to the TfL Board in the event of a more extensive role outside the Greater London Authority area in relation to heavy rail services; and
- devolves, under certain circumstances, passenger franchise specification, letting and management responsibilities for parts of the National Rail network in London from the DfT to Transport to TfL.

This brings TfL's rail responsibilities broadly into line with the PTEs. TfL is not able to propose changes to fares on routes that run beyond the boundary. As a general rule, TfL is also not permitted to propose additional stops on long-distance and inter-city services.

TfL did, however, under the Railways Act acquire the right to become the franchising authority for certain rail services wholly within London, subject to Secretary of State discretion and guidance.

London Overground

The latter responsibilities came into effect after the Silverlink Metro franchise expired in November 2007, with the creation of a new branded London Overground network. This is currently made up of four lines:

- London Euston to Watford Junction (local services only);
- Richmond to Stratford via Willesden Junction (North London line);
- Willesden Junction to Clapham Junction via Kensington Olympia (West London line); and
- Gospel Oak to Barking.

Three of these lines are electrified. The Gospel Oak to Barking Line is not. In addition, the East London Line, previously part of the London Underground, is currently being upgraded and will allow new rail services over the National Rail network in South and North East London from late May 2010. These services will be branded as London Overground in a similar manner to the existing four lines.

Under the Railways Act, TfL is responsible for the overall management of the London Overground network, including franchise tendering and management, rolling stock and stations. It has chosen to grant the first franchise to a private company, London Overground Rail Operations Limited (LORAL), following a model similar to that already used for the Docklands Light Railway. LORAL is currently comprised of the Hong Kong MTR Corporation and the German rail operator Deutsche Bahn, with an initial seven year franchise.

Unlike National Rail franchisees, TfL sets fares, procures rolling stock and decides service levels. TfL take 90% of the revenue risk, 10% of revenue is retained by the operator, and the operator is responsible for revenue collection. Network Rail retains ownership of the stations and infrastructure including tracks and signalling.

Eventually linking 20 of London's 33 boroughs, the Overground will offer new opportunities and bring many benefits:

- **improved safety and security** with staff at every station during train operating hours to improve customer service and passenger security;
- **Oyster pay as you go** ticket machines and readers at all stations. Free travel with a Freedom Pass, or if the passenger is under 11 and travelling with an adult who has a valid ticket;
- **trains running earlier and later** since December 2007;
- **deep cleaned stations** since summer 2008, providing a more comfortable travel environment for our passengers.

Long-term investment valued at £1.4bn, funded through the TfL Ten Year Investment Programme, is delivering further benefits for passengers:

- more trains from 2011 (four per hour - all day, every day) to a 'turn up and go' standard;
- better stations, with more Help points and CCTV, improved lighting and customer information systems;

- new trains from 2009 (see below) featuring wider gangways, clear sightlines for passengers and onboard CCTV, faster boarding and alighting through wider doors and aisles to reduce waiting times, , real-time information, air conditioning, wider seats and more handrails; and
- a fast, frequent and reliable service from 2010, following improvements to signals, tracks and points.

Since London Overground took over operations, the network has operated using existing rolling stock inherited from Silverlink Metro, with temporary London Overground branding. However, TfL is in the process of introducing new rolling stock. This programme is being carried out over three to five years and includes new trains for the former East London Line.

- from 2009, the electrified lines will be operated by Class 378 Capitalstars built by Bombardier Transportation which include new walk-through open carriage interiors, air conditioning and standing room to fit with a high-capacity metro service. The new trains are being leased from a newly formed ROSCO (Q W Rail Leasing) with a lease running until 2027. TfL had originally planned to buy the new fleet outright, but decided on a leasing solution in February 2008 to free up the £250 million capital cost of purchase, combined with reducing the risk of making a loss on any future sell-on of the fleet; and
- the Class 378s will not be able to operate over the Barking-Gospel Oak Line as it is not electrified. Whilst the latter course of action is advocated by TfL, it is not currently supported by Network Rail's Cross-London RUS. TfL, through LORAL, is therefore leasing new Class 172 diesel trains from Angel Trains. Again, this approach is considered preferable to outright purchase of the rolling stock by TfL.

The East London Line Extension between Dalston and Surrey Quays will open at the end of May 2010. An integrated network will be created when the extended East London Line is linked to the North London line at Highbury & Islington in 2011. This will allow the creation of a partial orbital network within Inner London. This project will also deliver four new step-free stations at Haggerston, Hoxton, Shoreditch High Street and Dalston Junction and see 12 trains per hour calling at stations between Dalston Junction and Surrey Quays. South of Surrey Quays, services will run on three branches to New Cross, West Croydon and Crystal Palace.

In 2012, services will be extended from Surrey Quays to Clapham Junction, with some lengthening of trains. There are plans from 2013 to remodel some stations, providing funding can be secured.

Other Powers and Achievements

TfL has successfully introduced the Oyster card to all public transport services in London since 2003, capable of zonal travelcards and Pay as You Go (PAYG). There are now around 7 million Oyster cards in regular use in London. Oyster card is accepted on modes directly controlled by TfL, including buses, Underground, DLR and London Overground.

From November 2009, TfL completed the "Oysterisation" of commuter rail services within London. This extends the coverage of Oyster PAYG from 150 to 350 National Stations with impacts especially in South and North East London. Does not generally extend TfL travel discounts, but does extend the acceptance of Oyster card.

The Original Case for the London Regional Rail Authority

As part of the 2004 review of the UK rail industry, the Mayor of London and TfL set out the case for a London Regional Rail Authority. This body, it was argued, would oversee integrated planning of the London suburban rail network alongside the capital's underground, bus and road system with benefits including:

- greater efficiency, with TfL taking the risk on revenue, rolling stock contracts and upgrading works, reducing franchise costs and ending compensation payments to train operators;
- more frequent services - simplifying timetables and other changes with a possible 5 per cent increase in capacity, reduced overcrowding and reduced journey times within two years;
- integrated fares using the Oyster smartcard. The Oyster card would be extended to rail services, cutting ticket office and ticket barrier queues and reducing fare evasion;
- integration of ticket prices - Tube-style zonal ticketing to simplify ticket-buying for millions of travellers;
- better station facilities - a plan to deliver common, higher standards for all stations in London;
- better station security - a plan to improve security and passenger information on all stations in London; and
- meeting local needs, giving London control of its rail services making the rail network more responsive to local needs.

Bob Kiley said:

"TfL was created to provide London with a fully integrated transport network. Our bid, under the Government's rail review, proposes just that. We should all seize this opportunity to put joined-up thinking into practice and make a difference to passenger journeys.

TfL has been able to turn around the bus services in the Capital, delivering the best services London has seen for over a generation. If given the opportunity, we would use the same principles and world-class management to deliver the best possible services for rail passengers travelling in and through London."

Mayor of London, Ken Livingstone said:

"A London Rail Authority will allow us to integrate the railways with Tube and bus services and raise service standards and the upkeep and security of stations. It would mean that we can start to bring major transport improvements to the large parts of London not covered by the Tube network. If we start with a shadow form of running the Authority changes can start to be made relatively fast."

The proposal was not without controversy or alternatives. IPPR, for example, argued that given the strong passenger rail links between London and the Greater South East it was questionable whether the responsibility for franchising services should go exclusively to the Mayor. Instead, responsibility for passenger services, in their view, ought to be given to a new Greater South East Rail Authority.

TfL's proposal was opposed by the South East and East of England Regional Assemblies on the basis of unforeseen consequences for rail passengers using rail services around (rather than into) London.

In the event, the changes introduced were more modest than TfL's expectations with the transfer of franchising responsibilities on the former Silverlink Metro network only from November 2007.

Appendix C – Case Studies - Europe

C.1 Lille

Background

Lille is the administrative and economic centre of the Nord Pas de Calais region of France. Together with Roubaix and Tourcoing, it forms Lille Métropole - one of the largest conurbations outside Paris with a population of 1.1 million, and over 2.5 million people live in the surrounding hinterland. It was once seen as an industrial city in decline, but is now a vibrant and attractive city which has become a focus for services and tourism. Excellent public transport, both through high speed rail connections to Paris, Brussels and London, and regional rail networks, has been one of the keys to its recent renaissance.

The Eurostar and TGV systems connect Lille to the rest of Europe by high-speed rail. Paris can be reached in an hour and Brussels in 35 minutes. The city's renewal is symbolised by the 70 hectare development of Euralille, a complex of offices, shops, apartments and a luxury hotel, which has been built next to the new international station (Lille Europe). Networks of metro, trams and buses also serve the international and local railway stations. This huge investment required was funded mainly through a payroll tax on employers.

Since 1967, French municipalities (or communes) have been encouraged to group together so to be able to provide better local services and to develop infrastructure. A number of (investment-related) roles previously in the hands of the individual municipalities are now the responsibility of Lille Métropole Communauté Urbaine, a public inter-municipal co-operation body covering 87 communes. In addition to Lille Métropole, the Comité Grand Lille, was set up in 1993 to ensure that all the business, cultural and political sectors are involved in and committed to the renewal of the fortunes of the city-region, and are prepared to work together.

The French rail reforms of 1997 transferred authority for sub-national passenger transport by rail to France's Regional Councils. Another significant development occurred in 2000, with the passing of La Loi Solidarité et Renouvellement Urbains (Solidarity and Urban Renewal Act). Designed to improve the planning system in France and encourage urban regeneration, it transferred from Central Government to the regions the responsibility for the management of the Trains Express Régionaux (TER).

Accompanied by this transfer was an increase in the grant from Central Government, a grant that is re-evaluated annually. The objective of the transfer was to improve the quality of service and also to separate central control from what were regarded as local and regional matters. French regions use a far greater range of resources and all their local influence – with businesses for example – to improve the overall rail product offer.

The Regional Councils therefore became Transport Commissioning Authorities. Each region negotiates an agreement with the French national rail company, SNCF, laying down the operating and funding terms for the provision of TER and other regional railway services; after a successful pilot phase at regional level, these powers were further devolved to Lille Métropole in January 2002.

SNCF established the TER system in 1984 to provide a framework for the management of regional passenger services. Since the end of the 1990s, it has been closely coordinated these services with the Regional Councils, which sign an agreement with SNCF (as a single supplier) on matters such as designated routes, number of connections, the fares and service levels.

Subsequently the initial agreements have reached their term and have been renegotiated with the regions, featuring new innovative services and a multi-modal transport offer. Ten next-generation TER agreements were launched in 2007. In 2008, five TER contracts were renegotiated including

Nord-Pas de Calais, with Lille Métropole having the responsibility to decide the rail timetables, rail fares and maintenance of railway stations.

Overall Assessment

The Lille Métropole scope of competencies includes economic development, strategic planning and investment, as well as public transport. It has a much bigger investment capacity than individual municipalities, with resources coming from local taxes and central government grants. In 2009 the budget was € 2.1 billion with more than one third spent on transport. This means strategic decisions on transport (rail) can be made that closely fit with regional development priorities.

Apart from revenue from the services operated and money from the local communes, the Regional Council receives almost 60% of its costs from the Versement Transport (VT-transport tax), a tax payable by companies according to the number of people employed. It is calculated on employees' wages – but paid only by the employer – at a rate chosen by the local authority that does not exceed the maximum stipulated by the VT legislation. The rate may be increased if the Transport Authority plans to implement, or has already implemented, a high-grade transit service within its own right-of-way. French Regions' transport spending is therefore more accountable to local needs. There is no British equivalent to the Versement Transport.

The Region is also required to develop a strategic regional transport plan (Schéma régional des transports). The first plan had clear policies on enhancing public transport including the target of doubling the proportion of travel on public transport from 8% to 15%. This was to be achieved through an integrated transport network of metro, tramway and buses (with a small amount coming from rail) operated on long-term franchise by Transpole. As a multi modal agency, the Region can plan transport investment across modes to obtain the best strategic outcomes for the Region. Integrated transport planning is not only a necessity but a consequence of this approach.

The present regional transport plan defines the strategic transportation guidelines to be used for the Nord-Pas de Calais region providing a vision for the regional transportation system in 2020 to benefit the regions residents and businesses. The strategy has two regional ambitions.

The first ambition is to meet the mobility needs generated by the regional development:

- mobility of people to facilitate access to work opportunities, services and recreation for all inhabitants of North - Pas de Calais; and
- mobility of goods, with existing transportation flows expected to increase significantly in coming years, they must be transformed into an asset for and not become a barrier to development; and
- to provide a strategy to build a multipolar region ensuring major cities of the region are less than an hour by public transport from the metropolis.

The second aim is to ensure the mobility of goods and people while respecting the principles of sustainable development and to reduce the carbon emissions related to transport.

What is especially noteworthy is that transport in and around cities or regions is an inherently local issue. Lille Métropole, as the relevant authority, has become much closer to the specification and operation of services, and has seen the improvement of transport provision as an essential part of its means to achieve the overall aims for the region, such as economic development tourism, crime reduction or the environment.

Transfer to local control of transport in this way encourages greater ownership by the community involved, making it a local political issue and raising it up the public agenda, especially as there is a local financial contribution.

Rail Investment

This responsibility for regional and local rail services came with an increase in the level of funding. The initial funding made available was €1.5 billion per year, twice the amount formerly granted to the SNCF.

The operating TER agreement between the Region and the SNCF aims to improve the usage of the rail network users. The Region attempts to achieve this through increased frequency of train services and improvements in station quality, but also through the management of the operation on a day-to-day basis (often with a range of performance penalties or incentives) and ticketing initiatives.

The 2006 agreement had an objective of 91% of trains to run on time. The second objective was to improve punctuality every year. This does not take into account delays which are not attributable to the SNCF (for example malicious behaviour, scheduled work on the infrastructure, or accidents) or cancelled trains. In 2008 the punctuality target was 95% (1% more than in 2007) and the target will increase by 0.12% per year in 2009 and 2010. The punctuality of the 100 most popular trains, and those which have a strategic purpose, is closely monitored. An external agency carries out regular checks of stations and trains to highlight weaknesses and identify areas for improvements.

Between 2001 and 2010 there was a 47% increase in the number of people using public transport. The success is attributed to three factors:

- higher fuel prices;
- the Transportation Premium in which 50% of the price of season tickets is paid by the employer, (an initiative introduced by Lille Métropole as part of the Urban Travel Plan to stabilise the amount of private traffic and increase the use of public transport); and
- the improvements in the quality and quantity of the public transport available, including the regional/local rail network, modernised tram and subway and bus network.

As well as regional rail improvements Lille Métropole created the first automatic subway in the world after modernising its original tramway lines in 1983. “VAL” represents Véhicule Automatique Léger (automatic light vehicle). Two lines were opened, connecting Lille to Tourcoing and Roubaix, now with an operational length of 45 km (28 miles), the largest fully automatic network in the world. A proposed Line 2 extension will take VAL into Belgium.

A high proportion of VAL stations have connections with other public transport, including bus routes, Lille’s two-route tram service and SNCF, with many large adjoining car parks. This allows full modal integration for the passenger.

Coalition members are allowed to withdraw from the Lille Métropole at any time, the Lille Métropole president is therefore dependent on being able to convince the coalition members of the benefit of the co-ordination in the Lille Métropole. The members benefit from a tax base sharing agreement which is used to promote economic development and is responsible for strategic planning and transport planning.

To make public transport more attractive, cohesive and easier to use, tariffs for the various transport systems were integrated and multimodal information services provided; it is now possible to travel within the metropolis using a single ticket. Co-operation between Lille Métropole, the Nord/Pas-de-Calais Area, Transpole and the SNCF made it possible provide measures in favour of fare integration. Transpole is looking into the feasibility of contactless methods of payment such as e-ticketing for all means of transport. The possibility of being able to use the new ticketing system in nearby metropolitan areas is also being investigated.

The Nord Pas de Calais region also has responsibility for the provision of trains and in recent years, has received 33 new double deck two car electric multiple units out of a national fleet of 80.

SNCF funded 30% of the cost of these trains and the Region funded the remaining 70%. These new units are being used to replace older trains and provide greater capacity. Since 1978 € 750 million has been invested in new trains by Nord Pas de Calais.

The Region is also supporting local operation of high speed TGV to provide fast links between Lille and other cities. However the Lille Metropole relationships were tested with the proposal for a TGV Nord railway extension to Lille. Lille Metropole requested financial support from all of the communes but the Lomme representative argued that the economic benefits would only be felt by Lille. To resolve the dispute the agreement was tied to a comprehensive re-think of transport policy and infrastructure including expansion of the service sector.

SNCF's monopoly is one area where the French system is at a disadvantage: in negotiating the TER contracts, the regions have to enter into a contractual relationship with the state-run incumbent operator. Whilst SNCF may be under government pressure to be efficient, there is not the competitive tension between private sector companies that exists in England. It is also the case that the French regions may not be sufficiently well resourced to assess the costs and revenues attributed to the service specification, and so are unable to challenge SNCF on its assumptions.

One particular area of difficulty has been the concept of infrastructure charges – the money payable to the national infrastructure owner RFF for access to the lines. The allocation of costs to different operations for multi-user lines has been a source of debate and is one area where local control over some services, and the lack of transparency for maintenance and renewal costs, does lead to over-complication.

Key Lessons

Forty years after its establishment Lille Metropole is proud of its network successes. By 2015, it expects to have 200 million travellers per year. It is investigating the idea of technically adapting metro stations to double the number of trains which is expected to be necessary by 2017.

Key lessons from the Lille experience:

- recognition of the value importance of an efficient, integrated public transport system which links all parts of the city-region together;
- the leading role taken by the metropolitan local authority (Lille Metropole) in driving forward regeneration in all parts of the city-region;
- devolution of power and collaborative working across neighbouring authorities has provided higher levels of investment in public infrastructure, such as the High Speed Rail, TER and city rapid transit systems;
- the ability of the municipalities to share revenues (through Lille Metropole) and their agreement on priorities for regeneration throughout the city-region; It can buy land and raise funds for capital investment;
- regional relationships between civic leaders and business need to be strong to deliver outcomes, with greater local funding powers coming with greater local accountability;
- the development of strategies for the growth of the city region that link investment in transport infrastructure with new development and business growth in a polycentric model;
- the existence of a strategic regional transport plan responsible for the delivery of the metro, trams and buses which also serve the international and local railway stations. The huge investment required is funded mainly through a payroll tax on employers, Versement Transport; and

- SNCF's monopoly could be one area where the French system is at a disadvantage: in negotiating the TER contracts, the regions have to enter into a contractual relationship with the state-run incumbent operator.

C.2 Cologne

Background

Cologne, with a population of 1 million, is at the centre of a larger polycentric city region, with around 4.5 million people including the cities of Cologne, Aachen, Bonn, Monheim and Leverkusen and a number of smaller districts.

Cologne is the largest city within the Federal State (Länder) of North Rhine-Westphalia (NRW) the most populous state in Germany which includes the cities of Dusseldorf, Dortmund and Mönchengladbach. In NRW more than 2.4 billion passengers a year travel nearly 21 billion Km on buses and trains. Cologne provides a fine example of a comprehensive and integrated public transport system, operated for the region through a combination of centralised and local control, investing over Euro 180 million annually in public transport.

In 1987 the Verkehrsbund Rein Sieg (VRS) GmbH was founded, as a joint company of a number of Municipal Transport Companies and the Deutsche Bahn (DB) German Railways (AG). The Municipal Transport Companies include nine rural and urban districts in the Cologne/ Bonn region in the southwest of NRW. Since its foundation the VRS has offered uniform tickets, uniform tariffs and a coordinated timetable for public transport.

The Regionalisation Law, part of the Railroad Regionalisation Act, came into force in 1996. This railway reform implemented in three main principles:

- conversion of German Federal Railways into a new, private-organisation Deutsche Bahn AG;
- creation of non-discriminatory access for private railway companies to the railway network; and
- transfer of responsibility, including financial, for rail transportation to the Länder.

Under Germany's federal structure, the federal government (Bund) owns and funds Deutsche Bahn (DB) group which includes the national infrastructure manager DB Netz and provides international and long-distance services. Other federal bodies include the Bundesnetzagentur, the independent regulator of access and capacity, and the Eisenbahnbundesamt, responsible for technical standards and accident investigation.

The Länder are responsible for local transport, including rail, for which they are broadly free to set their own policies and fares, which are generally highly-integrated across modes and developed jointly with the operators. They also own some local lines which are not part of the DB Netz network. The Federal Government does not mandate particular public transport policies, but neither does it provide template arrangements, and the Länder must therefore devise their own administrative, planning, procurement and contracting models.

In January 2008, the Law on Public Transport in North Rhine-Westphalia changed allowing VRS to cooperate with the neighbouring Aachen Transport Association (GCU) to establish the Transport Rheinland association (ZV NVR). In addition to the Network Rhine-Ruhr (VRR) and the Zweckverband transport Westfalen-Lippe (NWL), it is one of the three new syndicates in North Rhine-Westphalia and replaced previous nine transport areas of cooperation.

The main reasons for reducing the number of cooperation areas were as follows;

- larger areas of cooperation have greater advantages due to greater buying power when negotiating with the providers of regional rail services;
- strengthen local responsibility, while reducing the amount necessary to fund delivery;

- increasing the size of the municipal regional area allows for the amalgamation of many national transport and economic priorities;
- large transport networks offer special conditions to develop greater competencies, skills and resources. Large transport networks also tend to be more efficient because of parallel structures and the pooling of resources can create synergies;
- delegation of responsibilities to regional associations of municipalities and not to state authorities. Granting municipalities more freedom of use of available state funding; and
- with reduced funds for regional rail transport, the greater mass of the areas made it easier to obtain acceptable financial and funding solutions.

Overall Assessment

The merger described above brought infrastructure planning and operational planning together and allows for the funding of major projects, such as the north-south light train in Cologne, to be better managed. The district administrators reported that the merging of the associations strengthens their position when involved in the procurement of local transport services.

The 3 syndicates in NRW have also been equipped with means for ordering the regional rail services. The Procurement Regulation, VgV provides the following procedure for appointment of regional rail services:

- **award as part of a Europe-wide tender:** The allocation of regional rail services is increasingly applied in the context of pan-European tender process. The objective of the carrier task here is to exploit potential cost advantages of tender competition-profits in full for the improvement of the regional rail;
- **direct award of networks:** With the launch of the regionalization in 1 January 1996, Deutsche Bahn the German Railways was the sole regional rail transport provider in Germany. DB have completed the syndicates transport procurement contracts for a transitional phase. This form of contracting is still allowed, but with the proviso that after the expiry of a substantial part of the contract service it will be awarded in a competitive market competition. In addition, the duration of these contracts will amount to no more than 12 years; and
- **direct awards of individual lines:** On the part of syndicates is also possible to assign individual tracks with a contract period of up to 3 years. These tools enable a freehand contractual arrangement of deliverables and quality of transport services in cases where for example, a sub-network system is needed for individual routes.

Within this context, the aim of the new ZV NVR transport policy is to improve public transport through inclusive ownership and partnership. There is interaction between politicians, transport providers and the users, ensuring that there is co-ordination in the development of integrated transport with the local economy, job opportunities and local services to ensure an interconnected society. The ZV NVR is responsible for the following for all public transport modes (light rail, buses and trams and also rail services run by DB AG) in the region:

- integrated ticketing and tariffs;
- developing a co-ordinated timetable;
- marketing and market research;
- communication (including advertising, sales promotion and public relations activities);
- distribution of revenue to transport providers raised through integrated tickets;
- tenders for regional transport services;

- co-ordination of regional and local transport offices (including settling of concerns of members of the group; and
- SPNV (regional rail transport) management.

Rail Investment

Much of the support funding for DB services comes from the Federal Government. The Lander and the cities also provide significant funds for investment and service development; most regional and local investments are co-funded. The projects and programmes are developed and evaluated through the city and regional transport strategies in close co-operation with DB AG. Devolution of rail services has led to an increase in resources. In the first year following implementation of the Regionalisation Act DM 8 billion were provided by the Federal Government, in 1997 this increased to around DM 12 billion and DM 134 billion in 2004.

Using these resources, ZV NVR contracts with DB for the provision of rail services. There are a total of 469 routes, spanning 649 route kilometres, which are managed in this way, which includes 18 DB AG regional lines, 4 DB AG urban rail lines and 23 urban railway and tram lines. Over 1,000 trains a day run over the VRS network and the smaller neighbouring Aachen Joint Authority (AV). This carries 66 million passengers each year.

Most lines are electrified. Some services are provided by older locomotive hauled stock, but DB-Regio is investing in large numbers of new electric multiple units for city and regional services across Germany, and these are replacing some of the Cologne services; some units are double deck, to offer more seating capacity. New diesel multiple units are also being introduced on the few non-electric lines.

Infrastructure and services are managed and developed by DBAG subsidiaries DB-Netz and DB-Stations-Services respectively.

Responsibility for local rail services in Germany is gradually being transferred to cities and districts. Duren in the VRS area was an early example. DB transferred two run-down local branches to the district authority which has since built up travel and service levels on them substantially, through integration with bus services and local activities. It also has integrated ticketing for the area and beyond through the framework set by VRS.

ZV NVR implemented a new simplified fare system which linked the fare systems between the different provinces allowing travel from every station in Germany. The changes to the tariff system included an integrated fare based on 'province level', plus transparent and simplified fares including a flat rate fare system within cities. Uniform tickets, tariffs and coordinated services on its rail and tram services has seen over one third of inhabitants travel by public transport more than once per week.

Key Lessons

Lessons from Cologne include the following:

- devolution of the planning, specification and funding of passenger rail services to support wider economic, social and environmental goals and deliver a range of local policy agendas;
- key cities in the wider regional area and the state have become better connected and work together in developing transport to interconnect with the regional/local developments;
- better management of funding opportunities for key major projects, such as the Cologne north-south light train;
- the merging of the transport associations strengthens their position when involved in the procurement of local/regional transport services. Covered by a range of procurement from Pan European tender context to regional networks and individual district lines;

- changes to the tariff system included an integrated fare based on 'province level', provided transparent and simplified fares including a flat rate fare system within cities; and
- uniform tickets, tariffs and coordinated services on its rail and tram services has seen over one third of inhabitants travel by public transport more than once per week.

C.3 Karlsruhe

Background

Karlsruhe is a city in the south west of Germany, in the federal state of Baden-Württemberg, located near the French-German border. As a regional area it serves 120 communities with a total population of 1.3 million people. The region covers an area of 2,700 square kilometres. Although suffering recession from the loss of its manufacturing base in the 1980's Karlsruhe is now one of the most successful technology cities in Germany and Europe.

Karlsruhe is well-connected via rail, with Inter-City Express connections to Frankfurt, Stuttgart/Munich and Freiburg/Basel. Since June 2007 it has been connected to the French TGV network, reducing travel time to Paris to only three hours (compared to 5 hours previously).

Since the early 20th century, Karlsruhe has gradually developed its tram network, of which 80% now runs on a dedicated track. Karlsruhe was the first city in Europe to investigate the possibility of track sharing for light and heavy rail vehicles. The enormous success of the implementation of this idea has turned the city into a "model case" for similar developments worldwide.

Karlsruhe's rail system, the "Stadtbahn Karlsruhe", is well known around the world for pioneering the concept of operating trams on train tracks (tram-trains); where trams start outside the main interchange station and run through the city streets on to national rail tracks to achieve a more effective and attractive public transport system.

Prior to the 1990s, there had been a strong feeling that Karlsruhe had not been making the most of its capacity and infrastructure and the heavy rail station was not well integrated with the main city centre. Its main railway station was (and still is) about 2km from the central business / retail district and although there were good tram services linking the two many passengers still found having to change modes to be somewhat inconvenient. What was needed was to find an affordable way of diverting the local rail services to serve the heart of the city. The city took the view that it would not be desirable to run mainline trains through the city streets & the pedestrian zone but as - in common with many German cities - Karlsruhe retained a thriving tram system it was decided to use this as a basis for further development.

Before September 1992, track sharing of light rail and heavy rail occurred on the Hardtbahn line, Line A (now S1/S11). However, at this point rail vehicles ran on the world's first dual-mode tram-train line (then Line B and now the S4/S41), between Karlsruhe city centre and the town of Bretten. The superior performance of the light rail vehicles allowed extra stops to be added, expanding the catchment of the network without slowing down journeys.

Building on the success of the initial tram-train line, officials were encouraged to extend the tram-train network, financially supported by the 1996 enacted Regionalisierungsgesetz (the German light rail transport financing body).

Overall Assessment

The conversion of the heavy rail line to a tram-train line from Karlsruhe to Bretten in 1992 caused an increase in ridership of 400%. Currently the passenger increase has risen to six fold of the original numbers, influenced by the transfer-free connection of Bretten to Karlsruhe's centre. Passengers using the new route have saved 15 minutes of travel time. New transit stops in Bretten have improved the availability of public transport to housing areas, schools, and companies within the area. Further extensions of the network now makes it possible to reach

other towns and cities in the region, like Ettlingen, Wörth am Rhein, Pforzheim, Bad Wildbad, Bretten, Bruchsal, Heilbronn, Baden-Baden and even Freudenstadt in the Black Forest.

The punctuality and comfort of the tram-train system increased the use of public transport dramatically. The development of the network was done “one step at a time” and is still being continually developed. Karlsruhe champions stress that this type of network step change was only brought about through strong political backing and with the co-operation of the regional and city politicians and administration, as well as the local and regional public transport and rail companies

Development of the tram-train system have been by changes to transport governance. The co-operative Karlsruhe Transportation Association (Verkehrsverbund/KVV) was founded in 1994 by five public transport companies which operate different networks. The Verkehrsbetriebe Karlsruhe and Albtal-Verkehrs-Gesellschaft (VBK/AVG) are the main operators. The KVV provides for integrated transport and ticketing usage across the city, regional and cross regional network and covers a network of some 3,550 kilometers²

The KVV is a local association in the form of a limited company (GmbH) its shareholders are the urban and rural districts in the region of Karlsruhe. The Supervisory Board is chaired by the Mayor of Karlsruhe and consists of 28 members representing the City of Karlsruhe, Karlsruhe Region, Rastatt Region, the City of Baden Baden, Gemersheim Region, the town of Landau and the Southern Wine Route Region. In addition to the equity holders of the KVV, the Federal States of Baden-Wuerttemberg and Rhineland-Palatinate each have a seat on the board.

The Supervisory Board supervises the management, decides the economic plan and is responsible for all major decisions of the company; for example, tariff & ticketing offers, fare changes, the planning of transport services and cooperation agreements with the transport network operators and the neighbouring areas.

Rail Investment

Today, the tram-train network consists of nearly 829 km of track. The AVG owns more than 260 km of the network track, and the Deutsche Bahn (DB) owns the remainder. Some of the track is leased. Not all of the lines are contained completely within the jurisdiction of the KVV. The line which connects Karlsruhe's city centre to Heilbronn's city centre is particularly interesting because the trains operate as trams in both cities, and as heavy rail on DB infrastructure between the two centres.

The 100th dual-mode tram-train vehicle was put into operation on February 5, 2004. In 2004, a total of 16 new tram-train vehicles were introduced into the system. Each new tram-train contains toilets and other such facilities as required by long-distance trains.

In 2009 The AVG and the VBK have between them ordered 30 dual-system FLEXITY Swift tram-trains at a cost of about € 129 million. The vehicles are expected to be delivered between August 2011 and September 2013. An option for up to another 45 vehicles has also been agreed. The investment was majority financed by KVV shareholders.

Around 2km of track including several junctions through Karlsruhe city centre run east-west along Kaiserstrasse, the main shopping street. Largely pedestrianised, the section carries an intensive service of tram-trains and trams due to the convergence of many routes. This has effectively become a limiting factor on further system enlargements.

Under the 'City 2015' banner, KVV subsidiary Karlsruher Schieneninfrastruktur-Gesellschaft mbH (KASIG, constituted May 2003) is promoting the construction of a tunnel with a southern branch from Marktplatz to Augartenstrasse to carry much of the tram-train traffic through the largely pedestrianised city centre. . Estimated to cost € 500 million, this major infrastructure project, which also contains some new road tunnels, would return the centre more to pedestrians and significantly increase rail capacity. Although a development that has encountered resistance, KASIG plans for construction to begin by 2010 for a 2015 completion.

Building a tram train network by using existing heavy rail tracks keeps capital costs down. The operating costs of a tram train scheme are slightly higher than a tram scheme but much cheaper than a heavy rail operation.

Key Lessons

Key lessons and factors for success that can be learnt from the Karlsruhe case are:

- a willingness to bring passenger rail right into the city centre to improve the seamless connectivity to the central city infrastructure;
- developing and using initial rail infrastructure to keep costs down and taking a step by step approach;
- a supervisory transport board responsible for all key decisions and effective management;
- local and regional public transport companies “under one umbrella”; The co-ordination of the local public transport authorities and operators and the regional tram-train operator (KVV ,VBK and AVG) providing synergies which support an economic and efficient operation of Karlsruhe's light rail network; and
- a consistent tariff system that allows for integrated ticketing usage across the region; Tickets can also be purchased for two years in advance and by use of one's mobile phone.

C.4 Copenhagen

Background

The population of Denmark is 5.4 million people of which 85% live in cities. Almost 1.7 million people live in the capital, Copenhagen, and the Greater Copenhagen metropolitan area. Around 60% of national rail passenger journeys, contributing around 20% of passenger-km, are on services provided within the Greater Copenhagen area. Copenhagen lies on Sjælland (Zealand), which originally had only ferry connections to Fyn in the west and Sweden in the east. In 1997 the national network was unified by the Storebælt link to Fyn, allowing through rail services to Århus, Jutland and onwards to Germany, and since 2000 the Øresund link through Kastrup airport has connected Copenhagen to Malmö in Sweden.

At national level, responsibility for the administration of the bulk of the state rail network is today divided between the Ministry of Transport and Banedanmark. The latter, created in 1999, is responsible for the operation and maintenance of the tracks, while the Ministry is the planning and safety authority. Rail operations – consisting of passenger trains and ownership of all terminals – including a negotiated contract with the state about passenger transport operation, is handled by the Danish State Railways (DSB), which is an independent public company. DSB is obliged to make stations available to all interested operators against a fee, with all costs of operation, maintenance and regular renewal of the state network managed through the Appropriation Act.

Remaining parts of the network is owned and operated by a number of Danish regional transport companies. These companies now comprise around 18% of the network, transferred in 2000 to trusts owned by a mixture of local authorities and private stakeholders such as ports. The largest, Hovedstadens Lokalbåner acts as the infrastructure manager of tracks in the Copenhagen area which carry the local services of DSB S-Tog and Lokalbånen. In 2003 Trafikstyrelsen was established as a national regulatory authority which has responsibility for most, but not all, railway-specific regulation.

DSB remains a state-owned company. However, in 2003 services in Jutland were put out to tender by Trafikstyrelsen and are now operated by Arriva Tog. Over time the entire network may be franchised. Contracts include detailed performance regimes, and are let on a net cost basis under which the operator bears revenue risk, despite the fact that local authorities specify fares levels for travel within their boundaries. However the proposed franchise to operate services from

Helsingør, Copenhagen, Kastrup across the Øresund link to Sweden is let on the gross cost basis normally used by the Swedish PTAs (See below).

Public transport, including local and regional rail, is coordinated across the Copenhagen conurbation. The Hovedstadsområdet Trafikselskab (HT – Greater Copenhagen Transport Authority), in the hands of the Greater Copenhagen Development Corporation (or HUR) existed between 2000 and 2007 with duties to handle regional planning and related regional tasks, contribute to overall traffic planning, and co-ordinate, develop and conduct public transport. As part of wider regional reforms in 2007, HT was merged with two neighbouring transport authorities to create a new body called Transport “Movia” which covers two Danish regions; the Capital Region and Zealand region of East Denmark.

Movia’s board of politicians consists of 9 members, where 7 members represent the municipalities of the Greater Copenhagen area and 2 members represents the Regions. In 2007 Movia’s total revenue was DKK 3.3 million and the total operation cost was DKK 3.2 million DKK. The operations of the authority are supported by a combination of farebox, local and regional funding and support from Central Government.

Overall Assessment

Some 8.1 million people travel on Movia trains annually across a network comprising 9 lines, 339 Km and over 110 stations. Whilst Movia is directly responsible for local trains, all regional and national trains are the responsibility of the national railway operator DSB. Suburban services on the main part of the rail system in the Movia area are provided by DSB tog, a subsidiary of DSB. Provision is under the terms of a five year agreement between DSB tog and the Ministry of Transport, which sets service levels, punctuality and other conditions.

Four lines to the north of Copenhagen are now operated by train operator Lokalbanen, a previous subsidiary of HUR established in 2001 following HUR's acquisition of the share of the railway lines previously owned by the Danish state. The lines are fully integrated with the Movia transport system. Movia does not own any trains itself, but pays subcontractors such as Lokalbanen to run them under Movia’s coordination.

Rail Investment

Movia manages and coordinates the local rail services, and also manages a common fare system for all modes of public transport. This includes a range of tickets which enables any journey to be made by several modes. Movia puts great store in representing its constituent local and regional authorities and providing closer integration between the various local and national rail networks for the benefit of the customer and wider economic growth of the conurbation.

The original local and regional trains operating in and around Copenhagen, dating from the 1960s and 1970s, were completely replaced in 2004 by a new fleet of high powered articulated units, intended to bring much enhanced performance and quality of travel. Movia and Lokalbanen have been working together to purchase further rolling stock and renovate a number of stations.

Before Movia was formed there were three different integrated fare systems in the region. Movia has kept the integrated fare system and made small changes to the inter-region fare rules to simplify the fare system. The region covered by Movia now has an integrated fare system in collaboration with the Copenhagen Metro and DSB, so that the same tickets are valid on all buses and trains. A new ticketing system has been introduced in a phased approach from 2009 which will replace most paper tickets with contactless smartcards, as well as allowing customers to purchase tickets by text message.

Key Lessons

The lessons from Copenhagen and wider Danish experience include:

- the gradual opening up of a former national rail infrastructure and service operators to vertical separation, the partial franchising of passenger services and the devolution of some urban networks to local and regional decision making;
- the continued mix of service provision by national and local operators within an integrated public transport system;
- the merger of previously separate planning and delivery bodies to extend geographical coverage, improve coordination of services and provide capacity and skills to deliver;
- recognition of the social importance of public transport and the need for deficit funding to be met by local and regional authorities;
- co-ordination between authorities in purchase of rolling stock and renovation of stations; and
- the importance of an integrated fare system, so that the same tickets are valid on all buses and trains across the urban area.

C.5 Sweden

Sweden was a pioneer of railway liberalisation. In 1988, ownership and management of the railway infrastructure was transferred to a new organisation, Banverket, and access was opened to all operators on payment of an annual and a distance-based access charge, analogous to that applied to the road network and calculated on the basis of marginal cost.

Banverket is responsible for infrastructure operations, maintenance and renewal and for the planning and implementation of expansion investment. The legislation also created Public Transport Authorities (PTAs) in each of Sweden's counties and transferred to them the former national rail rolling stock used for local services, on which they also control and set fares.

PTAs are free to operate these services themselves or to procure them from SJ or other operators. The infrastructure, however, continues to be managed by Banverket, except in Stockholm, where a number of local railways were transferred to the control of Storstockholms Lokaltrafik (SL), the PTA for Stockholm county. These self-contained urban/suburban railways have obtained exemptions from various European laws including the requirement to allow "open access". This exemption also extends to the infrastructure owned by the Arlanda Express concession which, since 1999, has provided "point-to-point" 200 kph (125 mph) services between Stockholm and Arlanda airport. SL and several other PTAs have established a company, Transitio, to procure rolling stock, for which grants are available, which can then be made available to franchise operators.

In 2001, national rail operator SJ was restructured into a series of supply companies, selling services to all railway operators, and an operator "new SJ" which was granted a monopoly in inter-regional services crossing county boundaries. SJ faces no fares regulation and is free to withdraw from unprofitable services. Any replacement services required are procured by Rikstrafiken, the national procurement authority, by competitive tender. Sweden now has a number of private sector operators including Connex, Tågkompaniet and Arlanda Express. In 2004 Sweden established Järnvägstyrelsen, which is responsible for the regulation of access, including appeal against Banverket's decisions, and safety.

Banverket and SJ remain wholly-owned by the Swedish government and report to Näringsdepartementet, the Ministry of Industry, Employment and Communications. There is an intention to allow "open access" competition to SJ on inter-regional services, but SJ has faced financial difficulties and it is not yet clear how this would work. One suggestion is that SJ might instead eventually be subdivided into 3 or 4 regional franchises procured by Rikstrafiken.



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