JONATHAN BRAY

We need a fairer way to allocate costs

The railway's cost allocation system is dumping costs on the sector least able to afford them, Regional Rail. It must be changed

And so it came to pass that the Office of Rail Regulation issued the subsidy figures for the different parts of the railway which were engraved on tablets of stone. And a hush descended as the great multitude of executives, lawyers, consultants, officials and economists, and others of the vast and well renumerated tribes of the privatised railway, gazed upon them. Verily those regional railways look expensive they thought. Useful stats if we need to give them a good kicking later on.

I adopt an ersatz biblical tone because the way in which the subsidy figures for different parts of the railway are presented is often done as if they were written on tablets of stone. Absolute truths handed down by a greater intelligence. However, as PTEG's recent report, *A heavy load to bear? Towards a fairer allocation of rail industry costs for regional railways*, shows, the reality is that they are constructs based on choices on how costs are allocated to sectors. Choices which are often political. Choices which in the Beeching era were made to justify a frenzied application of the axe. Choices which in more modern times, during rail privatisation, were made to create a 'profitable' intercity network and a 'how much do they cost!?' regional rail network.

Once you summon up the courage and mental fortitude to cross the threshold of the intimidating edifice of the railway's cost allocation system and into the cloistered world of railway economics that lies beyond it, the bias against regional railway which was built into the privatised system from the outset, becomes startlingly apparent. Firstly, and obvious to the naked eye, is that by and large, cross subsidy within the passenger rail network was dismantled so that the regional railways that feed the intercity networks were separated out. However, delving deeper this is compounded by a disproportionate and entirely unfair allocation to regional rail of both the overall costs of the railway, and of other rail sectors' costs.

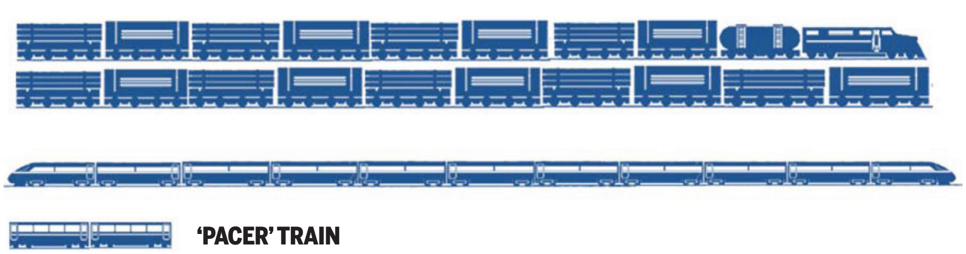
This dumping of costs on the sector least able to afford them took place in a number of ways. Here are two of the most pernicious ways in which it was done. Intercity trains are estimated to produce 20 times the track damage of a Pacer - yet they are allocated equal shares of maintenance and renewal costs. Secondly, regional rail received only 18% of new investment by Network Rail but regional rail contributed 30% of fixed track access charges and was allocated 32% of the financing costs. In other words regional rail is paying for track impacts and damages it didn't cause, and paying for investment in the railways that it doesn't benefit from.

And then there's freight. I am all in favour of getting freight off the roads. I have no problem with rail freight not paying the full costs of its impact on rail infrastructure in order to achieve this end. I think the rail freight lobby has been determined and effective in fighting freight's corner. A far better job than the regional rail lobby has done (though that in itself is not difficult as there isn't one). Rail freight's hard won status as a marginal user of the network is also another example of how cost allocation is less of a saintly practice of pure and spotless economic rationality than the consequence of politics and hard bargaining. I don't have a problem with that either. But better to be honest about it.

If rail freight is marginal user then there's a strong, though slightly different, argument for regional rail to be marginal user too. Regional rail takes traffic off the roads (benefitting remaining road users); gives commuters access to city centre jobs and opens up rural areas poorly served by road for inbound tourism and outbound access to opportunity. All of which benefit a host of wider government objectives for growth, jobs and the environment. At the same time regional rail generally causes less damage to the

INFRASTRUCTURE DAMAGE

Based on Network Rail data, PTEG estimates that a diesel intercity train produces around 20 times the amount of track damage as the 'Pacer' trains, which predominate across much of the regional rail network. A freight train carrying coal or construction materials produces 40 to 60 times the amount of track damage as a 'Pacer'.



“These flawed subsidy figures are hanging over the refranchising of the North’s railways”

infrastructure than other sectors, generates the least income, and requires the least fancy engineering. If it were to vanish tomorrow the majority of the bills of the railway would still need paying. Why on earth therefore should cash-strapped regional rail be the one that always gets its and other people’s rounds in at the bar? And worse ending up with the equivalent of a pint of dodgy mild whilst paying for others’ premium lagers and cocktails.

What happened to regional rail’s costs at the point of privatisation shows just how extreme the effect of this change in the way costs were allocated was - and what a construct are those cost per passenger kilometre, and subsidy figures by train operator or sector. Before privatisation the costs allocated to West Yorkshire’s rail network was £14m; the minute after the new privatised cost allocation system came in (with the same trains and the same network) the costs increased to £43m. For Centro the costs increased overnight from £33m to £62m.

All clever stuff then. All confirming London government’s prejudices about the value of any service that doesn’t stop or start in London. All neatly positioning regional rail on the scaffold’s trapdoor whilst at the same time showing that rail privatisation created seemingly real intercity businesses that made real profits. All of this matters right now because these flawed subsidy figures are hanging over the refranchising of the North’s railways. Right now the narrative feels like the future’s bright, the future’s rail. But really, just look at how much those regional railways cost and draw your own conclusions. We will do what we can for you but those figures speak for themselves.

But what would the figures look like under a fairer, more defensible and more rational system for allocating the railways costs? If costs were allocated more in proportion to estimates of track wear and tear by different sectors? If overheads were allocated to prime users? If the track access charge payments that relate to infrastructure investment better reflected where that infrastructure investment was made?

Our report estimated that if that were the case then government support for regional networks would be more than a third lower than ORR currently states it is. Subsidy per passenger kilometre figures also change significantly. ORR’s figures of 22p per passenger kilometre for regional rail and 4p for intercity becomes 17p for regional rail and 12p for intercity. What PTEG’s figures show is that regional rail networks go from receiving more than half of all government funding to a share of just over a quarter. Regional rail passengers still receive the highest level of subsidy per passenger-km but it now becomes clear that this is driven by operating subsidy rather than infrastructure spending. Real subsidy levels are also shown to be much closer between intercity, London South East and Regional networks than previously thought.

The low level of infrastructure spending in regional networks also goes a long way towards explaining the high level of operating subsidy. Investment and the quality of infrastructure clearly play a key part in the ability of regional rail to attract passengers and thus generate additional revenue. Investment (or lack of it) is also a determining factor of train operating costs. For example, increasing train speeds can reduce costs, attract passengers while making future frequency enhancements cheaper to deliver. In that sense, it is not surprising that decades of under-investment in regional rail infrastructure will lead to a widening gap in terms of subsidy requirements relative to other parts of the network.

It would take a relatively small increase in demand and yield (or, conversely, a fall in unit operating costs) to bring regional rail subsidy in line with subsidy on the rest of the network. This shouldn’t be hard to achieve given the relatively low mode share of rail in the regional market and the rampant growth observed following service improvements.

Overall the case for investing to save (rather than hand-wringing and penny pinching) on regional rail looks far stronger. More realistic numbers about where costs fall also tie in with the realities on the ground about regional rail which is that regional rail fits so well these days with how the North’s economy is developing. More people commuting longer distances to access high value jobs in city centres that can’t cope with much more road traffic; people taking to the train to avoid the hassle of driving and parking in the North’s many wondrous national parks and revitalised urban centres; and town and city economies that are starting to fuse and synergise. That’s why regional rail patronage has been soaring - even on routes where Whitehall lumbers it with Britain’s worst and oldest trains running at collective punishment frequencies.

A cost allocation system that is still playing out trace memories of Dr Beeching’s creative accounting as part of a dusty Whitehall long game over regional rail now looks as out of touch with what’s good for regional economies as communicating with tablets of stone. ■

ABOUT THE AUTHOR

Jonathan Bray is director of the PTEG Support Unit. Before joining PTEG in 2003, his background was a mix of transport policy and transport campaigning.

GOVERNMENT FUNDING ESTIMATES BY MARKET SEGMENT (2012/13)

Source: ‘A heavy load to bear? Towards a fairer allocation of rail industry costs for regional rail’, PTEG

ORR ESTIMATES	INTERCITY	LSE	REGIONAL
Infrastructure subsidy (pence/passenger-km)	-6p	-6p	-12p
TOC operating subsidy (pence/passenger-km)	2p	2p	-10p
Total government support (pence/passenger-km)	-4p	-4p	-22p
Total government support	**£0.9bn**	**£0.8bn**	**£2.3bn**

PTEG ESTIMATES	INTERCITY	LSE	REGIONAL
Infrastructure subsidy (pence/passenger-km)	-14p	-10p	-7p
TOC operating subsidy (pence/passenger-km)	2p	2p	-10p
Total government support (pence/passenger-km)*	-12p	-8p	-17p
Total government support*	**£2.8bn**	**£1.8bn**	**£1.8bn**

* including Network Rail borrowing