INTERIM REVIEW OF TRACK ACCESS CHARGES

RESPONSE ON BEHALF OF PTEG (PASSENGER TRANSPORT EXECUTIVES GROUP)

1) The following comments give the views of PTEG on the issues raised in the Third Consultation Document that are most relevant to PTEs.

2) An overarching conclusion to be drawn from much of the work in the interim review is that much of the cost inflation and issues about asset standards arise from the inability of the rail industry to effectively manage the fragmentation that has occurred since privatisation. The many contractual and other interfaces has diverted the industry's attention away from a common sense approach to delivering rail services, to one that is focussed on the narrow issues affecting each company. Too often has the contractual and regulatory framework had to be changed in order to place obligations on parties which would not be necessary if all the parties were working to a common agenda.

3) Systems and procedures have had to be set up to cover safety and other requirements that are only needed because of the fragmentation. This has created a vast bureaucracy which adds significant costs into the industry. Management effort has had to be focused on managing the interfaces, relationships and bureaucracy, rather than into directly delivering outputs.

4) While the current level of fragmentation exists it is hard to see the rail industry effectively delivering the outputs that funders, customers and the country as a whole would like to see. The experiment by Network Rail to bring back certain maintenance and renewal work in-house is a welcome first step in identifying the benefits of reversing some of the fragmentation.

5) PTEG also endorses the views set out by SPTE in its response on the postponement of the next periodic review.

Consultees are invited to comment on the form of the interim review provision which the Rail Regulator proposes to include in Schedule 7 of franchised passenger operators Track Access Agreement (para 3.37).

6) PTEG would support the flexibility being assumed in Sections 3.2 to 3.10 and 3.23. However, unless there is an explicit provision for the SRA to meet any Section 18.1 adjustments that arise during the course of the franchise, the Regulator's proposal could expose PTEs to additional financial risk if the SRA failed to meet its grant commitments to Network Rail.

The Regulator invites the views of consultees on these issues and in particular wishes to know whether consultees agree with his general approach and emerging thinking on future track renewals. He would particularly welcome any views or observations on the potential for, and consequences of, a reduction in the level of proposed track renewals.

7) PTEG notes the analysis by ORR and its consultants and on the basis of that work can support the emerging thinking on track renewals. It would want to see better justification for investment. However, this does not necessarily mean that less should be spent on track renewals. Only that at present Network Rail are not adequately justifying what they are doing.

Consultees are asked to comment on the Regulator's emerging conclusions in relation to reductions in maintenance and renewal activity levels (5.116).

8) The view that the activity levels outlined in Network Rail's business plan need to be reduced seems inevitable given the costs associated with carrying out the work. Given the amount of public funding that will be going into Network Rail there is a clear need to ensure that the funding is being spent as effectively as possible and that the work being carried out is prioritised in a sensible manner. The prioritisation process will clearly be critical and needs to be based on both asset condition and funders' priorities for what the network should be delivering. Separately, the SRA has consulted on its draft Network Output Specification. A copy of the PTEG response is attached for information.

9) As funders, the PTEs would be concerned if the network was being maintained to an inappropriate standard, which meant that there was therefore insufficient funding available to enhance and develop the network. In our main centres such as Manchester, Birmingham and Sheffield there is a critical need to add additional capacity to cope with growth and to ensure that the rail network is able to fulfil its potential to deliver modal shift. Clearly, as a base, the current network needs to operate safely and reliably but there is little point unnecessarily increasing current asset standards if this is at the expense of the network being unable to cope with the expected traffic growth.

Consultees are invited to comment on the assumptions that the Regulator intends to make about the aggregate savings that Network Rail can make by addressing existing cost inefficiencies (6.45).

Consultees are invited to comment on the views put forward by the Regulator with respect to the timescales over which he can assume Network Rail will make efficiencies (8.23).

10) Addressing cost inefficiencies is a critical element of the Interim Review process. PTEG cannot comment on the analysis work which implies that a 30% cost saving is appropriate, other than to say that the anecdotal evidence of wastage and inefficiency of which we are aware would indicate that this seems to be of the right order.

11) A key issue will be the ability of Network Rail to deliver this magnitude of saving in practice. It is not clear what the pressures driving Network Rail to deliver these savings are, and it would be a serious concern if rail services had to be scaled down if the savings are not achieved.

12) If these savings are achievable then a five year timescale would seem appropriate. There remains a concern that if the delivery of the savings depends on reducing the bureaucracy and interfaces that exist, then any quick implementation could be difficult given the lengthy procedures that exist to change processes.

The Regulator would be grateful for views, and evidence, from consultees on:-

i) the extent to which changes in standards and their application have driven increased costs;

ii) the extent to which this has led to improvements in safety; and

iii) the appropriateness of the approach set out for addressing these issues.

13) The changes in standards and their application has driven significant increases in costs and has also delivered a deterioration in service for passengers. Examples of these known to PTEG include:-

a) Permissive working: changed signalling principles have prevented permissive working at a variety of locations which has resulted in a noticeable deterioration in performance and a loss of capacity. At stations such as Birmingham Snow Hill, the inability to run two trains into the same platform is a serious operational restriction and prevents coupling movements from occurring. This has added cost to Central Trains' operations and has given passengers a worse service. In order to replace the lost capacity it will be necessary to open a new platform at significant cost.

b) Short platforms: the rigid restriction on over-length trains calling at short platform creates serious restrictions on operational flexibility and peak-time overcrowding for passengers. Even trains fitted with selective door opening are not allowed to call at such stations. The effect of this will be more overcrowding on services, significant expenditure to rebuild stations (which are often low use stations), or service levels to these stations having to be reduced.

14) It is considered that the detrimental effects on passengers of (a) and (b) above will have been contributing factors to passengers leaving the network and travelling on the less-safe road network. As such any perceived safety benefits for the rail network would almost definitely have been cancelled out by the loss of passengers.

15) The Regulator's proposed approach to appoint consultants to look further at safety issues is supported.

The Regulator would welcome views on the process he is adopting in order to determine challenging and deliverable performance projections (12.16).

The Regulator seeks consultees' views on whether they agree that the societal rate should be removed entirely from the Schedule 8 performance regime (12.28).

Consultees are asked to consider the impact on incentives to improve performance, the incentive effects on different types of operator, the impact on Network Rail's and the SRA's financial risk exposure and the need to retain a consistent approach with the performance regime in the franchise agreements.

16) PTEG's main aim for a new incentive regime and performance targets is that they should be successful in supporting the delivery of improved performance across the industry. Having targets that are unrealistic or performance regimes that generate large amounts of payments that do little other than inflate costs are therefore counter-productive.

17) The proposed approach to review the performance targets within the Schedule 8 regimes seems appropriate.

18) PTEG has not seen any evidence that the existence of a significant societal element within Schedule 8 has made much impact on Network Rail's management and maintenance of its network. The many millions of pounds of penalties that have been flowing out of Network Rail do not seem to have had an appreciable impact on performance and now other ways of incentivising performance need to be considered.

19) There is a risk that, as the Marginal Revenue Effect within the Schedule 8 regime will be given greater importance with a reduced societal rate, PTE supported services may not be considered as highly as previously. Urban commuter rail services fulfil a vital role in metropolitan areas and investment and operational decisions need to adequately reflect this. However, it is recognised that there are significant benefits in stripping costs out of the performance regime and so other safeguards that prevent decisions being taken which favour high-income earning services ought to be considered.

20) The current Schedule 8 Regime operates in a back-to-back fashion with Schedule 7 of the Franchise Agreement. While there is sense in having a consistent basis for incentivising performance within Track Access Agreements and Franchise Agreements the new Template Franchise Agreement developed by the SRA completely abandons the current Schedule 7 regime. As an increasing number of franchises will therefore be let on a different basis to today, there is little point in trying to ensure consistency between the regimes and this should not be a relevant factor in ensuring a sensible Schedule 8 regime exists.

The Regulator would welcome consultees' views on the changes he proposes to make to Schedule 4 (12.42).

21) PTEG understands the increasing importance of a possessions regime that optimises the way in which possessions are planned and managed. As longer possessions appear to be a key issue in Network Rail's ability to deliver an improved maintenance strategy, it is critical that Schedule 4 sends the right signals about how passenger disruption should be minimised. For example, if longer weeknight possessions are required, these should ideally be planned on the days with lower demand, so that late trains on Fridays would always be protected.

22) Having a sensible possessions planning process with full dialogue with operators and sponsors is more important than the details of how the compensation is calculated. Nonetheless, the present compensation regime can increase significantly the cost of improvements.