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Consultation Response

## **Rail Decentralisation**

Devolving decision-making on passenger rail services in England

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## 1. Introduction

- 1.1. **pteg** represents the six Passenger Transport Executives (PTEs) in England which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). Bristol City Council, Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of **pteg**, though this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.
- 1.2. Since their inception, the PTEs have invested heavily in their local rail networks – funding new trains, routes stations, park and ride facilities, and higher service standards. Rail patronage has increased in every PTE area, up almost 160% since 1995/96.
- 1.3. The PTEs have high ambitions for city region rail networks in their areas. We believe that any reforms to the industry need to allow for the devolution of rail powers, responsibilities and funding necessary to unlock local rail's potential in our areas in a way that supports wider objectives for developing city region economies in a sustainable way.
- 1.4. However devolution will only work if there is sufficient funding and a fair and reasonable allocation of risks. Local transport authorities will not be interested in devolution if it becomes an attempt by national government to shift the blame for unpalatable decisions to the local level because of decisions that have been taken nationally on funding.
- 1.5. We welcome the fact that the DfT is open to the potential that devolution offers. However it's important to stress that: a) true devolution means going beyond the re-badging of the powers that PTEs currently or previously enjoyed (such as being co-signatory to rail franchises and having increment/decrement powers over existing rail services); and b) that to achieve devolution (with all its complexities on costs, risks and governance arrangements) will require the DfT to actively work (including devoting resources) with PTEs and local transport authorities to resolve these challenges. If the considerable opportunities that devolution has to offer are to be realised then achieving it needs to be a joint enterprise between national government and the PTEs and their local transport authority partners.

## 2. Experience of existing rail devolution arrangements

### **1. Consultees are invited to identify lessons which may be learned from existing rail devolution arrangements in Scotland, Wales, London and on Merseyside, and which are relevant to any proposals for future rail decentralisation covered in this document.**

- 2.1. We strongly believe that devolving responsibility on transport works. This can be plainly seen in the greater priority (and investment) that has been given to transport under devolution in both London and Scotland. This is because local politicians and decision makers place a high value on the role that transport plays in supporting local economies in a sustainable way and in providing communities with the modern and efficient transport that they want. On local rail we have seen the benefits of devolution clearly illustrated by both Merseyrail Electrics and by the London Overground. Services that were near the bottom of the passenger satisfaction league table under Whitehall control are now consistently at the top end of those same tables. Remote control from Whitehall has been replaced with local accountability –

making those services both more responsive to what passengers want and the needs of the local economies.

- 2.2. With a fair deal from Government on costs and risks we believe that further devolution of powers over local rail services would lead to significantly improved local rail services, greater accountability, more integration with wider local public transport networks and better value for money. Research we commissioned from Atkins<sup>i</sup> shows clearly that, based on experience from the UK (London, Scotland, Wales and Merseyside) and Europe, devolution delivers better outcomes for passengers:
- rail is given greater priority, with stronger incentives and influence on network and service operators to acknowledge local priorities, maximise performance and deliver a better 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 and branding
- 2.3. Moving toward a more devolved approach also has benefits for national government. By transferring responsibility (and therefore technical, financial and political risks) for local rail networks to bodies that are better placed to address these risks, Ministers would be better able to focus on the strategic development of the railways, whilst being assured that accountability for local services is maintained through local transport authorities. Of course, such a transfer of responsibilities and liabilities needs to occur with a full understanding of the risks involved by all sides.

### **3. How decentralisation could contribute towards achieving objectives and outcomes**

**2. Consultees are invited to submit views on how they consider that devolving responsibility could help achieve the objectives for the railway set out in paragraph 3.1.**

#### ***Cost reduction and enhanced value for money***

- 3.1. The consultation paper states that the regional franchises are the most heavily subsidised nationally, and urban commuter services can often be particularly heavily subsidised due to the high peak resource requirement (for both rolling stock and train crew) and significantly lower off-peak demand. There are also other issues around the allocation of costs which have served to increase the subsidy levels for local rail services (see below).
- 3.2. Tackling some of the wider cost and efficiency issues on the rail network will need to be considered carefully as part of any devolved arrangement. However a more flexible locally-specified franchise should find it easier to make trade-offs between fares, service levels and quality in order to balance outcomes for both passengers and taxpayers.
- 3.3. Devolution of responsibilities for local rail services also offers scope for achieving greater efficiencies as local transport authorities are much better placed (and incentivised) than

officials in Whitehall to find ways in which local rail services can meet local demands, which in turn may help generate improved value for money; help integrate rail services more widely into local transport networks; and make the railways more responsive to local demands of passengers.

3.4. There are three important caveats to add to these arguments:

- As noted above, there is unlikely to be much political appetite at a local level if devolution is solely about implementing cuts to rail services.
- Efficiencies and savings generated by local decision-making should be retained at a local level for investment in local rail services and, potentially, driving further improvement.
- For many local services, particularly in the north, there may well be a need to invest up-front in order to unlock efficiencies in the future. Operating services with older, unreliable and unattractive trains will neither reduce direct operating costs (such as maintenance) nor increase revenue (through attracting passengers to rail). The most obvious example of such investment being electrification, which has significant operational and performance benefits (as well as carbon benefits) over non-electrified services, but requires capital investment in infrastructure and rolling stock to realise.

3.5. With regard to cost allocation issues, regional rail networks do benefit from a significant degree of public funding, but so do intercity networks and rail services in the South East. What is important to understand is that the allocation of network costs (and hence the resulting level of subsidy) is a construct based on a series of assumptions and principles (some of which are implicitly political). As a result, it can be misleading to infer potential cost savings from current subsidy estimates. For example, some of the lightest passenger trains in the country share large sections of track with much heavier freight trains in the North of England. Yet, relatively light weight passenger trains are assumed to incur their entire infrastructure cost whereas heavy freight trains do not pay their full infrastructure costs (in order to make rail freight more competitive with road haulage). In effect, it's unlikely that much, if any, infrastructure cost would be saved if those passenger services no longer operated and meanwhile the costs of regional rail services appear higher than they would otherwise have been if freight paid its full infrastructure costs. In making this point we do not argue that freight should pay its full infrastructure costs but that this example illustrates that the subsidy figures are a construct.

3.6. A further illustration is that government subsidy estimates often leave out capital investment, therefore failing to recognise the full cost of London and inter-city services. Over the CP4 period, Network Rail's investment in new infrastructure was expected to total in excess of £8bn. Of this amount we estimate that less than 15% will directly benefit regional railways. In contrast, we estimate that regional operators contribute more than 30% of the total fixed track access charges received by Network Rail.

3.7. Whereas significant capacity enhancement of London's rail infrastructure would require major capital investment, this could be achieved much more cheaply through additional rolling stock and longer trains on rail networks in the city regions. However, whereas the former is considered investment, the latter is classed under operating subsidy.

3.8. If PTEs are to make a positive contribution towards a more financially sustainable railway then we need to have access to more transparent information on industry costs, demand and revenue at a fairly disaggregate spatial level. Most of this information is not currently

accessible to PTEs in a suitable format. We believe there is much that the DfT, ORR, NR and ATOC can do to improve the current situation

### ***Local democratic control***

- 3.9. We agree that local democratic control should be ensured through any devolution of local rail services, recognising that the railways are a complex network of services and are reliant on economies of scale for efficient delivery. That said, we strongly support the principle that it is for local area to determine the governance arrangements that best meet the demands of accountability across a wider geography.

### ***Benefits for passengers***

- 3.10. We believe that there is clear evidence that passengers benefit from devolution. In both Merseyside and London there was a demonstrable jump in passenger satisfaction from the point where devolution occurred. Primarily this appears to be the result of more locally focused attention on services and quality; responsiveness to passenger needs; and a more clearly integrated approach to marketing, branding and ticketing across the services.
- 3.11. Given that most local rail franchises will require significant on-going subsidy, it is likely that a commercially focused operator will focus primarily on developing the markets which generate most revenue at the expense of other services. With more local control, we believe that there is likely to be a better balance of attention across services.

### ***Supporting and stimulating economic growth***

- 3.12. Rail must play its full part in supporting the economic potential of Britain's major cities especially given that there is a broad consensus that the major regional cities will need to improve their economic performance if the wider overall performance of the UK economy is to be enhanced; and if the imbalance between London and the regions is to be addressed. Without modern and efficient commuter rail networks, and the wider connectivity that rail can provide, it is difficult to see how this could be achieved. Such an approach would also put in place the conditions to maximise the benefits of high speed rail, as part of the longer term strategy for the railway beyond 2020.
- 3.13. Research illustrates how public transport accessibility to the centre of our largest cities can make a critical contribution to higher productivity and wages, job creation and direct foreign investment. According to KPMG's<sup>ii</sup> analysis, rising overcrowding on the local rail networks radiating from Leeds and Manchester represents a growing constraint on economic growth and could be losing the national economy £250 million of GVA per annum. KPMG have also shown that the £530million Northern Hub scheme could generate as much as £1bn in improved productivity, employment growth and through structural changes to the local economic fabric across the North of England<sup>iii</sup>. Analysis by CEBR for Centro<sup>iv</sup> suggests that the £187m Camp Hill chords project in Birmingham would have the potential to generate over 2,500 new jobs.

### ***Contribution to carbon reduction***

- 3.14. Rail can be a key contributor to carbon reduction, both in terms of modal shift away from road - the growth in modal share into central Birmingham from 17% to 27% over the last decade has been accompanied by an equivalent reduction in road usage – and in terms of greening transport through electrification.

- 3.15. Moving more people on to rail and electrifying more routes will make increasingly significant contribution to cutting carbon in transport. However, investment will be required to improve the quality, frequency and reliability of local rail services and in broadening the electrification programme if these gains are to be substantial.

## **4. Views on activities that should be devolved**

### **3. Comments are invited on the list of responsibilities that should be retained by central government and those that might be devolved to sub-national bodies.**

- 4.1. We believe that the responsibilities identified in the consultation report reflect an appropriate split between those held at a national level (para 4.4) and those that might be devolved (para 4.5). Where devolution takes place, it makes sense that the extent to which the responsibilities identified in para 4.5 are taken up is determined on the basis of the nature of devolution in any particular area.

## **5. Views on types of service that should be devolved**

### **4. Which types of service are suitable for local control? Should longer-distance services be regarded as “strategic”, because they serve a variety of markets and economic purposes, and therefore be specified nationally?**

- 5.1. We support the principle that it is for local transport authorities to make the case for inclusion of rail services for devolution to reflect the pattern of services covered by an area.

### **5. In areas where responsibility for local passenger services is devolved, what are the implications for other users of the rail network, including freight customers and operators, and how might these implications be addressed?**

- 5.2. All of our city regions rail networks (other than the Merseyrail Electrics network) interact with longer-distance and freight operations. We recognise the important role in supporting the local and national economies that these operations have, and that there therefore needs to be an appropriate balance between the competing demands on capacity. We accept the need for there to be national specification for the inter-city and inter-regional services, but these need to be developed in conjunction with the devolved local body, and these national franchise operators need to commit to working closely with the devolved authorities.

## **6. Views on the five options**

### **6. Consultees are invited to comment on the models for decentralisation and how they might apply or be appropriate to particular parts of the country or service groups in a particular area.**

- 6.1. We note that the DfT has identified five potential models for decentralisation and we agree that these probably cover the range of possible options. We believe that there is unlikely to be any single model which is appropriate across the country, and each devolved proposition needs to be developed around its own local circumstances.
- 6.2. As noted above, we do believe that in order for devolution to work, there needs to be a shift away from the status quo to a position where the Department for Transport is working jointly with local transport authorities on local rail services.

## 7. Views on governance

### **7. Comments are invited on issues related to the size of the area that needs to be covered by a devolved body and the governance issues that this may give rise to.**

- 7.1. We recognise the importance of ensuring that a devolved franchise arrangement has the appropriate governance arrangements in place, and agree that these need to be developed according to the individual circumstances for each area.
- 7.2. The Department has a key role in assisting governance arrangements. In particular where there is a need to introduce legislative change. For example, one potential obstacle that has been identified for devolution in the north that will need to be addressed is the 25 mile limitation (set in statute in the 1968 Transport Act) on a PTE's freedom of action beyond its own boundary. Government's help in removing this impediment will be welcome.

## 8. Views on funding

### **8. Consultees are invited to comment on the basis on which the level of funding to be devolved might be established.**

- 8.1. Funding for devolution will be critical in making it work. Only with the right financial settlement in place will PTEs and other authorities be able to take on greater responsibilities and deliver their expectations. Devolution should not be seen as a means of reducing the funding for local rail services.
- 8.2. Therefore determining the appropriate funding arrangements would clearly be critical to the success of a locally-specified franchise. While the arrangements will inevitably be relatively complex, it should be remembered that PTEs have historically entered into similar funding arrangements with central government relating to franchises with co-signatory status.
- 8.3. We note the funding principles proposed in paragraph 5.8 and recognise that there would need to be significant discussions held to determine a funding settlement which met the needs of both the DfT and the devolved body.
- 8.4. Other funding issues which would need to be considered include:
  - Where key franchise risks lie – e.g. the DfT is currently offering some economic risk protection in its current franchise agreements – how would this work in a devolved franchise?
  - Network Rail charges – need to understand how changes in regulated charges would be handled in a funding agreement, but ensuring that incentives to reduce costs are maintained.
  - How would the funding agreement and franchise bid process interact?

## 9. Expressions of Interest

### **9. Expressions of interest are invited from sub-national bodies who would like to develop proposals to take on devolved responsibilities for rail services in anticipation of franchises being re-let. A summary of the planned re-franchising timetable is provided at Annex A.**

- 9.1. Expressions of interest are being submitted by Centro on behalf of the West Midlands; and Metro, SYPTTE and TfGM covering north of England services.

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<sup>i</sup> Atkins (2010) report for **pteg**: 'Enhancing the PTE Role on Rail in the City Regions'

<sup>ii</sup> KPMG (2010), Value for money in tackling overcrowding on northern city rail services. Report to the Northern PTEs

<sup>iii</sup> KPMG (2010), Rail Transport, Infrastructure and the Economy.

<sup>iv</sup> CEBR (2008), Regional Transport Priorities: Understanding the wider economic benefits of Centro's transport vision