GOVERNMENT REVIEW OF THE RAILWAY

RESPONSE PREPARED BY PTEG ON BEHALF OF GREATER MANCHESTER, MERSEYSIDE, SOUTH YORKSHIRE, STRATHCLYDE, TYNE AND WEAR, WEST MIDLANDS AND WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITIES

EXECUTIVE SUMMARY

Existing and potential rail passengers are only looking for one outcome from the Governments' Review – improved delivery of better services at a realistic cost. PTEG share that view. To achieve that PTEG believes the following actions are critical:-

♦ Government needs to determine rail policy and must have overall control of the finances of the rail industry.

♦ Having set out what it wants to achieve, there then needs to be streamlined and simplified arrangements for planning and delivering rail services:-

  ➢ Within England, the functions of the SRA, including franchising, must be better integrated or combined with Network Rail to form a single agency. This will remove a lot of the expensive and time consuming contracts and monitoring regimes within the rail industry. This organisation could take different forms and it would allow different models to be used for service delivery. For example, Merseyrail Electrics could become vertically integrated or TOCs could be given enhanced responsibilities from more train and station maintenance and, where appropriate, network operation and maintenance.

  ➢ The ORR's role would be centred on ensuring fair allocative play between operators in their access to the rail network, consumer protection and safety.

♦ There needs to be a clear mechanism for integrating national, regional and local policy aspirations into a shared plan for operating, maintaining and developing the railway.

♦ PTEs should manage local rail franchises and these franchises should be designed to cover the whole journey to work area for the major centre(s) in each PTE area. Consideration should be given to extending the PTEs' role in regard to stations and other facilities.

♦ In England, the Local Transport Plan rules should be altered to enable rail capital schemes costing more than £5m to be funded. PTA/PTEs would like flexibility to allow revenue support to be allocated across all modes. Other mechanisms need to be strengthened to facilitate the investment necessary.

♦ Funding relationships should be simplified and fixed track access charges abolished.

♦ Safety regulation does need to be streamlined to remove the risk-averse and expensive approach currently within railways.

This is a once in a lifetime opportunity to turn dysfunctional arrangements into ones that are fit for purpose. Change will have to be radical but importantly at a pace that does not undermine improvements to passenger services. There must also be sufficient flexibility to allow for appropriate solutions for differing parts of the country.

DETAILED RESPONSE

1   CONTEXT

1.1   The city regions that PTEG represents are critical to the UK economy. In those regions, rail is a major mode and its performance has significant implications for the economy, the sustainability of the environment and way of life. We have recently completed a review of rail's role in those city regions. An early draft copy is **attached** (Rail in the City Regions). It demonstrates the pivotal role rail plays in contributing to the aims of Government policy on:-

♦   The economy;
♦   Social inclusion and access to opportunity;
♦   Environment, safety and health;
♦   Policy and modal integration.

1.2   The railways face five significant barriers to achieving their full potential:-

♦   The costs of running the railway appear high and, as a consequence, rail is perceived by many to be poor value for money. Furthermore, the way the current structures have been used can appear to be taking control of investment in maintaining and enhancing the rail network away from the Government. This cannot be appropriate for a network now largely supported by public funding;

♦   The number of leading agencies – DfT, SRA, ORR, Network Rail – means that no one party is responsible for the network of services and infrastructure which the passenger sees as an integrated entity. Fragmentation of the industry has led to a lack of clear policy direction, overall strategy and specification. The recent Track Access Charge Review by the ORR, rightly in PTEG's view, took a different approach to network outputs to that advocated by the SRA. The recent Rolling Stock Strategy was a missed opportunity to provide leadership. It is also clear that the SRA does not have the powers to adequately direct the actions of Network Rail which is the recipient of very large amounts of public funds. The combined effect of these structures is the lack of a shared agenda and objectives;

♦   At the operational level the number of interfaces inhibits investment and undermines performance improvement and cost control. There has been a loss of day to day operational control so that when things do go wrong it can appear that no one person or organisation is able to exercise sufficient control to expeditiously rectify the situation. Contractual decisions are still being taken which, coupled with the

perverse outcomes of performance regimes, lead to sub-optimal performance outcomes for passengers;

♦ All PTEs are failing to meet the rail targets set out in their Local Transport Plans and regional and local priorities are often inadequately reflected in national programmes and priorities. Opportunities to benefit from locally available funding are often missed. As a consequence, funding that could be brought into the rail industry is being diverted elsewhere or even lost altogether when authorities are penalised for poor delivery. Rail schemes are frequently being delayed due to contractual wrangling, total risk aversion and cost increases. As a consequence, local and regional authorities have to carefully consider whether to continue with rail investment projects. We believe that the existing structure of the industry is not "fit for purpose" to deliver the PTA's and the Government's own objectives in the coming years;

♦ As a consequence of all of these factors, funding relationships are complex and inefficient. Responsibilities for action are held by a diverse number of players. This leads to poor and slow decision making at policy and operational levels and upward pressure on costs. There is no one clearly in charge of rail industry costs.

1.3 We acknowledge that these issues are rooted in the fragmentation created by the 1993 Railways Act. The Government's Review of the Railway provides an important opportunity to simplify relationships and thus remove unnecessary interfaces and to deliver improved services for passengers that are cost-effective and aligned to National, Regional and Local Government objectives. To do that, changes must lead to a structure that gives clear responsibilities and accountabilities for action at the appropriate level. Changes will have to be radical but must also reflect the pace at which the present rail industry can absorb such change. ***PTEG welcomes the review and sets out its proposals on behalf of the seven PTAs – Greater Manchester, Merseyside, South Yorkshire, Strathclyde, Tyne and Wear, West Midlands and West Yorkshire - as a basis for further discussion with the DfT and the SRA. We believe achieving consensus on change is an essential ingredient for long-term success.***

2   THE ROLE OF PTA/PTES

2.1 PTAs represent over 13 million people and, with their respective PTEs, have played a full and positive role in the development of local rail services as the accompanying report shows. In particular, we believe our involvement:-

♦ Ensures that the rail network plays an enhanced role in meeting local transport objectives as an integral part of the local and regional transport strategies;

♦ Builds upon the value of past investment in the local rail network;

♦ Enables integration with other modes through our close links with bus and tram operators and the local Highway Authorities;

♦ Improves local accountability of the franchises and contributes to the SRA's aim of services that are responsive to passenger needs;

♦ Adds local policy 'weightings' in decision-making processes allowing Government policy to be more effectively implemented to meet local and regional needs.

We believe the Review provides the opportunity to build on this role.

3   REVIEW PRINCIPLES

PTEG sees five outcomes as critical success factors for the review:-

♦ Ensuring Government sets policy and funding levels;

♦ The fragmented roles in the current structure are integrated to more closely focus on delivery and provide accountability;

♦ Local and regional influence is enhanced to ensure genuinely integrated transport networks outside London;

♦ Simplified funding flows and controlled and realistic costs;

♦ Finally, but most importantly, better and more cost-effective services for passengers.

4   PTEG'S PROPOSAL FOR REFORMING THE RAILWAY

4.1   Simplifying the Relationships Between the Existing Parties

4.1.1   The Government must set overall policy and funding levels. It must be able to set out how rail fits into its integrated transport policy, set guidance and direction, and allocate the appropriate levels of investment. The Regulator's current role is to determine the level of income an efficient network operator needs to maintain and renew the network to ensure that the outputs that the Government (through its agent, the SRA) has specified. To the outsider, the recent Track Access Charges review has appeared more like a battle between the SRA, ORR and Network Rail, leaving the DfT as an observer picking up the bill without much say in the process. This perception may not be true but the current position it is certainly not a basis for progress. Rail investment planning needs to be developed in a similar way to that of the roads and local transport programmes.

So far as Scotland is concerned, this implies devolution of rail infrastructure and its funding to the Scottish Executive, which is already responsible for roads, local transport programmes and rail franchising north of the Border.

4.1.2 So far as England and Wales are concerned, once policy is set by the DfT, an 'agency' or similar organisation separate from the DfT should then deliver that policy through processes of franchising and network maintenance and improvement. At this stage PTEG is not being prescriptive about the precise nature of the 'Agency'. We are clear, however, that the number of existing organisations should be reduced. We recognise that there are a number of models for public sector bodies in the transport sector and changing the status of the ORR, SRA and the relationship with Network Rail would require primary legislation. We also recognise that the extent to which the delivery of services and infrastructure maintenance and improvement can be combined into a single organisation is constrained by the status of Network Rail. PTEG understands that currently there is little appetite for further change at Network Rail and that there are requirements to maintain its off-balance sheet status. However, we believe that better integration or ultimately merging the SRA and Network Rail would hugely simplify processes in rail and lead to significant savings in time and cost. ***We would, therefore, wish to discuss this further with the SRA and DfT in order to achieve a consensus view.***

4.1.3 Separate arrangements will be required for Scotland, and to the extent that the administrative, planning and delivery functions of SRA and Network Rail are merged south of the Border, it may be necessary to establish Network Rail in Scotland as a separate undertaking with an appropriate relationship with the Scottish Executive. European Union requirements and interoperability standards ensure that this would present no obstacles to the existing through movement of cross-border InterCity and freight traffic, and the existence of a separate rail infrastructure provider within Great Britain would provide opportunities for cost benchmarking.

4.1.4 We recognise the risks inherent in creating single entities for England and Wales, and for Scotland. These range from the size of the organisation to the argument that this is creating a 'new British Rail'. However, we strongly believe that only an integrated approach can deliver:-

- ♦ Effective overall control of strategy and cost;
- ♦ Simplified and transparent arrangements for service delivery;
- ♦ Clearer links between national, regional and local objectives;
- ♦ Elimination of unnecessary interfaces; and
- ♦ Clearer accountability.

The rail industry employs a large number of people. It is essential that any change results in a transformation of the culture across the board to one that is focussed on cost-effective service delivery. It does not require wholesale re-organisation of the SRA, DfT, ORR and Network Rail, which would be debilitating and undermine the efforts being made to improve train service performance. PTEG's changes

are centred around integrating, and thus streamlining, the relationships between the current activities and providing clear organisational and thus industry leadership.

The proposed new structure is outlined in **Appendix A**.

4.1.5   We believe the organisation should have three principal functions:-

i)   <u>Planning</u>

The appropriate national 'agency' will be responsible for ensuring that services and investment reflect and balance out national, regional and local priorities. The funding of the strategic national rail network comprising European, domestic InterCity and key inter-regional routes and its maintenance, management and development must be carried out at a national level. Its development must also reflect the importance it plays in improving the economic competitiveness of the regions it serves.   At the other end of the spectrum, there are local services that principally meet a local need. They may feed into the national network but their funding and consequent accountability should be at a local level. In between, there is a network that meets many different inter-regional, sub-regional and local needs. A better mechanism needs to be put in place to achieve a specification that is balanced to meet these sometimes competing requirements and we believe PTEs can play an important part in this. Route Utilisation Strategies and RPAs are important existing tools but PTEs require a more formal role in specifying services in the wider journey to work areas surrounding conurbations. ***PTEG is interested in developing such a process.*** Management and service delivery can be appropriately structured once this is agreed.

ii)   <u>Franchising</u>

Franchising rail services has enabled best value to be demonstrated and has drawn in innovation. In their areas, PTEs adopt a similar approach to other services and it is consistent with their aims for reform of bus services. We have supported the moves by the SRA and local transport authorities for more tightly defined specifications. The franchising process remains one way that the private sector will continue to participate in the rail industry in competition against strict performance criteria. The SRA's policy to re-group franchises into a smaller number of larger franchises, such as Greater Anglia, has been welcomed and should be continued. However, their length, geography and adequacy of funding need to be considered carefully. This will enable the potential for overlapping franchises to be reduced and the disadvantages of fragmentation avoided for the passenger. Where overlapping of franchises still occurs and services of

one TOC require to be operated over the "territory" of another then the SRA will need to nominate a lead TOC and ensure that this TOC acts in the best interests of the other. This is no different to the arrangements made pre 1994 to regulate different sectors of BR's business such as conflicts between Regional Railways and Inter City trains particularly in the main conurbations.

Franchises need to develop over time to better reflect 'Journey to Work' Areas and to be let over a sufficiently long period to allow the private sector to invest in upgraded stations and new rolling stock (see Section 5). Re-involvement of the public sector, such as through South East Trains, is being monitored by PTEG and such an approach should not be ruled out in other areas if it delivers best value.

iii)   Network Operation, Maintenance and Improvement

Ideally, Network Rail should be part of the new agency and become a service delivery organisation responsible for the operation, maintenance and enhancement of the network. If this is unachievable for the reasons in 4.1.2, then a means of the 'Agency' overseeing Network Rail must be found. PTEG, again, is not prescriptive on the detail of how this part of the new agency is structured but believes there will be key beneficial outcomes from its proposals to change the current relationship between the SRA and Network Rail:-

-       Reduction of the 'risk averse' approach that presently exists within Network Rail to accepting any proposals that may have the slightest adverse effect on performance.

-       Better integration of the role of planning and undertaking maintenance, renewals and enhancements together resulting in cost reduction and minimising disruption to passengers.

-       Providing the opportunity, where appropriate, for franchises to include responsibility for network operation, maintenance and renewal (perhaps by the use of subsidiary companies or contractors) such as that proposed by Merseytravel for Merseyrail Electrics franchise in its separate submission.

Further consideration needs to be given as to how large-scale maintenance, renewals and projects are best carried out. The 'agency' would be the sponsor as owner of the asset but a variety of different delivery models could be developed involving the private sector. These could range from TOCs carrying out the work themselves, separate engineering contractors or Special Purpose Vehicles for large and complex

projects. Structures and financing must be in place to facilitate enhancements.

PTEG believes there needs to be a nationally co-ordinated approach to maintaining the railway because it is a national network. However, there must be flexibility to define standards in a way that is appropriate to the nature of the railway, eg lightly-used, urban, intra-regional, inter-regional and inter-city. Setting such standards would also provide a base from which enhancements could be agreed, procured and financed. It would also allow different models to be developed in areas such as Scotland and Merseyside.

4.1.6 Funding and Track Allocation

The current concept of Track Access Charges sits at the heart of the current 'money-go-round'. We believe this is looking increasingly irrelevant now that the DfT and the SRA have introduced the concept of direct funding for infrastructure maintenance and renewal. Our attached report also shows how they are a distortion and distraction in assessing and understanding the true cost and value of urban rail services. Network Rail could receive block payments or specific grants, in place of the fixed element of the present access charging structure. To ensure economic efficiency and to conform with Directive 2001/14/EC, remaining track access payments by TOCs, freight operators, and open access operators should directly reflect the marginal costs that their train services impose on the network. Route Utilisation Strategies are already the principal means of allocating capacity not Track Access Charges. Consideration would then need to be given to what was needed for performance and compensation regimes. ***PTEG would wish to work with the DfT, SRA and ORR on such changes.***

4.1.7 ORR

European legislation and the need for independent scrutiny of the allocative processes involved in granting and charging for track access require a continuing role for ORR.   Processes are also needed to ensure that entrants to the railway industry are appropriately licensed in keeping with European requirements, and that licence conditions are complied with. This function should appropriately remain with ORR.   The consumer protection role could also revert to ORR. This would not necessarily mean an ORR on the present scale ***and again, we would like to discuss this and how it links into any new structure further.***

4.1.8 Health and Safety

We consider that the current health and safety regime is over-cautious and needs to be resolved. We should be seeking a level playing field between all modes of transport. A well-developed set of safety values exists for highways and these should be applied for rail

safety investment cases but with a reinforcement of the safety culture at an operational level. Management of safety does need to be streamlined to remove many of the unnecessary interfaces and to remove the risk averse and expensive approach currently within the railways. Transfer of the safety regulation function to a CAA-style ORR would be consistent with the latter's continuing independent role.

5   DEVOLVING RESPONSIBILITY

5.1   PTAs and PTEs already have statutory responsibilities for promoting and delivering integrated public transport. They are the appropriate level of Government for managing and developing conurbation railways. Through this role they are able to work with other regional partners and have set out realistic regional priorities though the Regional Spatial and Transport Strategies. PTAs and PTEs recognise that any increase in role and responsibilities can only be accompanied by consequent increased accountability.

5.2   We also recognise that there are differences between PTA/E areas in terms of their geography, status within a region and thus the role of their rail network. Rail in the City Regions analyses this in detail. For example, Merseyrail is a much more self-contained network than those in West and South Yorkshire which have a greater dependency on cross-boundary travel between the two PTEs. Networks such as those in Greater Manchester, West Yorkshire and Centro have travel to work areas significantly greater than their administrative boundaries. Within the regions there are a mix of single PTEs (Centro and Nexus) and multiple – North West (GMPTE and Merseyrail) and Yorkshire and Humber (SYPTE and Metro). In Scotland, Strathclyde has a clear relationship with the Scottish Executive. Changes, therefore, must reflect these local circumstances.

We believe that all PTEs are able to manage their franchises and could, if appropriate, become the franchising authority as in Merseyrail. Consideration would also need to be given to how PTEs would work together in such situations on more complex franchises such as Northern. Similarly, PTEs should be able, if they wish, to take a greater role in the management, maintenance and development of stations and car parks. They already manage interchanges in the rest of their areas. Such arrangements need not add to the interfaces. The accompanying report highlights the many achievements to date in PTE areas such as new or improved stations providing high levels of accessibility, the development of better integration particularly through Park and Ride which in turn alleviates congestion, air quality issues in City Centres and as a consequence road safety.

5.3   However, PTEs do not want to just be passive administrators of their local rail networks. They want to be able to explore ways of improving these networks and in particular ensure local delivery of the Government's priorities – reducing congestion, improving accessibility, safety and air quality. PTEs are in a position of providing additional funding through the LTP and other capital and revenue funding streams for improvements to

infrastructure, stations and rolling stock. We are interested in exploring with the DfT how there could be genuine funding flexibility across modes for both capital and revenue costs. The present system does not encourage efficiency and innovation. Additional investment in PTE rail networks – above and beyond that provided by Network Rail's base commitments and the franchise agreement – could be found from allowing local transport authorities greater freedoms to spend LTP funds on local rail schemes which exceed £5 million.

5.4   Further consideration needs to be given to what happens to the rest of the services in franchises which contain a PTE. The PTE could act as the SRA's agent and exercise its 25-mile powers with appropriate arrangements for democratic accountability and funding. PTEs will build on relationships already developed with surrounding Shire and Unitary Authorities. PTAs would have an obligation to consult on rail issues with these neighbouring authorities.

6   **ROLLING STOCK**

6.1   In PTE areas, there are the following problems:-

- ◆   significant overcrowding at peak times on many PTE rail networks;

- ◆   low quality rolling stock on a significant proportion of non-electric routes;

- ◆   concerns about the quality of maintenance and performance of some rolling stock.

Although additional and replacement rolling stock can often be justified through cost benefit analysis it is still proving extremely difficult to secure that additional capacity because the revenue generated by additional rolling stock does not cover its capital and running costs. In part, this reflects the characteristics of world-wide public transport investment. However, it largely results from the ROSCO charging structures. The cost of leasing rolling stock from the ROSCOs is high and there is lack of competition. This is another area where industry costs have risen and need to be reviewed.

6.2   There are a number of ways in which this can be addressed:-

i)   The proposed 'agency' should move towards a more determinist strategy for rolling stock – with a medium and long-term plan for rolling stock, including new train fleets and associated cascades. The 'agency' could help ensure value for money by selective intervention in rolling stock purchase and could introduce a 'public sector comparator' through the option of purchasing trains direct. Even the potential for direct purchase of trains would, most likely, keep the market competitive. Consideration should also be given to the formulation of a publicly funded rolling stock leasing company to provide competition with the ROSCOs and therefore drive down cost.

ii)   Encourage TOCs to deal direct with rolling stock manufacturers. In this situation, the 'agency' would need to specify in a franchise how any rolling stock purchased would be transferred to a new franchisee at the end of any franchise.

iii)   Allow TOCs greater responsibility for train maintenance.

iv)   Government to seek to force ROSCOs to reduce costs to a more realistic level. The ROSCOs should be regulated to give them the same duty as Railtrack was given to maintain, renew and modernise its fleet.

6.3   If PTEs have more of a stake in their local rail services then there is the potential for PTEs to be more proactive in securing the additional rolling stock needed. PTEs have the power to lease and purchase trains direct. If LTP funding was made available for rail spending then this could be used to purchase additional rolling stock. Those PTEs and regional authorities that wish to procure new trains could join together to create a regional ROSCO trust – which could borrow against its assets to fund a big enough order from rolling stock manufacturers to keep costs competitive. The 'agency' could purchase a central pool of stock which could be bid for at minimum cost to cope with increasing demand.

7   <u>CONCLUSION</u>

PTEG welcomes the review. It believes the present fragmented system is not fit for purpose and must be streamlined. Organisational change is inevitable but the focus of the review must be about delivering better services for passengers that are also a cost-effective means of achieving National and Local Government wider societal objectives. We have identified a number of areas that we would like to discuss further with the DfT and SRA:-

♦   How the existing functions are integrated;

♦   Securing more effective specifications;

♦   Review funding flows and track access charges;

♦   The role of the ORR;

♦   The regional agenda and how decision making, funding and accountability could be more delivered.

We hope that this response is a helpful contribution to the Rail Review.

PROPOSED STRUCTURE

Government

Sets policy and funding levels

PTA/Es

Influence national policy and funding levels

Agree plans for delivery

Manage franchises and fund improvements

ORR

'Agency'

Plans for delivery

Operates, maintains and enhances network

Delivers franchises