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Consultation Response

TSC Inquiry – “Investing in the Railway

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1. Introduction

1.1. ***pteg*** represents the six Passenger Transport Executives[1] (PTEs) in England which between them directly serve more than eleven million people in Tyne and Wear, West Yorkshire, South Yorkshire, Greater Manchester, Merseyside and the West Midlands. The West of England Partnership, 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 delivering integrated public transport networks accessible to all.

1.2. In responding to this consultation, ***pteg*** is keen to ensure that future rail infrastructure funding and development become more equitable and fully reflects the significant contribution which rail networks can make to the economic growth of the city regions of the North and the Midlands.

2. Response

The value of rail in the English city regions

2.1. Regional rail networks[2] play a key economic and social role. They expand the size of local labour markets and widen individual travel horizons. They bring firms closer together, thereby encouraging innovation and the exchange of ideas. And they cut road congestion, thereby reducing business operating costs and improving quality of life.

2.2. Regional rail demand has been growing at a remarkable pace. Over the 10 year period to 2012/13, passenger trips grew by 54%, compared to 47% on London and South East services[3]. In some large urban centres such as Leeds and Birmingham, rail demand has more than doubled over the same period (see figure 1). In overall terms, the regional rail market is now 60% larger than Inter-City.

2.3. Focussing on regional rail services, figure 2 shows that 62% of trips were made on the networks centred around the six English metropolitan areas. That's more than the total number of rail trips made on Welsh and Scottish rail operators[4] put together and about three quarters of the total number of trips made on national inter-city rail operators.

[1] By PTEs we also mean those successor bodies such as Combined Authorities which have taken over the powers and responsibilities previously held by a PTE.
[2] Franchised passenger rail services are often split into Inter-City, London South East and Regional. By regional services, we refer to the services operated by the following Train Operating Companies (TOCs): Scotrail, Arriva Trains Wales, Northern, Trans Pennine Express, Merseyrail and London Midland.
[3] Source: ORR National Rail Trends
[4] Scotland is served by operator First Scotrail; Wales is served by operator Arriva Trains Wales.

Figure 1. Growth in rail passenger demand into Leeds and Birmingham New St, relative to the national average[5]

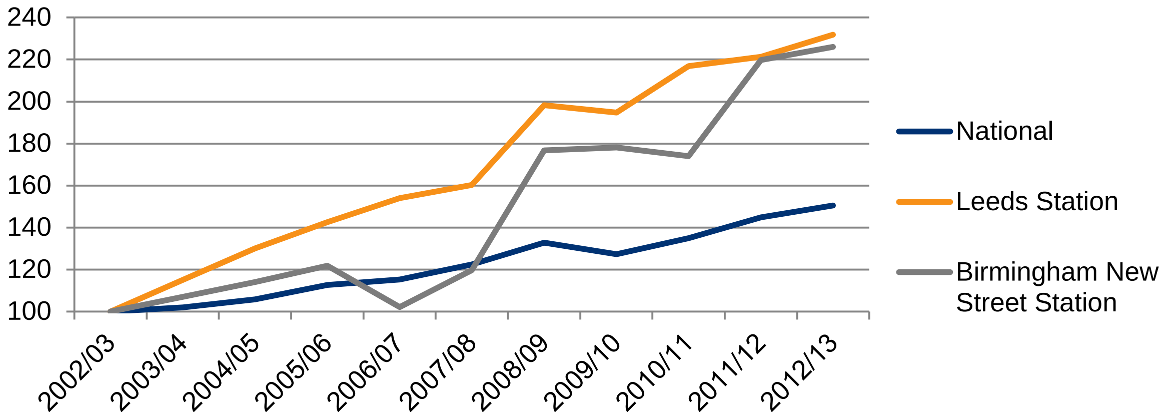
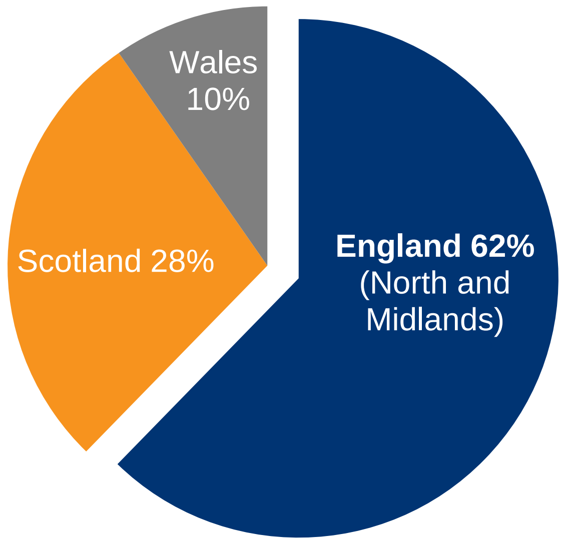


Figure 2. Split of regional rail passenger demand by UK nation (2012/13) [6]



[5] Source: ORR station data
[6] Source: ORR. England (North and Midlands) is defined as the following TOCs: Northern, Merseyrail, TransPennine Express and London Midland franchise. London Midland figures exclude journeys with one trip end in London. Wales has been defined as the journeys using Arriva Trains Wales (ATW). This over-estimates the number of journeys which actually take place within Welsh borders as ATW serves the lines between Wales and Manchester and Birmingham. Scotland has been defined as those journeys using Scotrail.

Investment levels in the English city regions

2.4. It is important to analyse future investment levels in the context of past spending. This is for two reasons:

- Past investment determines the current quality of service, level of demand and the ability to generate revenue from the fare box. Investment can increase the long run financial viability of rail networks. In contrast, lack of investment can make the railway more costly to operate and less attractive to passengers.
- A large proportion of recent investment by Network Rail has been funded through borrowing, to the point that Network Rail now pays £1.5bn per year in interest payments alone. Unless the government intervenes by writing down Network Rail debt, this financial burden could severely constrain future spending in those parts of the networks which have not benefitted from the recent investment boom.

2.5. Despite the economic importance and scale of city region networks, historical investment levels have been very low compared to other parts of the country. Although the next five years will see a step change in infrastructure investment in the North of England, overall spending in the English city regions will still be considerably lower than elsewhere. In addition, there are significant concerns in some city regions, such as the West Midlands conurbation, that the level of planned investment during Control Period 5 will be insufficient to cater for the current level of demand, let alone support sustained economic growth. Figure 3 shows that, relative to London and the South East, rail investment spending per head of population in the North and Midlands will be roughly 4 times lower during CP5 and was 19 times lower in CP4[7]. The comparison with Scotland is almost as bleak.

Table 1. Rail investment spend per head of population: LSE; Scotland, Wales, North and Midlands[8] (£ per head of population)

	London and the South East (£ per head)	Scotland (£ per head)	Wales (£ per head)	**Midlands and Northern England (£ per head)**
CP4	226	158	0	**12**
CP5	227	213	88	**63**

2.6. Not only is the regional imbalance in rail infrastructure spending unfair, but it also undermines the ability of the rail network to contribute to and support economic growth in the English city regions. Fundamentally, this trend makes it more difficult for regional rail to become less reliant on tax-payer funding in the long term.

Scheme prioritisation – scope for greater funding devolution

2.7. PTEs are closely involved in industry planning processes, both at the national and local level, and report positive engagement with Network Rail. Nonetheless, city region schemes

[7] Sources: pteg analysis of regionally identifiable enhancement spending based on Network Rail accounts and strategic planning documents.
[8] Source: pteg analysis of regionally identifiable enhancement spending based on Network Rail accounts and strategic planning documents. Intercity spending has been excluded from this analysis as it cannot easily be allocated on a regional basis.

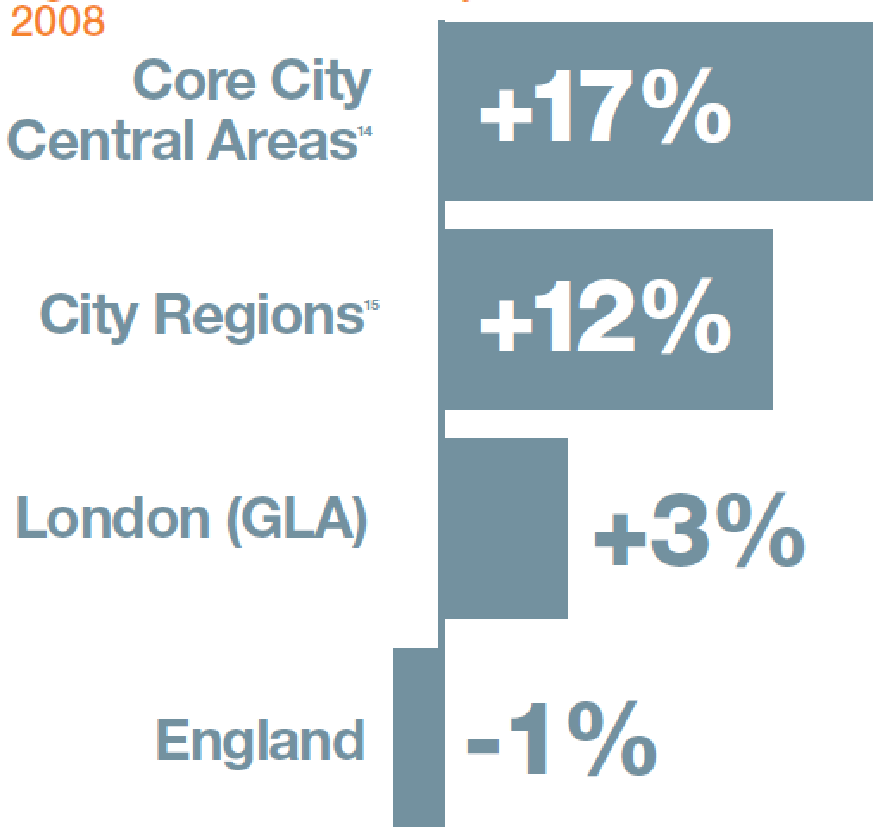
struggle to make it to the top of NR's and DfT's list of priorities. Below we highlight some key issues which we feel have contributed towards this outcome.

2.8. One particular concern is the increasing focus on narrow financial criteria for scheme prioritisation, which fail to recognise the wider social and economic benefits of the rail network. It is important to bear in mind that virtually no part of the rail network operates without government subsidy, once infrastructure spending is taken into account.

2.9. Wider social and economic benefits are central to justify this use of tax-payers' money yet it seems often easy to forget that rail services make a significant contribution to reduced congestion, better functioning labour markets and increased productivity. In contrast to inter-city rail schemes, improvements to city region rail networks can generate wider benefits which are several times larger than short term financial returns.

2.10. This issue can be compounded by a lack of understanding of the factors driving the growth in regional rail demand. For example, in the decade preceding the financial crisis, city region rail networks saw record patronage growth largely driven by an unprecedented increase in service sector employment in the largest city centres across the North and the Midlands (see figures 1 and 3). By focussing on much more aggregate changes in employment and income levels, national forecasting models failed to predict the observed growth. As a result, the Northern franchise was awarded on a no-growth assumption. Not only did this lead to record levels of over-crowding but it also served to undermine the case for investment in infrastructure.

Fig 3. Change in financial sector jobs between 1998 and 2008



Source: pteg analysis of ONS 1998 and 2008 Annual Business Inquiry data, reported in ***pteg*** report Transport Works for Growth and Jobs, available at www.transportworks.org

2.11. Linked to the previous point is the fact that scheme prioritisation often happens remotely from the city regions by agencies with more limited experience and knowledge of regional networks. Where devolution of funding decisions has taken place, not only have devolved agencies been effective at negotiating a better deal with central government (as in the case of Scotland), but they have also been able to do more with a fixed pot of money. A particularly good example is Merseyrail, which has consistently topped the passenger satisfaction league tables since Merseytravel took over the management of the local franchise.

2.12. Greater devolution could also be an effective antidote for the increasing concentration of strategic industry planning decisions in the hand of the Rail Delivery Group. Although there are good reasons to encourage closer working arrangements between industry stakeholders, it is important that these are overseen by democratically accountable bodies. We are also keen to ensure that the change in Network Rail's ownership status will promote greater openness, transparency and scrutiny both from Parliament and local stakeholders with respect to investment decisions.

Rolling stock and electrification – a clear cut case of *invest to save*

2.13. Metropolitan rail networks have some of the oldest and lowest quality rolling stock anywhere in the country. On the other hand, investment in electrification has proceeded at glacial pace in many areas. These two points matter a great deal because modern electric trains offer better ride quality, are more reliable and can operate at higher speeds. As a result, a modern electric railway can contribute to improved connectivity and lead to demand and revenue growth at a fraction of the cost of entirely new infrastructure. Over time, this investment can pay for itself.

2.14. Despite a commitment by government to a significant electrification programme in the North of England there is a real risk that only a fraction of the electric rolling stock needed will be funded by government. This would negate a large proportion of the potential benefits enabled by the investment in new infrastructure.

2.15. At the same time, the West Midlands will see progress with electrification virtually stall over the next five years, while its forecasts show a sustained increase in overcrowding due to a lack track capacity and new rolling stock.

2.16. These two examples highlight an important weakness of the GB rail industry's structure, as strongly complementary decisions such as the investment in infrastructure and the investment in new rolling stock are often made by separate groups of people at distinct points in time. When it comes to rolling stock, we believe that a paradigm shift is clearly needed. A new framework would bring these two decisions closer together and lead to a more effective and efficient rail network.