Response

Reforming the railways

Submission to the Transport Committee

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1. Introduction

1.1. ***pteg*** represents the six English 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, Leicester and Nottingham City Councils, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of ***pteg***, although 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. We believe that the railways can be run more efficiently but that passengers should be the last to lose out from such efficiencies, and that the Government's efficiency plans for the railways should not unfairly target city region rail networks, given the success of these networks in recent years, and their key role in supporting city region economies.

2. Response to the Committee's Questions

1. What should be the Government's vision for the railways in 2020, taking account of likely spending constraints? How should the balance be struck between the taxpayer and the farepayer in paying for the railway?

A vision for rail

2.1. The Government's vision for the railway should be predicated on the contribution rail can make to the country's wider environmental, economic and social needs. It should also be a vision that recognises the different ways in which rail can best achieve these objectives across the whole of the country. Given this, a key objective should be ensuring that rail can 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.

2.2. 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[i] 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[ii]. Analysis by CEBR for Centro[iii] suggests that the £187m Camp Hill chords project in Birmingham would have the potential to generate over 2,500 new jobs.

Building on success

2.3. Rail services have been a major success story in supporting the growth of city region economies over the past decade, leading to a significant growth in passenger numbers - upwards of 100% in the past decade for many of our areas[iv]. We estimate that around 125 million local rail journeys start and/or end in PTE areas each year, corresponding to one in seven journeys in England[v]. This trend is likely to continue over the medium to long term with Network Rail forecasting an increase of as much as 50% on regional, urban rail services in the North of England by 2029, even in spite of the recession[vi]. Rail use has been booming because more people are commuting over longer distances to access the jobs and opportunities that our core cities now offer.

2.4. When rail services have seen investment the results are even more compelling. For example after the run down Airedale / Wharfedale lines in West Yorkshire were electrified and new commuter trains provided, rail quickly gained market share. Today over two thirds of peak commuters into Leeds from key commuter stations on these corridors now travel by rail.

Finding the right balance on subsidy

2.5. Rail in the city regions is a success story, and its continued success is vital if our core cities are to continue to act as the economic drivers for wider regional economies. However some argue that the subsidies for regional rail are disproportionately high.

2.6. 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.

2.7. 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.

2.8. 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.

2.9. If local transport authorities, and PTEs in particular, 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 most LTAs in a suitable format. We believe there is much that the DfT, ORR, NR and ATOC can do to improve the current situation.

2. How are the targeted efficiency savings (£3.5bn by 2019 on a 2008/09 base) to be delivered? What will be the consequences?

2.10. The key principles on efficiency should be that firstly passengers should be the last to lose out and that secondly that regional rail (with its record of strong growth, despite underinvestment) should not be unfairly targeted.

Focus on benefits to passengers, rather than to the industry

2.11. The Government's cost reduction objectives are very challenging. The consequences of the industry failing to achieve these efficiencies could be severe, with the likely impact that those parts of the railway which currently have the most subsidy allocated to them are targeted for cuts. Our concern is that the tone of the Command Paper will leave too much at the discretion of the Rail Development Group (RDG) and that government needs to take care to protect the interests of all parts of the railway, not just those which the commercial operators are most interested in.

2.12. Given that the body created for achieving these efficiencies (the RDG) is made up of the corporations and private interests that currently run the railway, there is a danger that efficiencies will be delivered in a way that best suits the industry itself, rather than necessarily being focused on driving value for the passengers. This reflects the fact that commercial operators will need to satisfy both shareholder and customer interests, but will revert to protecting the 'bottom line' when under pressure.

2.13. These dangers could be resolved in part by government taking a more enabling role with the main deliverers of efficiency – Network Rail and the RDG - and by ensuring greater representation within the reform process for the block of interest in the railways with specific responsibilities for devolved areas like the PTEs, London, Scotland and Wales.

2.14. More widely many commentators have pointed out that the existing industry structure involves numerous entities (the majority of which are seeking to make a financial return) as well as the considerable interface costs between the various entities with all the legal, regulatory and bureaucracy costs that this entails. It is not clear to us why (if efficiency is the key objective) the inherent efficiency and costs of the current structure of the industry should not also be open to scrutiny

2.15. Finally we note that the DfT commissioned a review of the Northern (REF) which concluded on the basis of the current subsidy and investment that Northern "*is an efficient and well managed operation and that there are no obvious and acceptable 'quick wins' to improving value for money*"[vii]. The clear implication of this is that the scope for significant savings on the current costs of Northern (without structural change and/or investing to save) will be difficult to achieve.

Invest to save and the Scope for savings under devolution

2.16. Operating services with older, unreliable and unattractive trains will neither reduce direct operating costs (such as maintenance) or increase revenue (through attracting passengers to rail). Capital investment in rail services (for example through route electrification or conversion of routes to tram train) can deliver greater benefits for the available levels of subsidy.

2.17. 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 identify opportunities to find ways in which local rail services can be provided more efficiently if those efficiency gains are recycled back into the local transport network.

2.18. Integrated Transport Authorities have responsibility for the preparation of Local Transport Plans (LTPs) for the city regions. With the removal of Regional Strategies, LTPs have become the main statutory policy framework covering transport at the sub national level. Given the need for efficiency (and to avoid 'reinventing the wheel'), particularly in a constrained public spending environment, it would seem logical for any future arrangements to build upon the existing framework for delivering strategic transport in the city regions.

3. Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?

2.19. There are considerable advantages in having the railway's assets within the control of a body that can take the long view rather than being driven by its day-to-day share price; has the economies of scale to deliver efficiencies; and can invest in both its human and its technical resources in the interests of the railway as a whole. If alliances are to be created then they need to take account of devolved bodies who may well wish to influence how alliances deliver efficiencies and where savings are used

2.20. We believe there should be a 'horses for courses' approach on franchise length. On subsidised urban railways both long and shorter franchise lengths can deliver a better deal for passengers. For example two highly successful examples of rail devolution on urban rail have involved very different franchise lengths – 25 years for Merseyrail Electrics and 7 years for London Overground.

4. How should fares and ticketing be reformed?

2.21. There is a broad political, professional and consumer consensus around the benefits that smartcards can bring for urban public transport networks in particular[viii]. The effect of Oyster has been transformative in London and all city regions aspire for something similar. We also note the considerable investment that national government has made in Oyster – first for TfL services, and then later to extend its provision for London's heavy rail network. Government support for smartcard development outside London has been welcome but far more modest. Between 2009 and 2011, TfL received £43 million from the DfT for implementing smartcard ticketing. In contrast, each of the PTEs received only just over £2million over the same period[ix]. We welcome the Government's support for the extension of smartcard ticketing in the Command Paper. We believe that as for London the cost of its implementation in our areas should be covered by national Government and not an add-on extra that has to be funded locally.

2.22. We also need to ensure that smartcard ticketing for national rail services in our areas is not developed in isolation from the smartcard ticketing being brought in on bus services and on light rail. Otherwise the delay and cost in achieving Oyster-style ticketing in the major regional cities will, in the long term, be considerable.

2.23. The DfT has persistently given the impression that commuter fares across PTE areas are comparatively lower than London and the South East. It is more complex than that. DfT's current analysis, based on a small sample of flows, shows a more complex picture than at first meets the eye. For example, there are some **commuter rail fares between stations in the South East are generally much lower than for journeys into central London, and often lower than commuter fares into northern cities** – possibly because for these journeys the car remains a feasible alternative.

2.24. Where there is a discrepancy in comparative fare levels, this can be down to factors such as the quality of the service provided (in terms of frequency, journey time, density of connecting services, rolling stock and station quality) or the fact that for many journeys into London in particular, there is no real alternative. Conversely in the city regions, the car remains the key competitor to rail on many routes. Even then, the difference is not as great as might be expected. For example, a journey between Watford and London takes around 20 minutes, with 7 peak trains an hour. In contrast, the fastest train between Macclesfield and Manchester, which are a similar distance apart, takes 25 minutes with the remaining 4 peak trains taking between an extra 5 and 15 minutes. Perhaps surprisingly, a Watford to London annual season ticket **only costs an extra £4 per year** for what is a substantial difference in service quality.

2.25. We would therefore contest the DfT's blunt assessment of this issue and argue that if the review of rail fares is to contribute to wider government objectives then a much more sophisticated debate on fares is required that is not built on such misconceptions.

5. What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?

2.26. 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

2.27. 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.

2.28. Research we commissioned from Atkins[x] 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

2.29. Importantly, moving toward a more devolved approach 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.

2.30. 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.

2.31. The five PTEs served by Northern are working together (and with local transport authorities in the rest of the North) on a devolved proposition for the North. The preferred option is for Northern to be retained as a single franchise with Trans-Pennine rolled in. A Rail in the North Executive (responsible to the PTEs and other local transport authorities) would specific and oversee the franchise. A great deal of work is currently underway on all the financial, legal and governance issues involved. One obstacle that will need to be addressed in particular 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 support for the necessary legislative change would be welcome. The London Midland franchise is on a longer timescale but Centro are working up their own proposition for the West Midlands

2.32. Accompanying the Command Paper is a consultation on devolving responsibilities for local rail services, which outlines the options for local transport authorities. 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 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.

[i] KPMG (2010), Value for money in tackling overcrowding on northern city rail services. Report to the Northern PTEs

[ii] KPMG (2010), Rail Transport, Infrastructure and the Economy.

[iii] CEBR (2008), Regional Transport Priorities: Understanding the wider economic benefits of Centro's transport vision

[iv] Source: ***pteg*** analysis based on ORR National Rail Trends 2010-11 Yearbook; our analysis excludes the MOIRA PTE infill trips which were added to the ORR data series from 0809 onward. Taking all trip ends within PTE areas for trips within PTEs and to/from their wider Government Office region (but excluding the MOIRA PTE infill) rail demand in our areas is estimated to have grown by 147% between 1999/00 and 2009/10.

[v] Source: ***pteg*** estimate based on ORR National Rail Trends 2010-11 Yearbook. In 2009/10, we estimate that 126 million short/medium rail trips (those within a single Government Office region) started and/or ended within PTE areas. By comparison, there were 960m rail trips made in England over the same period. The PTE figure includes the MOIRA PTE matrix infill.

[vi] Source: Northern Rail (2010), Northern Route Utilisation Strategy

[vii] SDG (2006), Northern Review, report to the Department for Transport

[viii] Benefits of smartcards can include simplified fares structures; increased patronage (and revenue) and passenger satisfaction; modal shift; reductions in transaction and administrative costs; reductions in fraud; acquisition of accurate data on passenger behaviour enabling better capacity and network planning; and faster boarding times enabling more reliable, faster and frequent services

[ix] Response by Norman Baker (Local Transport Minister) to a Parliamentary question by Graham Stringer, MP, 9th February 2012

[x] Atkins (2010) report for ***pteg***: 'Enhancing the PTE Role on Rail in the City Regions'