

Conference Report by Councillor Richard Knowles

**Managing out of the Recession: The Challenges Facing Rail
in Control Period 5 (CP5: 2014-19)**

**19th November 2009
Grant Thornton, London**

Lord Berkeley (Secretary of the All Party Parliamentary Rail Group & Chairman Rail Freight Group) chaired the Conference and started the day by challenging Network Rail to explain why they had not produced an Asset Register after 7 years and when would there be progress towards operating a 24/7 railway instead of Sunday ‘possessions’ (closures) for weeks on end to undertake track and structural maintenance.

Theresa Villiers (Conservative Transport Spokesperson) discussed the results of the Conservative’s 2009 Rail Review. Value for money and quality of outcome were important for passengers not just the franchise price. No wonder that the East Coast Mainline franchise had collapsed twice when the second franchise was committed to deliver £1.4 billion in premium payments to Government, £100 million more than the first failed franchise. She criticised the vice-like grip of Whitehall micro management of rail franchises and called for longer franchises and a wider range of station operators to improve stations. Network Rail needed to be more accountable and adopt a more devolved decision-making process. There was no mention of rail freight in the speech.

A Parliamentary Question by Stephen Hammond had revealed that of the Government’s commitment to 1300 extra carriages in HLOS, 543 had been ordered but only 56 were in service. The Conservative High Speed Rail (HSR) plan was for a London/Birmingham/Manchester/Leeds route costing £15.7 billion with 4 to 5 years planning and preparation and 12 years construction from 2015 to 2027. Future extension via Newcastle to Scotland was envisaged. In response to my question, Theresa Villiers said that HSR funding (planning and preparation work 2010-2014 and then about £1.2 billion a year from 2015) would be identified during next year’s Spending Review. I noted that Government’s current £5 billion annual rail expenditure is likely to face cuts of around 10% from next year. HSR funding would be more than a quarter of total rail funding, presumably paid for by cuts in existing services and/or increase in fares, unless it is additional to existing rail expenditure,

Anna Walker (Chair, of Office of Rail Regulation) said that delivery of CP4 investment (2009-14) by Network Rail is crucial and a passenger focus was paramount. A 21% increase in Network Rail’s efficiency is required. The railway vision for the next 30 years must include carbon dioxide emission reduction targets. Anna Walker set out CP5’s milestones:

- May 2009 Planning Ahead
- June 2010 Final version

- Autumn 2010 CP5 consultations
- June 2011 Initial industry plans
- February 2012 Framework for Funding
- July 2012 HLOSs & Statement of Accounts
- October 2013 Final determination

Chris Green (Non-Executive Director Network Rail & Station Tsar) summarised his recent Better Rail Stations Report prepared with Sir Peter Hall for DfT. The report called for minimum station standards, smarter station delivery and better transport interchanges. 15% of the 2500+ stations are listed buildings. 2.6 billion passengers per year use them. Station footfall should grow by 1 billion during CP5 and CP6. An 80% target of station satisfaction compared with 65% now, 48% for unstaffed stations and 50% for station facilities. Manchester Victoria had the worst score of 32% of the 30 National 'B' Interchanges, the largest stations run by Train Operating Companies.

Access, information, facilities and station environment were all important. Real Time Information and help points should be available at all stations. Station standards should be included in all new passenger rail service franchises. Key Performance Indicators were needed to measure standards. The National Stations Improvement Programme (NSIP) provided £160 million in CP4 for category C to F stations. The B stations are the biggest challenge and should be addressed by the £50 million priority funding (mortgaged to franchises with a 20 year payback) announced this week, franchise commitments and third party funding. He said that Manchester City Council is prepared to part fund one-third of Manchester Victoria's £30 million renewal.*
*refuted later by Manchester City Council who are only seeking NWDA funding

A cycling to station target of 5%+ should be adopted compared with the current 2% and The Netherlands' current 40%. Station car parking needs to be increased from 150,000 to 350,000 by 10,000 new spaces per year; Double deck car parks can be self funding. Only half of railway stations are disabled accessible with level access. Average costs are £2.5 million a station (2 lifts at £1 million each and a £0.5 million bridge)

Michael Roberts (Association of Train Operating Companies) called for franchise reform:

- Increased quality for passengers (output based franchises)
- Franchisees should take over stations to speed up improvements
- better deal for taxpayers: longer franchises and more incentive for the private sector

There should be:

- less micro management by the Department for Transport - franchisees should decide timetable detail
- longer franchises: 3 TOCs with the highest performance and satisfaction ratings have 15 year terms or more
- Best value procurement – in Europe price is 40-60% of the final score
- Managed Risk: link payments to GDP and provide revenue support earlier
- more responsibility for TOCs for stations and depots – save up to £250 million
- TOC rolling stock procurement

Re-letting the East Coast franchise was a window of opportunity to pilot a new approach to franchising.

Adrian Shooter (Chairman Chiltern Trains: German Railways' 20 year franchise) called for the Government's role to be limited to policy with a light touch management of franchises. Why invest in rail? The community, user and operator have different motives. Longer franchises give time to develop plans and see them through and an ability to manage costs to reflect market conditions. The major TOC cost was regulated track access charges so stations provided the big opportunity for cost reductions. Chiltern has invested £400 million, 90% provided by increased passenger revenue. The taxpayer and Developer Section 106 agreements are the alternative funding sources. Warwick Parkway Station cost £5.2 million but Railtrack's price had been £13 million. Chiltern has increased passenger miles by 120% (national average 40%); 70% of its fares are regulated.

Will McWilliams (Partner Grant Thornton) discussed the climate for private sector investment. He noted commitments by Network Rail (£28 billion by 2014) and for Electrification (£1 billion by 2020), CrossRail (£16 billion by 2016), Rolling Stock (£4 billion) and High Speed Rail (£39 billion?). In the current funding market margins increase and there is a gearing reduction with more equity required

Peter Frost (Kilbride Community Rail) discussed the potential re-opening of the Bere Alston to Tavistock railway in Devon. He criticised the Department for Transport's passenger demand forecasting techniques which had for example underestimated weekend demand on the re-opened Ebbw Vale line. The viability of Tavistock's rail reopening depended on acceptance and implementation of the Tavistock Draft Local Development Plan.

Fred Beltrandi (Steer Davies Gleave) considered the implications of European open access laws for operators and for investment in rail. Competition could generate new, innovative services for example on Channel Tunnel intercity services to and from London. In 2010 competition rules will be relaxed to allow domestic cabotage for example from Lille to Paris. In CP5 (2014/19) there will be open access on domestic routes (already exists in Britain and Italy) and competitive tendering for some services. By the end of CP5, if part of High Speed 2 is open, this could release capacity for other passenger services and freight services on the current rail network. By 2025, the European high speed rail network will serve 40 million people within 5 hours travel time of Paris.

Franchise operators are more aware of risk with open access competition. Tony Berkeley asked why DfT couldn't make direct payments to Network Rail instead of to subsidised franchisees so that all operators would pay marginal cost access charges.

Norman Baker (Liberal Democrat Transport Spokesperson) asked what do we want from railways in the future? Climate change is society's biggest challenge and

railways are part of the answer. We need to look ahead to 2040 and try to minimise political differences. Most lines should be electrified by then. HSR will provide extra capacity, stimulate economic development as in France and Spain, and produce modal shift from air transport. Network Rail's costing of High Speed 2 should be related to carbon costs. There is some potential to grow the rail network by reopening some lines such as Skipton/Colne and Lewes/Uckfield.

The much larger than predicted traffic volumes on reopened lines from Ebbw Vale and Annan show that the DfT's NATA formula for assessing rail patronage on new lines is flawed. Thameslink 2000 is still not complete in 2009, Crossrail is still not a secured scheme and there has been no progress on running a 7 day railway. Longer franchises are needed to lever investment; the EU maximum is 15 years to which 7.5 years should be added if the franchisee has made investment commitments. Franchises should include 5 year passenger targets. The current franchise 'cap and collar' system needs to be changed and tied to changes in Gross Domestic Product to give flexibility for rail operators in a recession.

In response to my question about how HS2 should be funded, Norman Baker advocated three ring fenced funding sources that wouldn't impact on current rail expenditure and would be exempt from Treasury cuts: 1) a £30 surcharge on domestic flights; 2) a lorry user mileage charge to replace current lorry taxes (as in Germany and the Czech Republic) which would bring in a new revenue stream and force foreign lorry operators to pay to use British roads as they currently buy cheaper diesel before entering Britain so don't even pay fuel duty; 3) personal carbon allowances.

Nigel Walmsley (Passenger Focus) discussed findings from the National Passenger Survey's 54,000 responses. Rail fares were considered value for money by only 40% of passengers. Dealing with train delays and the condition of toilets were both considered to be very poor. Few employers provided free loans to finance season tickets. A Passenger Manifesto is needed for: long term infrastructure planning and funding; a focus on passengers in future franchises; electrification; HST; and a review of the balance between passenger and taxpayer funding.

Stephen Clark (Manchester City Council) called for a fresh look at policy for railways in the North. He reviewed rail franchise history, changes in the economic geography of the North, criticised the DfT's NATA appraisal system and called for GVA impacts of transport investment to be included. He noted the high marginal cost of rail enhancement, continuing passenger growth, rail capacity problems, the HLOS commitment to extra carriages and the lack of additional diesel trains. Future franchise specifications must include growth and Manchester Hub investment would provide benefits across the North in CP5. A HSR network was needed serving Manchester Airport as well as central Manchester. Current average speeds between Manchester and Leeds, Sheffield and Liverpool were only 40 mph. Decisions about transport investment needed to be made at regional and sub-regional level, costs of rail operation need to be reduced and capacity constraints overcome.

Robbie Owen (Bircham Dyson Bell) considered the impact of the Planning Act 2008 on speeding up the process of delivering future rail projects. From March 2010 this

Act replaces the Transport and Works Act regime for big rail schemes although Hybrid Parliamentary Bills remain an option. There would be National Networks Policy Statement for road, rail and rail freight in March 2010. Significant Projects (NSiPs) would be identified. An Information Planning Commission (IPC) would be established. Development Consent Orders (DCCOs) would be issued. He outlined the process of National Policy Statements (NPSs) for sites larger than 60 hectares and ports with over 60,000 containers per year, consultation, engaging with local authorities and written evidence. DCLG Guidance Notes had been issued in September 2009 and Butterworth's book on Planning Law provides comprehensive information.

John Smith (First GB Rail Freight) said that intermodal freight was surviving but core bulk freight (steel, coal and cars) was in decline. The £60 per container charge for the Channel Tunnel had destroyed the international freight market which was dominated by road transport and ferries.

Terry Morgan (Crossrail) explained the £15.9 billion funding sources for this 2009/17 project: £7.7b TfL/Mayor; £5.6b DfT; £2.6b other including £1b European Investment Bank in September 2009. The 24 x 10 car trains per hour (1.5 million passengers per day) would increase London's train capacity by 10% and shorten journey times. Work has already started and building of the two 6 metre diameter deep tunnels commences in 2011. Cancellation would save less than £3 billion.

Ian Brown (Transport for London) explained the Integrated Rail System for London: 3 north/south routes (West London Line, Thameslink & East London Line) ; east/west Crossrail; orbital rail. This provides a 10% increase in London's capacity in addition to Crossrail's 10% capacity enhancement. The East London Line extension and upgrade was justified on social inclusion grounds. If the short Gospel Oak to Barking line was electrified, diesel railcars could be cascaded to other franchises.

This was a very important conference attended by many key figures in the rail industry. The high quality of presentations and incisive questioning added value for the participants and their organisations. A clearer picture unfolded of future opportunities and challenges for Britain's railways. Network Rail's 5 year Control Periods are too short to deliver capacity expansion and the vision for Britain's railways. DfT and Network Rail were well represented, but unfortunately no Government minister attended. GMITA and GMPTE were the only ITA or PTE represented. We were able to engage with the rail industry and the DfT about Britain's future railway.

Richard Knowles
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