



# URBAN TRANSPORT GROUP

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Consultation Response

## Transport Select Committee Rail Infrastructure Investment Inquiry

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## 1. Introduction

- 1.1. The Urban Transport Group brings together and promotes the interests of Britain's largest urban areas on transport. Our full members are Transport for West Midlands, Merseytravel (Merseyside), North East Combined Authority, South Yorkshire PTE (Sheffield City Region), Transport for Greater Manchester, Transport for London, West Yorkshire Combined Authority.
- 1.2. We also have associate members which are Bristol and the West of England Partnership, Nottingham City Council, Strathclyde Partnership for Transport and Tees Valley Combined Authority. However this evidence is on behalf of our full members.
- 1.3. Our members 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. Several of our members are also responsible for extensive light rail and suburban rail.

## 2. Response

### Overarching Comments

- 2.1. Better rail services have a critical role to play in supporting the growth of urban economies, in meeting housing need, and in getting traffic off congested city streets. We therefore need every pound to count in ensuring our cities receive quality rail services every day, and expanded rail networks in the future.
- 2.2. As well as being reliant on high quality rail services our members have, year in and year out, been at the forefront of promoting, supporting and funding enhancements and improvements to enable the network to better serve our regions and cities. Indeed we are the biggest and most consistent backers and funders of rail services, after national government, and have invested directly in new and improved routes, services and stations.
- 2.3. In general we have welcomed the introduction of Control Periods which have provided longer term funding and planning certainty. Greater certainty over government funding cycles allows local authorities to focus on the long term picture and to operate in a more efficient manner. It also enables local authorities and Train Operating Companies (TOCs) to plan and deliver complementary measures to get the most out of Network Rail investment.
- 2.4. With this in mind, we are concerned that enhancement spending is moving away from long term planning to a shorter term year-by-year approach. If a short term approach is adopted it will remove certainty around when projects will be delivered. This creates difficulties for local authorities and TOCs, who are also looking to invest in the railway and bring through improvements. Where there is less certainty over what enhancements are being made on the railway, it might be that it takes longer for complementary measures, such as the procurement of new rolling stock, or smaller scale locally funded enhancements, to filter through.
- 2.5. Central to whatever approach is adopted must be Network Rail's ability to deliver on time and on budget which too often has not been the case. This has recently led to a significant proportion of the Control Period 6 (CP6) funding being allocated to schemes that were



initially to be funded in CP5. To maximise the benefits of a long-term approach, Network Rail needs to deliver on its promises.

- 2.6. Our future transport and wider economic strategies rely on an expansion in the role of the rail network in order to underpin investment in housing, regeneration and local economies. This includes the need for commuter networks capable of taking more traffic off the roads to support the growth of city centres, and new rail services and stations to serve new housing and economic regeneration opportunities. We believe that, now more than ever, city region transport authorities can play an important role holding Network Rail to account and improving the effectiveness of local and regional rail networks.
- 2.7. But we need the right tools for the job. These include (a) access to more transparent and detailed cost, operational and passenger demand information (b) greater involvement in the specification and monitoring of regulated outputs and enhancements (c) greater oversight and local accountability of Network Rail (d) more opportunities to sponsor, oversee or deliver rail infrastructure schemes where our members have the capacity and capabilities to do so.
- 2.8. Our members also have a strong record of successfully overseeing and delivering rail systems and improvements such as extensive local light rail networks. There are also examples of where we have successfully delivered schemes on the heavy rail network eg Birkenhead station works and Formby station lift installation<sup>1</sup>.
- 2.9. Unlike ad-hoc third party funders (eg developers) or, to a large extent, TOCs, local transport authorities are not-for-dividend, long standing institutions with good corporate memories who have a vested interest in both the long-term success of the railways (including its financial sustainability) and in ensuring that the railways contribute to wider social and economic outcomes.
- 2.10. Our members also generally have a good knowledge of local rail infrastructure, operations and, in some cases, cost drivers, that may not always be available to national bodies and agencies. As such, our members can play a complementary role to the DfT and ORR in holding Network Rail to account.

### Hansford Review

- 2.11. In our evidence to the Hansford Review<sup>2</sup> we identified the following barriers to working with Network Rail. In our evidence to the earlier Shaw report<sup>3</sup> we set out a series of examples of how these problems had manifested themselves in relation to particular schemes.
  1. **Poor asset information.** Much of the asset information held by Network Rail has proven unreliable and this helps explain some of the delays and cost escalation experienced in recent years.
  2. **Procedural complexity.** Network Rail processes are overly complex, inflexible, opaque and time-consuming. They are also not well aligned with other related mechanisms, such as the statutory planning process. This is complicated further by the degree of

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<sup>1</sup> Examples of where our members have been involved in projects can be found in our response to the Shaw Report Scoping Study [http://www.urbantransportgroup.org/system/files/general-docs/UTG%20ShawReport%20scoping%20response%20-%202024122015\\_FINAL.pdf](http://www.urbantransportgroup.org/system/files/general-docs/UTG%20ShawReport%20scoping%20response%20-%202024122015_FINAL.pdf)

<sup>2</sup> UTG response to the Hansford Review, Jan 2017

<http://www.urbantransportgroup.org/system/files/general-docs/Hansford%20Questionnaire%20-%20UTG%20response.pdf>

<sup>3</sup> ibid



fragmentation in the industry and the fact that many projects require active involvement and support from several additional stakeholders, including typically several train operating companies.

3. **Technical standards.** Rail standards are, in general, overly prescriptive, expensive to meet and Network Rail is too rigid in their application. There is also a concern amongst some of our members that Network Rail lacks sufficient staff with the appropriate skills to apply standards in a more effective way, or to challenge current ways of working.
4. **Attitude to risk.** Network Rail is, by design, a risk averse organisation, which has few incentives to support schemes promoted by third parties, in particular those that may trade off short term performance against future network capability. This point also helps explain NR's inflexible approach to technical standards.
5. **Risk allocation.** Given its unique position in the supply chain, Network Rail is able to impose large risks on third parties over which they have little or no control. In turn, this removes a key incentive on Network Rail to improve its efficiency.
6. **Lack of local focus.** Our perception is that the attention of Network Rail's management is too focussed on the Office of Rail and Road, the Department for Transport and on the most visible national projects, typically centred on inter-city corridors; and not enough on vital regional and commuter projects, generally promoted by local transport authorities. A greater concentration of resources at the Route level may help address this issue. However, the latest indication is that a large proportion of Network Rail functions, notably strategic planning, will remain concentrated within a single national unit.

2.12. We welcomed the findings of the Hansford Review in principle given that the review seeks to address some of these concerns. We are currently seeking to engage with Network Rail in order to see how Network Rail intends to work with our members to implement them.

#### **Growth forecasts**

- 2.13. We are concerned that regional railways continue to receive lower levels of investment relative to the number of passengers that they transport and the contribution they make to the overall costs of the rail network<sup>4</sup>. One factor that works against regional rail services is the Network Rail growth forecasts, which forecast very limited growth expectations in key regional centres.
- 2.14. The forecasts in DfT's HLOS statement in August 2017 suggested an am high peak increase of only 200 people per day into Leeds, 500 people into Birmingham and 300 people into Manchester between 2018/19 and 2023/24.
- 2.15. These forecasts do not match the forecasts of transport authorities on the ground, or the forecasts on which recent franchises were based (such as that for the North of England). Nor do they tally with current growth trends (see the table below).

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<sup>4</sup> See our 2014 report, a heavy load to bear, which covers the unfair cost allocations and the level of investment received by regional rail [http://www.urbantransportgroup.org/system/files/general-docs/A%20heavy%20load%20to%20bear\\_July%202014\\_FINAL.pdf](http://www.urbantransportgroup.org/system/files/general-docs/A%20heavy%20load%20to%20bear_July%202014_FINAL.pdf)



Sector	Patronage (millions)		
	2010/11	2015/16	Growth
Franchised London and South East operators	917.6	1202.8	31%
Franchised long distance operators	117.9	138.3	17%
Franchised regional operators	318.2	374.2	18%

2.16. We are concerned that these low growth forecasts could impact on the level of investment that Network Rail will allocate to different parts of the network. Growth forecasts are important as they set the tone around where investment is required and the scale of interventions that will be needed to meet future demand.

2.17. We would argue that we need more consistent approaches to forecasting of rail demand based on more involvement with devolved authorities and on methodology around which greater consensus can be achieved.

### **Electrification**

2.18. The pausing and cancelling of electrification projects over the last Control Period has undermined wider long term planning of urban and inter-urban rail services.

2.19. The Government has sought to post-rationalise some of these decisions through arguing that electrification is no longer necessary given new hybrid technologies. We believe that hybrid traction has potential in relation to enhancing the range of some local and regional services but we are not convinced of the merits of the technology for long distance inter urban services. This is because hybrid long distance trains are heavier and more complex which means they are less efficient and rapid, cause more impact on infrastructure, and potentially contribute to local air quality problems. They are also largely unproven technology for such services, and at such scale, whereas electrification is proven technology and the technology of choice for all the world's leading long distance passenger railways.

2.20. The scaling back of what had appeared to be guaranteed electrification schemes, alongside the arguments now being deployed in principle by Government against electrification, also causes uncertainty over how urban and suburban railways will be developed given the synergies between long distance electrification schemes and overlapping urban and suburban services.

### **Access Charges**

2.21. Network Rail have recently consulted on the methodology for allocating the fixed and variable costs of running the railway. We are very concerned to see the shifting of costs away from the inter-city sectors towards the regional sector, with Northern and Merseyrail in particular (despite the latter operating on a largely separate section of the network) seeing cost increases of 50% and 66% respectively.

2.22. We therefore strongly oppose the direction of this policy which, in our view, artificially inflates the costs of providing regional rail services on the basis of assumptions that we do not believe can be justified. This in turn will artificially improve the profitability of intercity services



in a way that could lead to windfall profits leaving the industry, whilst loading costs on to regional rail services in a way that could be used to justify future reductions in the extent and scale of regional rail services.

- 2.23. The way that costs are determined is a construct based on a series of assumptions and should not automatically be assumed to accurately represent the cost of running the railway. Indeed, freight rightly at present does not pay its full costs in order to ensure that freight doesn't shift to the roads with all the consequent environmental, safety and congestion impacts that would entail. We believe that a similar case can be made for regional rail to be also treated as a marginal user given that regional rail services cause less damage to the infrastructure, and require less complex infrastructure, than long distance inter city services, and given the social and economic importance of regional rail services in providing lifeline rural services and in supporting urban economies.
- 2.24. We set out our concerns and proposals on track access charges in our 2014 report, a heavy load to bear<sup>5</sup> and in our recent responses to Network Rail consultations including our November 2016 response to Network Rail's consultation on its methodology for allocating fixed costs.<sup>6</sup>

#### **Enhancing the funding available for rail investment**

- 2.25. Whilst Network Rail, Central Government and Local Transport Authorities will continue to be key investors in the railway network, there could be potential to better realise other potential sources of funding – in particular in relation to rail's role in supporting housing and business growth.
- 2.26. In order to tackle Britain's housing crisis in a sustainable way we need to see more densification of housing around rail hubs as well as using rail to open up new brownfield sites.
- 2.27. However to achieve this we also need to find better ways of capturing the land value uplift and development gains that can accrue in order to fund the new services and stations that are necessary.
- 2.28. To give a sense of the potential of land value capture Transport for London found an estimated land value uplift of £87 billion on eight potential projects (uplift calculated over 30 years). This value is benefit that is delivered over and above fare box revenue, and is currently captured by the individuals and businesses who happen to be close to the project. Capturing some of this value could significantly reduce the impact of large capital schemes, with the value captured covering a proportion of their costs. Whilst we recognise that there are sensitivities and complexities around land value capture (and that clearly the London property market is different to that of other UK cities) we believe that, given the scale of the task around housing need, that this is an opportunity that should be actively explored by national and devolved bodies in consort.

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<sup>5</sup> <http://www.urbantransportgroup.org/resources/types/reports/heavy-load-bear-towards-fairer-allocation-rail-industry-costs-regional-rail>

<sup>6</sup> <http://www.urbantransportgroup.org/resources/types/consultation-responses/network-rails-consultation-its-methodology-allocating-fixed>