



URBAN TRANSPORT GROUP

The voice of UK
urban transport

Consultation response

PR18 Initial Consultation

Office of Road and Rail

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1. Introduction

- 1.1. The Urban Transport Group (UTG) represents the seven largest city region strategic transport bodies¹ in England, which, between them, serve over twenty million people in Greater Manchester, London, the Liverpool City Region, the North East Combined Authority area, South Yorkshire, the West Midlands conurbation and West Yorkshire. Nottingham City Council, the West of England Partnership and Strathclyde Partnership for Transport (SPT) are associate members of the UTG.
- 1.2. 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.
- 1.3. We understand that some of our members, as well as Rail North and Transport for the North, are providing their own evidence to this consultation and we have worked closely together on our responses. In this response, we have focussed on issues of common concern to city region transport authorities.

2. Context for the review

- 2.1. We agree with the ORR's assessment of the context for the current Periodic Review.
- 2.2. We particularly welcome the recognition by the ORR of recent progress relating to the devolution of rail powers to sub-national transport bodies and the need for the regulatory framework to support devolved governance structures.
- 2.3. 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.
- 2.4. But we need the right tools for the job. These include, notably: (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; and (c) greater oversight of Network Rail and greater local accountability on the part of Network Rail.
- 2.5. We take reassurance from the fact that all these points are covered in the consultation document in some form, even if there is much work still to do on the detail. We recognise that there are challenges to develop effective regulatory mechanisms that take advantage of the local expertise of devolved transport bodies and are keen to support the ORR in this task, especially where we may be able to offer a complementary perspective or bring together different devolved bodies.
- 2.6. One common concern amongst our members relates to the funding implications that will result from the liquidation of some of Network Rail's income generating assets. These could also have an impact on devolution plans, in particular in those areas that are considering a more active role in relation to local rail stations.

¹ With the exception of Transport for London, these bodies were formally known as Passenger Transport Executives (PTEs) and the UTG was formerly known as the Passenger Transport Executive Group (*pteg*). In recent years, some PTEs have been abolished with their functions transferred onto successor bodies, such as Combined Authorities. The new name for our group reflects these changes.

2.7. Although we accept that these decisions are largely beyond the ORR's remit, we believe that the Periodic Review process can play an important role in spelling out the implications for the industry's long term financial sustainability.

3. Focusing the review where it can have most impact for passengers and freight customers

3.1. We broadly agree with the ORR's proposed high level priorities for the current Periodic Review.

3.2. Poor performance is a major source of anxiety for passengers, and therefore a key concern for local decision makers. Our members also have long-standing concerns that the existing core reliability metric, Public Performance Measure or PPM², does not adequately reflect the real world experiences of many passengers and that it creates perverse incentives for Network Rail. Although the growing emphasis on right time arrivals is to be welcomed, we feel that this still does not go far enough. One particularly important issue is to do with connecting train journeys, for which there is no adequate reliability metric. To give an example of how this affects operational decisions, in some circumstances, it may be preferable for a train to be ten minutes late than for some passengers on an earlier service to be an hour late because the connection was not held.

3.3. Recent cost escalation in Network Rail enhancements programme is another major challenge for the industry and our members are particularly concerned by the lack of engagement and accountability on the part of Network Rail.

3.4. But we feel the review needs to go beyond setting potentially unrealistic targets and developing yet more complex incentive mechanisms. We would rather see effort going into developing a better understanding of the reasons for the decline in performance and escalation in infrastructure costs, including an assessment of the effectiveness of existing and past incentive mechanisms. We would also like the ORR to proactively encourage a culture where costs and ways of working can be meaningfully challenged. There are concerns amongst some of our members that there is insufficient technical know-how within Network Rail to do this effectively.

3.5. The emphasis on greater transparency and disaggregation of cost information, and the stated intention to better understand cost drivers and the capability of the network, are of course all steps in the right direction. Those are areas we would encourage the ORR to prioritise and develop further.

3.6. City region transport authorities are keen to have a greater role in specifying and monitoring enhancement projects that they fund and/or specify. The current arrangements for third-party funded enhancements are particularly unsatisfactory. Delivery is generally considerably slower and more expensive than originally agreed, and this is often compounded by a sluggish response on the part of Network Rail.

3.7. Greater transparency and a better understanding of cost drivers, especially at local level, would potentially help us to scrutinise Network Rail more effectively. But this doesn't resolve the fundamental problem that Network Rail is largely un-accountable to any stakeholders other than the Department for Transport. We are not entirely sure that any of the proposals in the initial consultation documents go far enough to address this issue. We would therefore be

² Defined as the percentage of trains which arrive at their terminating station on time.

keen for the ORR to explore more radical options for how city region and sub-national transport bodies could exercise greater effective power over Network Rail.

- 3.8. We fully accept that improved timetabling and capacity allocation can help support traffic growth on the existing infrastructure. It is therefore right that making better use of existing networks should be a priority for the review.
- 3.9. However, we would also point out that achieving a 'better used network' is not necessarily just about running additional services. For example, it can also be about speeding up existing trains or improving the integration between different services so as to enable faster and more reliable connecting journeys.
- 3.10. Many parts of our regional rail network have suffered from years of under-investment. In parts of the country, this has contributed to slow, sub-standard services, which are not able to reach their full demand potential. Accelerating existing strategic services rather than fitting more slow trains on the network is arguably the greater priority in such instances. Regulatory mechanisms need to be carefully designed so as not to introduce perverse incentives. One suggestion for the design of a future volume or capacity incentive would be to factor in changes in operating speed (or the attainment of speed thresholds) as well as changes in train-kms.
- 3.11. Another example is provided by integrated clock-face timetables³, which are designed to allow near simultaneous arrivals and departures, at regular intervals, across a range of trains at nodal stations so as to maximise transfer opportunities between connecting services. This approach can require greater track and platform capacity at nodal stations to accommodate a given number of trains per hour but can arguably deliver a more efficient network from a passenger perspective.
- 3.12. Ultimately, these are examples of the types of trade-off that city region and sub-national transport bodies are best placed to make. Such decisions are about more than simply growing the number of train-kms on the network, they are about choosing the types of intervention that maximise the economic and social benefits delivered by rail networks.
- 3.13. It is reassuring to know that the ORR is looking at options for greater flexibility in the approach to enhancements, which could mean that some funders may choose to take a larger role in ensuring that projects are effectively scoped and delivered efficiently.
- 3.14. But it is important to underline that the greatest contribution city region and sub-national transport bodies can make is to assess the overall balance of interventions (e.g.: capacity allocation, targeted infrastructure improvements as part of renewals, rolling stock investment, as well as more conventional infrastructure enhancements) and to pick the combination that delivers the best outcome, from a wider economic and social perspective, in the most cost effective way. So this greater flexibility should go beyond the enhancements process.
- 3.15. In the limit, the most effective rail interventions could be prioritised against other types of intervention elsewhere on the transport network. This is the way our members generally operate and it also seems to be the direction of travel for sub-national transport bodies.

A focus on regulating at route level

- 3.16. We welcome the ORR's proposals for greater regulatory focus at the route level.

³ This is a loose translation of the original German phrase *Integraler Taktfahrplan*.

- 3.17. We believe this will enable more effective oversight of Network Rail's performance (for example, through benchmarking), better engagement between Network Rail and its customers, and facilitate the move towards greater political devolution to city regions and sub-national transport bodies.
- 3.18. On the last point, we would encourage the ORR to do whatever is in its power to deliver a Network Rail North of England route, as recommended in the Shaw report. We also note that one of our members, Transport for London, is calling for a new London and South East route.
- 3.19. A greater focus on route regulation may also help align what are currently fragmented performance incentives (i.e.: NR PPM targets, franchise commitments and JPIPs).
- 3.20. However, route regulation will not necessarily fix the fundamental problem of lack of accountability to local stakeholders on the part of Network Rail. It is therefore difficult to see how greater scrutiny and, potentially, greater involvement in the development of route plans would, on their own, lead to a more efficient Network Rail.
- 3.21. Some of our members have also expressed concerns that a greater emphasis on route level decision making could have a negative impact on cross-boundary services. They have called for the ORR to specifically consider how cross-boundary decisions should be coordinated and incentivised.
- 3.22. One area that seems to have been largely missed out from the consultation document is station devolution. This is a topic of significant interest to several of our members, and one which we are also actively exploring through the joint work of the Urban Transport Group. At this point, we only wish to flag up the need for the regulatory framework to take account of the possibility that new station ownership and development models may emerge in the course of the Periodic Review. At a practical level, the key enabling factor, from a regulatory point of view, is an improved and detailed understanding of asset condition.

Improving system operation

- 3.23. We agree that greater devolution to routes within Network Rail must be supported and coordinated by an effective overall system operator function.
- 3.24. We also agree that this approach must address not only the efficiency of the system operator but also its effectiveness in supporting the routes to meet the needs of their customers.
- 3.25. We support the inclusion of customer-facing measures in the assessment of the system operator's performance; these need to cover not only timetabling but also the agreement of access rights.
- 3.26. Some of our members have pointed to the need for improved sharing of data on passenger demand and system capacity for timetable planning purposes. There was also a desire for closer collaboration and information sharing between Infrastructure Managers on different parts of the network (e.g.: Crossrail and Network Rail). It is felt that there is reluctance from some TOCs to share demand data and we have previously called on the ORR to review the treatment of data which some industry parties classify as commercially confidential. According to some of our members, this has been an issue even when planning for, and analysing the impact of, disruptions. We would encourage the ORR to consider how

improved data sharing protocols and obligations could be rolled out across the industry as part of the design of the system operator function.

Refining the framework for outputs and how these are monitored

- 3.27. We welcome the ORR's proposal to increase the involvement of train operators and other local stakeholders in setting outputs.
- 3.28. In particular, we believe that there could be a much greater role for city region transport authorities and sub-national bodies in this process as they are typically better placed than either the ORR or DfT to manage Network Rail performance at this level of detail. Greater disaggregation of cost and performance information, including below the route level, would be a particularly useful enabling resource.
- 3.29. There is general support amongst our members for the proposal to improve performance monitoring to better the experience of customers including by taking full account of delays at intermediate stations.
- 3.30. However, there are some reservations about the proposal to take account of the number of passengers on each service as part of performance monitoring. This stems from the idea that this would create a systematic incentive on Network Rail to delay more lightly used services in favour of busier services. As a minimum, believe that any outputs framework would need to take account of the broader economic and social value of a given train service rather than purely the number of passengers.
- 3.31. There is some resistance to the idea that Network Rail could be allowed to flex outputs between routes. The main concern here is that this would create a high degree of uncertainty for train operators.

Increasing transparency around costs and improving incentives

- 3.32. We support the ORR's aim to achieve a better understanding of what drives infrastructure costs. Throughout PR13, we consistently called for greater spatial disaggregation of infrastructure costs and a more cost reflective allocation of these to different parts of the network and to different services. Shifting the focus of regulation to the route-level is a useful first step but we believe that in order to understand infrastructure cost drivers it is necessary to go down to a much finer spatial scale.
- 3.33. Making variable access charges more cost reflective could produce some marginal improvements, even though it is unclear whether this can be done in a cost effective way. More important, in our view, is the need to review the allocation of so-called fixed costs. Whatever the approach taken, it is important that the analysis of variable and fixed costs follows a consistent framework. Variable costs can be high on routes where the basic infrastructure receives little investment, because a greater burden is then placed on maintenance. However, such routes would be expected to attract a lower amount of fixed costs. We have previously shared our work on this topic with the ORR and Network Rail⁴.
- 3.34. We welcome the proposal that Open Access operators should make a contribution to network fixed costs as this would create a more level-playing field.

⁴ pteg (2014), A heavy load to bear - towards a fairer allocation of rail industry costs for regional rail. Available online: <http://www.urbantransportgroup.org/resources/types/reports/heavy-load-bear-towards-fairer-allocation-rail-industry-costs-regional-rail>

3.35. We welcome the ORR's statement in paragraph 4.31 that it "will look for opportunities to simplify or abolish charges that do not deliver sufficient benefits". This is something we have called for as part of our early engagement on PR18, and would suggest that the ORR may consider applying a similar yardstick to incentive and penalty regimes.

Supporting new ways to treat enhancements

- 3.36. We welcome the ORR's proposal for a more flexible approach to the specification of enhancements which would have as its greatest benefit a better alignment between major enhancement, franchising and rolling stock decisions.
- 3.37. But while we can see that there would be advantages in taking larger, strategic enhancement schemes outside the Periodic Review timetable, we don't feel this should necessarily apply to smaller schemes. We believe that there would be benefits from keeping ring-fenced funds for tactical deployment during CP6, based on appropriate governance arrangements which would include relevant train operators and transport authority bodies.
- 3.38. We are supportive of the idea that Network Rail should maintain an up-to-date and comprehensive enhancements delivery plan. This provides a critical foundation on which other parties can develop and implement their own linked plans, including for rolling stock and train services.

ERTMS and related technology

3.39. No views at this point.

4. Developing the high-level framework for the review

4.1. We support the overall approach proposed by ORR.

5. Process and engagement

5.1. In the event that the ORR decides to make use of the Rail Delivery Group's resources to develop some of the work for PR18, we strongly support the principle that these need to be open to the wider stakeholder community. In the past, we have not always been kept abreast of progress with RDG work-streams despite our initial involvement (presumably, because of inconsistencies in mailing lists) and feel that it would be best if communications relating to any stakeholder events continued to be dealt with by the ORR.