Department for Transport

Reforming our Railways: Putting the Customer First

Cm 8313

March 2012

Reforming our Railways: Putting the Customer First

Presented to Parliament by the Secretary of State for Transport,
by Command of Her Majesty, March 2012

Cm 8313

£14.75

Any enquiries regarding this publication should be sent to us at FAX9643@dft.gsi.gov.uk

This publication is available for download at www.official-documents.gov.uk

This document is also available from our website at www.dft.gov.uk

ISBN: 9780101831321

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2480344 03/12

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword

How do we make rail travel more affordable? What can be done to get more out of our existing rail network? How do we improve and expand our rail network when money is tight? These simple yet fundamental questions are what this Command Paper is about.

We all know how important our railway network is to the prosperity and wellbeing of this country. But we too often find ourselves frustrated when the cost, punctuality or comfort of rail travel disappoint.

I believe that Government and the rail industry can and must do more for the passenger and the taxpayer. So we will.

For our railway to be more affordable, it must also be efficient, but Sir Roy McNulty, in his *Rail Value for Money Study*, identified inefficiencies worth £2.5-£3.5 billion that are being paid for by passengers and taxpayers. I will not allow this to continue unchecked. Network Rail is already due to deliver £1.2 billion of genuine efficiency savings by 2014 with at least a further £600 million by 2019 but the industry as a whole needs to become less dependent on Government subsidies. The industry should aim to fully close the efficiency gap identified by Sir Roy by 2019.

This paper sets out how we will address this challenge and states clearly what we will do with the savings: reduce and then abolish above-inflation rises in average regulated fares, combined with lessening the burden on the broader taxpayer purse. Taken together with my decision to limit the most recent increase in regulated fares I believe this will have a real and lasting impact on household budgets.

But this Command Paper is not only about affordability. Rail franchises will be reformed with greater transparency around costs and efficiency so that taxpayer subsidies are concentrated on the less profitable routes that remain crucial to communities.

We will move to a more transparent, modern and flexible approach to fares and ticketing. Working together with industry we will expand smart ticketing technologies to give more passengers the kinds of benefits that passengers in the capital already enjoy with Oyster cards. We also want to introduce new kinds of season tickets, recognising the reality that not all commutes take place five days a week during rush hour.

Making growth happen means there is no alternative to investing in greater capacity and better connectivity. A new national high speed rail network announced in January will deliver the quantum leap in capacity needed on Britain's major north-south lines in the decades ahead. While today we are reducing crowding, cutting journey times and improving the passenger experience by funding thousands of new carriages across the country, electrifying swathes of the railway network and redeveloping many of our great railway stations. The Chancellor's Autumn Statement saw £1bn invested in north of England rail services, freight and measures to prevent cable theft. In total, we have invested £18 billion in this Spending Review period alone.

We want everyone working in rail, be it management or front-line roles, to be involved in all of these reforms. If rail can deliver savings by cutting costs and growing demand there is real potential to grow jobs in a crucial and vibrant industry.

Network Rail is rightly taking steps to reform corporate governance – including its management incentives package – so that it is more accountable to passengers and freight customers. We welcome its commitment to appointing a Public Interest Director, to ensure the interests of taxpayers are articulated during board discussions. Network Rail is also giving greater decision-making powers to its regional Route Directors, making it more responsive and more focused on operations.

The history of Britain's railways means that for far too long the industry and Government have obsessed about who pulls the levers rather than why. This Command Paper is about placing the passenger back at the heart of everything the rail network is about. By working together on this package of reform, I believe industry, regulator and Government can generate the savings and change we need so that we can all look ahead to a network that not only conveys passengers safely, quickly, punctually and in comfort but one that is affordable and efficient.

The Right Honourable Justine Greening MP
Secretary of State for Transport

Executive summary

1. Britain's railways are at a turning point. They are still among the most expensive in Europe – for the taxpayer and for the passenger – in spite of the strong and steady growth in the number of passengers using our railways. And the significant improvements in reliability and safety seen in the last decade have come at a price.

2. Reform is urgent because passengers want to know that we have a plan to end the lengthy period of inflation-busting fares seen over recent years. Meanwhile, taxpayers want to see railway subsidy reduced to contribute to the pressing task of cutting our fiscal deficit. Added to these demands are the need to attract investment in UK infrastructure to secure economic growth and the ever-present challenges of climate change and traffic congestion.

3. Fortunately, we are in the best position for many years to consolidate recent gains while driving further improvements in the passenger experience, industry efficiency and performance. The process that will decide rail outcomes and funding for the five-year period from 2014 is now gearing up, at the same time as we embark on the biggest round of franchising since the privatisation of the industry. We are also on the point of pushing ahead with HS2 and Crossrail, both of which have changed expectations about the investments we are capable of delivering.

4. That is why we are publishing this Command Paper now, to set the agenda for the decisions we and the industry must take over the months ahead.

5. While promoting and protecting the achievements of recent years, we will now focus the industry on collaboration to achieve world-beating excellence in efficiency and in serving its customers – the taxpayer, passenger and the freight industry. Only by making sure everyone in the industry has clear objectives and aligned incentives will we be able to secure our objectives. Partnership working and driving behavioural change in the industry will be at the centre of our strategy for securing the savings we want.

6. Reform must deliver against four objectives:

   - securing value for the passenger, addressing concerns about rail fares and the impact they have on hard-pressed families – by ending inflation-busting increases in average regulated fares at the earliest opportunity and introducing new ticketing technology;

- dealing with the fiscal deficit, putting public finances on a healthier and more sustainable footing for the long term – by aggressively searching out savings and sharing these savings with the taxpayer;
- supporting economic growth – through continued taxpayer investment for passengers and freight, to enhance capacity, connectivity and service quality where this is affordable and provides value for money, and by providing industry with the opportunity to invest in improving our railways; and
- delivering our environmental goals – by reducing carbon emissions from trains and stations and by encouraging passengers to use the train rather than their car.

7. The rail industry is not broken. The case for a further round of major structural change, impacting safety, performance and cost as the industry struggles to adjust, has not been made. But the industry must continue to evolve. It remains unacceptably inefficient.

8. This Command Paper sets out our ambitions for Britain's railways. We look to industry, already pushing for better alignment between track and train, to bring forward partnerships equipped and incentivised to drive the efficiency agenda. We welcome Network Rail's work to find new and more efficient ways of managing its assets, including long-term concessions to third parties for the management of parts of the network. We want to move towards an Office of Rail Regulation (ORR) empowered to pursue whole-industry efficiency. Train operators must improve their efficiency in ways that are visible on the bottom line. And we want to see continued investment in rail enhancements – including electrification, high speed rail, rolling stock and stations – where it delivers value for money and supports the continued and sustainable growth of the industry and the economy.

9. This Command Paper sets out how we will use all of the tools at our disposal to achieve our objectives. Franchises will be more flexible to exploit opportunities for growth and efficiency, while our High Level Output Specification, to be published later this year, will set out how we will boost capacity and deliver environmental benefits through electrification. Passenger and freight operators will be rewarded by incentive schemes that will help to deliver substantial savings and act as a spur to develop smarter and more effective industry alliances. We will help the ORR to develop its role in relation to improving the passenger experience. We will use our fares review to deliver smart ticketing technology and a more flexible fares system that, in turn, make better use of existing rail capacity by spreading demand more evenly over the day.

10. The Command Paper sets out how our partners are changing. Network Rail is leading governance reform and decentralisation to ensure the company is focused on delivering for the customer and rewarded appropriately when it does. The rail industry, led by the Rail Delivery Group, has declared itself willing and able to respond to Government's strategic challenges. Train operators will have the flexibility to deliver what passengers want, within a sustainable budget. And the ORR will serve the passenger and taxpayer by driving relentlessly for efficiencies.

11. We believe that, as a minimum, efficiencies worth some £2.5 billion by 2018/19 are achievable – the low end of the efficiency gap identified in Sir Roy McNulty's Rail Value for Money Study. However, the industry can and should deliver more than that. Our strategy is to incentivise the industry to entirely close the £3.5 billion efficiency gap by 2019. The High Level Output Specification and Statement of Funds Available, which we will publish by July 2012, will set out our plans in more detail.

12. While efficiencies are crucial, they do not mean that our goal is a subsidy-free railway, limited only to profitable services. There will always be a strong case for subsidy to secure services which deliver wider social, environmental and economic benefits but which would not be commercially viable without taxpayer support.

13. To ensure success, the whole of the rail industry – track and train, management and workforce – must now work together better, with a strong shared incentive to reduce costs and improve services for passengers and freight users. The challenges are clear, and it is right that the leadership for tackling them should come jointly from industry and Government. This collaborative approach has meant that Government, the ORR and industry are already pressing ahead with measures to deliver better value for money. Reform is under way and savings are already being delivered.

1. Introduction

The Command Paper – purpose and context

1.1 This Command Paper sets out the Government's vision for the railways, alongside the policies that are needed to realise that vision. Making life better for customers – both passengers and freight users – is at the heart of our approach. We must also help to reduce the demand on taxpayer subsidy, ensuring that the railways are financially sustainable in the longer term and can contribute towards the country's economic growth and environmental goals.

1.2 The geographic scope of this Command Paper is England and Wales. Setting a rail strategy for Scotland is a matter for the Scottish Government. Scottish rail services are therefore not directly covered by this document, except for areas relating to safety and standards, and cross-border services specified by the Department for Transport (DfT). We will continue to work closely with the Scottish Government towards our shared goal of successful and efficient railways.

1.3 This Command Paper sets out the Government's overall objectives, as well as the way it intends to work with the industry and others to secure significant reductions in the railway's cost base, while at the same time improving the railway for passengers and freight customers. A key challenge is to get the two elements of the rail industry, track and train, working better together with a shared incentive to reduce costs and improve services for passengers and freight users.

1.4 This Command Paper considers the findings and recommendations set out in Sir Roy McNulty's independent *Realising the Potential of GB Rail: Report of the Rail Value for Money Study*. Furthermore, it provides the policy framework in advance of Government announcements by July 2012 on:

- the rail outputs that Government wishes to specify for the five-year period 2014–19 (the High Level Output Specification, or HLOS); and
- the money available to do that (the Statement of Funds Available, or SoFA).

1.5 The Command Paper is published as the Office of Rail Regulation (ORR) takes forward its 2013 Periodic Review of Network Rail's funding and the incentives for the whole rail industry. It follows in the wake of the whole rail industry's Initial Industry Plan[1] for delivering a better and more cost-efficient railway from 2014 to 2019.

1.6 The Command Paper also comes near the beginning of an intensive period of re-letting franchises for railway services, heralding a radical change of approach in the way that the Government specifies train services for passengers.

A vision and a purpose for rail

1.7 This Government's vision is for a transport system that is an engine for economic growth, is more environmentally sustainable and improves quality of life within our communities. In that context, the railway must:

- offer commuters a safe and reliable route to work;
- facilitate an increasing amount of business and leisure travel;
- support regional and local public transport as a key means of connecting communities with public services, workplaces and other economic opportunities; and
- transport millions of tonnes of freight around the country, relieving congestion on our road network and helping to meet our environmental goals.

1.8 On average, rail is greener than current road-based forms of transport and aviation, and safer than road. So modal shift from road and aviation to rail can help reduce transport's carbon emissions and (from road) improve safety. For these reasons, Government seeks to accommodate an increase in rail travel where that is practical and affordable by providing for extra capacity. The challenge for the railway is to ensure it maintains its environmental advantage over other modes through more efficient operating practices and the sensible application of existing and new technologies.

A more efficient railway

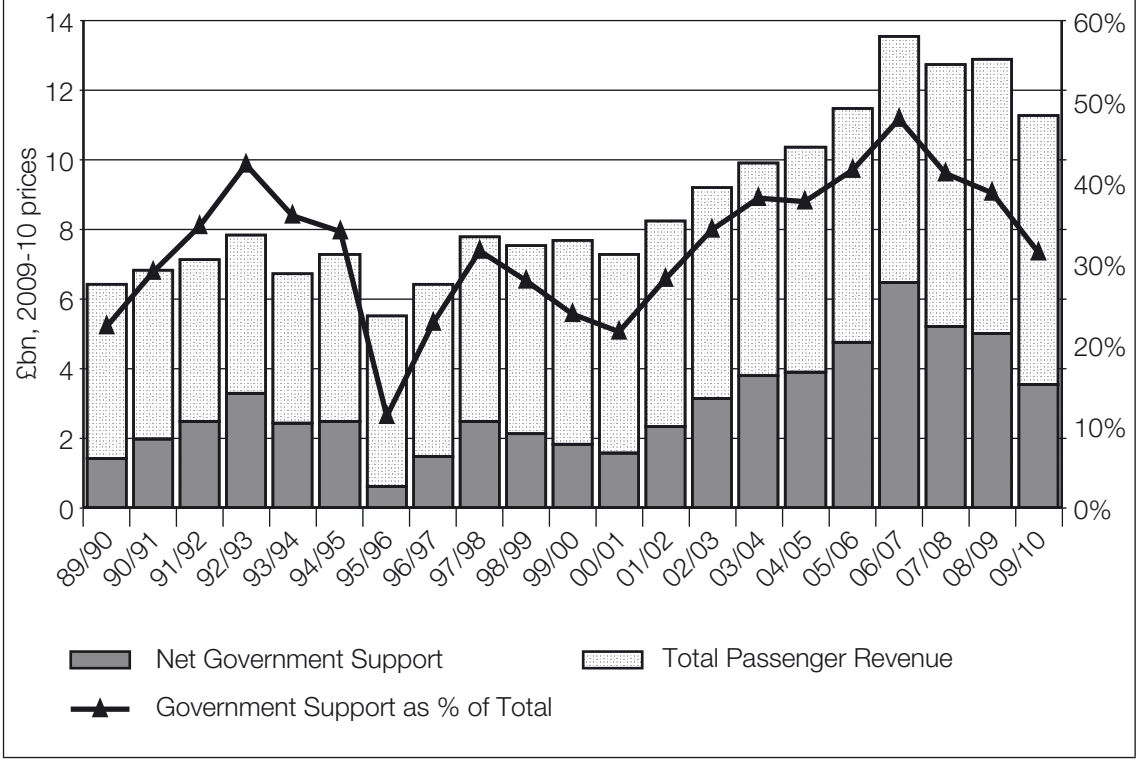
1.9 Nevertheless, the Government's first priority since taking office has been to reduce the fiscal deficit and put the nation's finances on a more sustainable footing, setting out clear and credible deficit reduction plans that will reduce debt as a proportion of the UK's GDP.

1.10 In 2010/11, rail cost the taxpayer around £3 billion per year and charged the farepayer more per mile on average than most other European railways. Sir Roy McNulty and the ORR have identified significant potential for improved value for money. Over the coming years, our ambition is to reduce the cost of the railway and improve value for money both for passengers and taxpayers (Figure 1.1).[2]

1 Initial Industry Plan – England and Wales – Proposals for Control Period 5 and beyond – September 2011 – available from http://www.networkrail.co.uk/iip.aspx

2 The subsidy figure is for England and Wales only.

Figure 1.1 Farepayer and taxpayer contributions to GB rail since 1989/90



Source: National Rail Trends, DfT statutory accounts, TOC statutory accounts

1.11 As significant savings are made as a result of the reforms announced by this Command Paper, we will reduce and then put an end to above-inflation rises in average regulated fares, as well as relieving pressure on taxpayer funding. As a first step, the Government has listened to passengers' concerns about the impact of such increases on family budgets by keeping the increase in regulated rail fares to an average of RPI+1% for 2012.

1.12 We want a railway that in time covers more of its own costs and in which the extra revenues from higher demand play an increasingly important role in enabling continued investment in the network.

1.13 The *Rail Value for Money Study* points towards a range of barriers to efficiency and value for money that need to be addressed if the financial gap is to be closed. It sets a challenge of reducing unit costs by 30% on 2008/09 levels by 2018/19, without reducing the coverage of the network or increasing fares beyond what has been planned.

1.14 Nonetheless, the Government will not risk any steps that reverse the improvements over recent years on safety, performance and other areas. While some areas of reform covered in this Command Paper are indeed radical in their outlook, they do not envisage a fundamental restructuring of the rail industry or the rail network.

1.15 There will always be a strong case for subsidy for services which deliver wider social and economic benefits but which would not be commercially viable without taxpayer support. Like Sir Roy McNulty, we believe the rail

industry needs to reduce costs in order to earn future growth: to continue to expand capacity and services for passengers and freight users.

Investing in our country's future

1.16 We predict significant growth in passenger demand into the future.[3] Estimates for demand growth by 2030, based on current GDP trend forecasts and fares policy, are set out in Table 1.1 and are split by the three main passenger rail sectors. Some of this growth could be accommodated by making more efficient use of our existing railway infrastructure and rolling stock, such as by running more trains or encouraging passengers to travel at less congested times of the day. It is likely, however, that substantial investment in infrastructure capacity, particularly on inter-urban, London & South East routes and major city commuter routes will be needed.

Table 1.1 Growth in passenger miles from 2011

	2020 (%)	**2026 (%)**	**2030 (%)**
London & South East	17-21	28-34	34-42
Long distance	22-28	39-49	50-63
Regional	8-10	16-20	19-24
Total (average)	**17-21**	**29-36**	**36-46**

Source: Network Modelling Framework (NMF) – estimates based on model runs conducted in October 2011. Lower values in the ranges provided are based on an average of 20% lower than current forecasts. The range of regional forecasts is based on a 10% range around the NMF central case.

1.17 We have therefore allocated funding for the following:

Additional capacity into cities at peak times

- to provide around 2,700 new carriages[4] for the rail network, of which around 1,800 will represent additional capacity, including extra peak capacity into London, Birmingham, Leeds, Manchester and other major cities;
- to expand light rail in Manchester, Birmingham and Nottingham;
- to deliver a major upgrade of the Tyne and Wear Metro; and
- to complete Crossrail and Thameslink.

3 Forecasts are best estimates of likely future demand, based on modelling work. They involve considerable uncertainty, and are therefore expressed as a range.

4 The 2,700 new carriages include additional carriages for Crossrail, Thameslink, the InterCity Express Programme and the 2007 HLOS extra carriages programme.

Additional capacity on other parts of the railway

- to deliver the Swindon to Kemble re-doubling; and
- to continue delivery of the Strategic Freight Network, for example to provide further freight paths on the key route between Felixstowe and Nuneaton for deep-sea container traffic.

Faster journey times, more frequent trains, and through journeys

- a major redevelopment of Reading station, unlocking additional capacity, helping to reduce journey times, and improving performance on the Great Western Main Line;
- for London Underground to deliver a 30% increase in peak capacity across its network, and enabling a link between the Metropolitan Line and Watford Junction (as announced in December 2011);
- for Transport for London to complete an orbital rail link for London, extending the East London Line to link Highbury and Islington in North London to West Croydon in South London and providing a direct connection from Surrey Quays to Clapham Junction;
- delivering the Ordsall Chord project in Manchester and (subject to the agreement of an appropriate local funding contribution) a new rail link between Oxford and Bedford, and Milton Keynes and Aylesbury; and
- completing the Intercity Express Programme, improving reliability, comfort and journey times on the East Coast and Great Western Main Lines.

A more cost-efficient, lower carbon railway

- carrying out electrification on the Great Western Main Line, in the North West of England and on the Manchester–Leeds–York TransPennine route.

More reliable journeys and a better passenger experience

- increased capacity and improved passenger experience through major redevelopments of London King's Cross and Birmingham New Street stations;
- a national programme of station improvements (NSIP), focused on stations with high footfall and low passenger satisfaction;
- enhancing access to stations through the Access for All programme;
- improving the resilience of the rail network to winter weather; and
- establishing a dedicated taskforce to target metal theft and the disruption to rail services that it causes.

1.18 Collectively, these projects will deliver huge benefits to the UK, but even this extensive programme will not be enough to meet the long-term transport needs of our economy. The key strategic investment for the national transport network over the medium to long term is a national high speed (HS) rail network. The Government has recently announced its plans for HS2 – a network stretching from London to Birmingham, Manchester and Leeds, including stations in the East Midlands and South Yorkshire, as well as connections to Heathrow and HS1.

1.19 HS2 will deliver the connectivity and capacity on Britain's major north–south lines that our economy will need for sustainable growth. It will also form the basis of a potential wider network to other parts of Britain. Further public consultations on several aspects of HS2 will be undertaken over the coming months. These will include consultation on property and blight provisions and on route and station options for the lines from the West Midlands to Leeds and Manchester.

1.20 Central to the case for HS2 is the impending capacity challenge faced on our railways. For example, Network Rail has forecast that by the mid-2020s all capacity for additional or lengthened services on the recently modernised West Coast Main Line will have been exhausted. The new national high speed rail network will deliver a substantial increase in rail capacity to meet rising demand not just for long-distance rail travel, but also for commuters, releasing capacity and easing overcrowding on the existing railway. Attempts to upgrade existing lines further would be extremely disruptive to passengers and freight and yield only a fraction of the benefits of HS2.

1.21 HS2 will create employment, spread prosperity and transform the way that our businesses work and compete. It could reshape our economic geography, regenerate our urban centres and support economic growth in the major cities of the Midlands and the North. By significantly reducing journey times between Britain's major cities, it will address long-standing connectivity gaps: for example, it is currently as quick to travel from London to Brussels as it is from Birmingham to Leeds.

1.22 HS2 has a vital role in addressing the capacity challenge faced on the railway over the coming decades, as well as in meeting Government's broader objectives for the railway as set out in this Command Paper. By supporting our rail network to deliver the necessary capacity and connectivity, HS2 helps to ensure the long-term sustainability of the railway and strength of the UK's economy.

2. A better deal for passengers

Introduction

2.1 In recent years, most passengers will have seen improvements in services, with performance and safety rising since the start of the millennium. This has been accompanied by significant investment in the railway to deliver improvements in facilities, service frequency and journey times.

2.2 However, most passengers would recognise that there are many more improvements that could and should be made. In particular, while the range of cheaper 'advance fares' has widened, overall fare levels have been growing faster than inflation for some years, stretching family budgets. Overcrowding continues to be an issue on too many services, and the punctuality and reliability of services has been a cause for concern.

2.3 This chapter sets out how rail reform can make life better for passengers. It explains how a number of measures, such as the better alignment of industry incentives, should produce tangible benefits for users of the railway.

Relieving the fares burden

2.4 When the railways were privatised, it was envisaged that the real-terms cost of fares would decrease over time. The initial level of annual increases for regulated fares was set at RPI, then at RPI–1% from 1999. However, a review of fares in 2003 concluded that, in light of rising levels of demand for rail transport, and the consequent need for rail investment, this rate should increase to RPI+1% from 2004 onwards.

2.5 Fares play a vital role in funding the railway, enabling Government to take forward much-needed improvements. In October 2010, the Government announced that it would increase the cap on regulated fares by RPI+3%, for three years, beginning from January 2012 to help pay for essential investment in the network, including over 2,700 new carriages and a major electrification programme, while managing the pressure on the UK's finances created by the substantial subsidy for rail. However, we recognise passengers' serious concern about rail fares and the impact of higher than expected inflation on family budgets. The Chancellor's Autumn 2011 Statement therefore secured additional funding to keep the increase in regulated fares to an average of RPI+1% for 2012, as well as enabling investment even over and above that already planned as part of the Spending Review.

2.6 It is fair that passengers should continue to contribute to the cost of major investment in the network which makes services faster, more frequent, more reliable and more comfortable. One of the reasons why it is absolutely essential that the excessive cost of running the railways comes down is to give passengers better value for money as we make these investments. Continuing real-terms increases in fares indefinitely into the future could also have negative consequences for social inclusion, the wider economy and the competitiveness of the UK's cities.

2.7 The broad package of reforms outlined by Government and industry is designed to reduce the cost-base of the railway and its impact on the public finances. Passengers should share the benefits of this. We will reduce and then end above-inflation rises in average regulated fares, as soon as the impact of cost saving measures and improvement in the wider economic situation permit. It will be impossible to deliver this goal without bringing down the cost of running the railways because the fiscal position demands that the high levels of subsidy over recent years are reduced.

Availability of low fares

Government protects passengers by regulating certain types of rail fares, including commuter fares. This restricts the amount by which train operators can increase fares each year. However, one of the major successes of the privatised railway is the way some train operators have applied budget airline style pricing models to unregulated book-ahead advance fares in a way that helps them fill empty seats and offers passengers some very good deals. On longer-distance journeys, passengers who are prepared to book ahead and commit to a particular train service can take advantage of some of the lowest fares in Europe – such as £16 from Birmingham to Edinburgh or £12 from London to Manchester. Book-ahead fares generally become more expensive closer to the date of travel.

Building new capacity to address overcrowding

2.8 The continuing rise in the number of passengers using the railway is welcome. However, while passenger growth is an indication of the railway's success, it can also have an obvious downside for passengers if it leads to excessive crowding. A reduced industry cost-base will unlock future investment in the railway and make it easier for both Government and the industry to take steps to tackle the crowding that is a key concern for so many commuters into and out of our major cities.

2.9 One of the best ways of improving passengers' journeys is to procure train and (if required) network capacity increases where demand forecasts suggest it is most needed. This will be a key consideration in preparing the Government's High Level Output Specification. Government is driving the largest programme of rail capacity upgrades since the Victorian era, targeting funding at major improvements to reduce overcrowding. The main improvements are listed in the introductory chapter.

Reviewing fares and ticketing

2.10 Government believes that rail capacity expansion is an essential part of our strategy to address crowding on the network. However, it is not a solution on its own. We need to deploy a range of measures if we are to use our current capacity as efficiently as we can. Providing additional capacity to accommodate demand at the busiest times generally does not cover its costs because it tends to be only used lightly at other times of the day.

2.11 The *Rail Value for Money Study* highlighted that current fares structures do not support a more efficient use of rail capacity. For instance, certain jobs provide sufficient flexibility so that commuters could, if they chose to, sometimes travel outside the high peak hour. Many people are not able to change the time they travel. However, for those who can, the current season ticket system provides no financial incentive to do so. Failing to optimise the use of capacity means we may be placing more strain – and more costs – on the network during 'peak' periods than are really necessary. For instance, if demand on commuter routes could be 'smoothed', even within the 7–10am and 4–7pm periods, this could postpone the need for some of the new trains and infrastructure that are likely to be required in future years.

2.12 Furthermore, there is real scope to make the process of buying a ticket easier and more user-friendly. Ticket machines are not able to sell the full range of tickets and do not currently offer sufficient information about ticket restrictions. As a result, passengers buying tickets for unfamiliar journeys are not always confident they have bought the most appropriate ticket for their journey. Also, to date there has been limited opportunity for rail passengers outside London to benefit from new smart ticketing options.

2.13 Last summer, Government announced that it would accept Sir Roy McNulty's recommendation to conduct a review of fares and ticketing. Alongside this Command Paper we are publishing the terms of reference for this review and seeking views on a number of fares and ticketing issues with a view to moving towards a more transparent, modern and flexible approach.[5] The rest of this section sets out some of the principles that will underpin our approach in the fares and ticketing review.

Smart ticketing

2.14 **Government supports the introduction of smart ticketing technology, such as smart cards, to tackle industry costs, manage demand and make travelling by rail more attractive to passengers.** Train operators are already introducing smart ticketing and smarter ways of purchasing tickets. We will specify the use of smart ticketing technology in franchise agreements as they come up for renewal.

5 Department for Transport – *Rail Fares and Ticketing Review: Initial Consultation* – March 2012 – available from www.dft.gov.uk

Smart ticketing on our railways

- South West Trains introduced the first smartcard system on the UK rail network in 2008.
- In October 2011 Southern opened 'the key' – a smart ticketing pilot scheme – trialling it with 100 users on the Brighton to Seaford line.
- London Midland introduced its version of 'the key' for selected tickets on selected routes into Birmingham Snow Hill from January 2012.
- East Midlands Trains launched its 'stagecoach smart' ticketing scheme on a limited basis between Derby and St Pancras in 2011 and is progressively expanding the scheme across its smart-enabled network.

2.15 Smart ticketing should allow passengers to benefit from greater convenience in buying tickets through new retail channels. This might include loading tickets onto smart media (e.g. smart cards and smart phones) at home or at station ticket barriers, or auto-renewing tickets by direct debit. Passengers could also benefit from a better range of products, such as flexible carnets or 'smart' season tickets that are more suited to their needs. These kinds of new products can deliver benefits that go beyond the purely economic. For example, the season ticket geared around a standard working day and a Monday to Friday working pattern does not best serve the needs of the many people, particularly women, who work part time. Those who work flexible hours (for example where they have caring responsibilities for children or elderly relatives) could benefit from carnets or smarter season tickets.

2.16 Smart ticketing could offer enhanced information to help passengers make informed choices. The technology can allow operators to offer passengers much more personalised travel products. It is also a pre-requisite for the intelligent management of demand – it will provide the insight and products to help spread demand more evenly across the day, making the railways more financially sustainable, benefiting passengers overall.

Funding for smart ticketing

The Chancellor's 2011 Autumn Statement announced £45 million to support the roll out of smart ticketing across the South East.

We are working with operators on installing equipment so that existing season ticket products can start to be transferred to ITSO smart ticketing on some routes in London and the South East from January 2013, and to develop new flexible and more tailored season ticket products for use on ITSO smart ticketing by as early as 2014 on some routes.

2.17 A switch to smart and greater self-service purchasing potentially means that the very high costs associated with retailing can be reduced. Operators would benefit from more accurate data about usage, using this to introduce a broader range of products and to improve the settlement of fares between rail companies.

2.18 Transport for London's (TfL) Oyster card has been a resounding success and has delivered the benefits of smart ticketing to millions of passengers – including the convenience and reassurance of daily fare capping on Pay As You Go. Oyster technology is evolving with the prospect of contactless bank card 'wave and pay' payments in the future. However, this type of technology has limitations. For example, it cannot store the wider range of tickets available on the national rail network (such as seat reservations and first class tickets). Moreover, passengers are unlikely to be comfortable with using Pay As You Go for long-distance journeys with more expensive tickets. Impressive though Oyster is, it is not best suited to meet the requirements of the broader rail network.

2.19 Government has specified the use of ITSO compliant ticketing in new franchises. The ITSO specification allows smart ticketing schemes across the country to be interoperable between train operators and integrated with other modes of public transport.

2.20 Approximately 60% of rail travel in the UK starts in, ends at or crosses London, so it is vital that London is capable of accepting ITSO smartcards. DfT, working with TfL, is funding a programme to enable the Oyster infrastructure to accept ITSO smartcards by 2014. This will allow passengers to travel to, from and through London using a single ITSO smartcard or product.

Buying tickets

2.21 Research by Passenger Focus and others has found that many passengers find the process of purchasing a ticket confusing. **We need a more user-friendly ticketing system that communicates fares information to passengers in a straightforward way, so that they can confidently select the most appropriate fare for their journey.**

2.22 Technology is changing the way people buy tickets. Over the last six years, the proportion of tickets sold through ticket machines has risen from 11% to 20% and online from 7% to 17%. Meanwhile the proportion of tickets sold from ticket offices has fallen from 44% to 34%.[6] Research by Passenger Focus has found that, for 91% of passengers queuing at a ticket office, the ticket they wanted to purchase was available for purchase from a ticket machine, with in many cases shorter waiting times.

6 Source of data: Association of Train Operating Companies LENNON ticket database.

2.23 Train operators are already working on improvements to self-service ticket machines, but there is more that can be done. Increasing passenger confidence in buying tickets from a machine or online will play an important role in reducing the industry's cost base and offering better value for farepayers and taxpayers. The changing ways people buy tickets and the expansion of internet retailing and smart ticketing does require a fresh look at the regulation of ticket offices and retailing arrangements.

2.24 We recognise that passengers can feel very strongly about ticket office opening hours, not least because they value the face-to-face contact with a member of staff. Smart ticketing, online sales and ticket machines offer an increasingly attractive alternative for many passengers. Before we could agree to change we would need to be confident that passengers would continue to enjoy ready access to ticket buying opportunities. The needs of older and disabled people would have to be carefully considered including options for access to 'assisted purchase' channels for those who may find it particularly difficult to use a ticket machine or to buy online. We also believe that linking ticket sales with other retail opportunities could be a good way to improve passenger choice. The Merseytravel approach, which has seen ticket offices turned into shops, is an interesting idea that has the potential for broader development. Passengers might also value the convenience of being able to buy tickets from local shops or post offices (as is currently possible with Transport for London tickets, which are made available at Oyster Ticket Stops).

2.25 We recognise that, for many passengers, the presence of railway staff is an important part of feeling safe on the railway, particularly in the evenings. As demonstrated by London Underground, the absence of staffed ticket offices does not necessarily mean a reduced staff presence on the station and can often free up staff to be out moving around the station itself, helping passengers as required rather than behind a ticket office window.

2.26 Any proposals to change ticket office opening hours are currently considered on their own merits, including consideration of security concerns if applicable. As ticket buying habits change, we expect train operators to consider how best to deploy their station staff to provide the most benefit to passengers while reducing costs and providing a safe environment. Our fares and ticketing review will consider whether the current structures and systems facilitate this, including considering the process for changes to ticket office opening hours.

Fares

2.27 **Government believes that there may be a case for aligning fares more closely with the more efficient usage of the network, to help make our railways more financially sustainable and spread demand more evenly across the day.** The fares and ticketing review will consider this issue.

2.28 **While we reject the idea of using demand management to price people off the railways, we need to look seriously at the possibility of rewarding passengers who do not travel on the most crowded trains, and asking those passengers who drive the need for capacity enhancements by travelling at the busiest times to pay more over time for their journey by comparison.** Ultimately any change should benefit passengers, taxpayers and employers. It would require a cultural shift, because many commuters do not, or do not yet, enjoy the ability to work flexibly that would allow them to take advantage of cheaper fares on less busy trains.

2.29 This is particularly important in commuter markets where there is crowding on a relatively small number of peak services, while other peak services are less crowded and many off-peak services run with low passenger numbers.

2.30 **The fares and ticketing review is not about squeezing more revenue out of regulated fares.** It is about the structure of fares – what one group of passengers is asked to pay compared to another. Any changes to regulated fares would need to be balanced and fair so that rail travel remains affordable for as many people as possible. Furthermore, any changes that resulted in some passengers paying more would obviously require very careful consideration.

Improving performance and dealing with track closures

2.31 Passengers reasonably expect their journeys on the railway to be punctual and reliable on a day-to-day basis. Research by Passenger Focus has repeatedly highlighted the fact that disruption to services significantly affects passenger satisfaction with the railway. Particular concern surrounds bus substitution. Weekend track closures and their impact, particularly on Sunday services, is clearly a cause of frustration for many passengers.

2.32 Maintaining a safe railway and delivering the infrastructure improvements that passengers and freight users want inevitably involves temporary track closures and associated inconvenience for passengers. There will always be difficult trade-offs to make between the benefit to passengers and freight users of pressing ahead with upgrade programmes quickly and cost-effectively, and the disadvantage in terms of service disruption. Mechanisms already exist to compensate and incentivise train operators and Network Rail to achieve the right balance, and the Office of Rail Regulation is reviewing these as part of Periodic Review 2013.

2.33 Network Rail has a regulatory target (which it is currently outperforming) to reduce the disruption that its engineering works cause to passenger services by 37% by 2014 from a 2008 baseline. Moreover, the Association of Train Operating Companies, jointly with Network Rail, announced in December 2009 a package of measures to reduce the use of bus substitution on key routes.

2.34 However, replacement bus services continue to cause irritation and inconvenience for passengers so we want to ensure that further progress is made. We believe that the proposals set out in Chapter 4 of this paper for alliancing and shared incentives between track and train will go further to ensure the trade-offs on engineering works are made efficiently and that every effort is made to minimise disruption for passengers and freight users, putting more emphasis on keeping Sunday services running and reducing the use of bus substitution.

2.35 Train services have improved considerably over recent years. There has been a 10% punctuality improvement since 2004, although performance has levelled out over the last two years and now stands at 0.5% behind the trajectory for further improvement. Government will set out in its High Level Output Specification (HLOS) by July 2012 the level of performance it expects to see in Control Period 5 (2014–19). In doing so, it will need to consider the interaction between different performance objectives, such as punctuality, reliability and frequency of service, and their interaction in turn with other important outcomes such as increasing capacity, improving journey time, and reducing cost.

Preventing cable theft

In recent years, as global copper prices have risen, the theft of copper cables from the UK railway has become increasingly frequent. This has generated significant costs for Network Rail (£43 million over the past three years in repair costs and to compensate train firms for delay) and has resulted in massive disruption for passengers and businesses.

The British Transport Police already has a dedicated team of officers working full time on the problem and, working with Network Rail, has been taking steps to protect vulnerable assets, including additional physical security measures and forensic marking. To support these measures, the 2011 Growth Review committed £5 million to establish a dedicated taskforce to target metal theft through increased enforcement activity. Government will be introducing legislation to prohibit cash payments for scrap metal and to significantly increase the penalties to punish unscrupulous scrap metal dealers. Further measures will be brought forward in due course.

Specifying to meet passenger interests

2.36 More flexible franchise specifications, combined with longer franchises and the reform of incentives, will give train operators room to respond to changes in passenger demand. Within this more flexible framework, however, we will ensure that different locations remain adequately served. We will also mandate the standards of reliability and punctuality that must be achieved. Failure to meet these standards could lead to default and termination of the franchise.

2.37 This alone is not enough to protect passengers' interests with respect to service quality and passenger satisfaction. So a further way in which our new model franchises will protect passenger interests is by requiring train operators to deliver service quality commitments on key service aspects such as stations. Our aim is to ensure that the interests of train operators are better aligned with those of their passengers. The needs of passengers vary between franchises, and between train services, so the exact nature of the outputs we require will vary. As an example, the InterCity West Coast franchise Invitation to Tender includes minimum outputs to be achieved based on passenger satisfaction scores for stations, trains and customer service, along with required performance targets. Prospective franchise bidders should consider mobile communications and will be expected to work with mobile network operators and the telecommunications industry to consider methods for improving seamless voice and data mobile communications along their routes.

Devolving decision-making to sub-national bodies

2.38 The *Rail Value for Money Study's* final report identifies potential benefits from greater local involvement in decision-making relating to regional and local railways, and makes the case for further consideration of this.

2.39 The devolution of more decision-making powers from central to local government, on which we are consulting alongside this Command Paper,[7] would give local, democratically accountable bodies a greater say over local services, allowing a stronger input from local passengers than may occur with central and more remote decision-making.

2.40 Deployed in the right place, devolution could enable better planning of investment. For example, it may help to ensure that small-scale enhancements are aligned effectively with local passenger needs. It could also allow for the closer integration of rail with other modes of transport where appropriate, for example by allowing greater flexibility in aligning train service times and stopping patterns with local requirements. However, for a devolution proposal to succeed, we would need to be confident that the interests of different passenger groups in different geographical areas were going to be appropriately protected.

7 Department for Transport – *Rail Decentralisation* – March 2012 – available from www.dft.gov.uk

2.41 At the same time, as discussed in the next chapter, devolution within Network Rail will focus the organisation on day-to-day operations, allowing it to work more closely with train operators to identify and exploit local opportunities for improving services. Network Rail will still need to plan and develop the network to enable seamless operation.

Improving voice and data communications for rail passengers

Passenger satisfaction with mobile services while travelling by train is markedly lower than at stations reflecting the fact that mobile phone coverage and access to data communications across the rail network are patchy. Technological advances and the increasing use of mobile devices are leading to rising passenger expectations in these areas. We want to achieve a high quality mobile data and voice network with near-universal coverage of voice and data mobile services, and seamless connectivity through the journey, on all major transport links. Government is determined that any barriers to delivering improved mobile communications services are removed. Network Rail, Ofcom, transport operators, and mobile service providers are well placed to lead in this area, but Government will consider more direct intervention if required.

The role of the regulator

Improving contract management and enhancing the role of the Office of Rail Regulation (ORR) in passenger protection

2.42 It has long been established that regulation is required in the rail sector to protect the essential interests of passengers and freight users. The ORR already regulates Network Rail. However, it is also important that there is a regulatory regime which is tough on train operators that abuse their market position or indulge in anti-consumer behaviour.

2.43 The franchise agreement has historically been a key mechanism for regulating train operators' behaviour. Nonetheless, contract management of franchises has become overly bureaucratic. The rigidly defined contracts let in the past have left franchisees with little flexibility as to how outputs should be delivered. This shifts the focus of train operators on to complying with highly specific wording or targets, which may have been drafted more than a decade ago, rather than doing their best in the prevailing situation to deliver on the issues that matter most to passengers.

2.44 We are therefore adopting a more flexible approach to franchise contracts, with a shift from detailed inputs to broader outputs focused on passenger satisfaction. We are also working to streamline the way franchises are managed, taking a more proportionate and efficient approach, with a clearer recognition that train operators are mature businesses with an interest in serving the interests of their passengers.

2.45 However, Government believes there are clear benefits to be gained from moving towards a more unified regulatory structure for the railway. We set out the options for starting this process in the consultation document *A Greater Role for ORR Regulating Passenger Franchisees in England & Wales*,[8] which we launched jointly with the ORR in December 2011. This consultation has now closed: Government and the ORR will publish conclusions in due course.

2.46 Our immediate focus will be on bringing together those areas of rail regulation which impact most directly upon the passenger experience. That is why we are proposing to move responsibility for issues such as the monitoring of passenger complaints handling processes to the ORR and exploring the potential to give the ORR a role in relation to train operator performance. These reforms would ensure that passengers could look to a single organisation with a clear responsibility for protecting their direct interests. Over time our ambition is to progressively move the ORR to the heart of whole industry efficiency and performance, taking Government out of day-to-day industry business.

Improving passenger information during disruption

2.47 The severe weather in November and December 2010 highlighted serious failings in the provision of information to passengers. In the words of Passenger Focus:

"Too many passengers experience patchy, inaccurate or conflicting information – and some get none at all. It shines through that having accurate, consistent information is vital, irrespective of the information channel used, whom you ask or where you ask. It seems extraordinary to passengers that in our modern communications age this is apparently so difficult to achieve."[9]

2.48 New technology has the potential to improve passenger access to rapid and reliable information flows about service disruption. However, more timely action is required to make progress. As a result, the ORR, following consultation, has decided to place new obligations in the licences of train operators, Network Rail and station operators requiring them to ensure that passengers are in future provided with accurate and timely information during periods of disruption.

8 Office of Rail Regulation and Department for Transport – *A greater role for ORR regulating passenger franchises in England and Wales* – December 2011 – http://www.rail-reg.gov.uk/upload/pdf/regulator_role_consultation_dec2011.pdf

9 Passenger Focus – *Rail Passengers' Experiences During the Snow* – 2011 – available from www.passengerfocus.org.uk

London Midland Twitter service

London Midland has developed a Twitter service to provide passengers with accurate and complete information about train services during disruption. The train operator's customer service staff tweet information about delays and cancellations, including advice about alternative routes and using tickets on alternative services. The service is two-way, with the public receiving immediate responses if they tweet in with queries about disruption. The service won a rail industry award in 2011 for its innovative approach to customer relations.

2.49 Government welcomes the ORR's plans, due to come into place in March 2012, which will ensure that the whole industry is working together to deliver the best possible passenger information. The travelling public rightly expects to be given this information, and operators who believe in great passenger service should welcome the new licence condition. Better information for passengers is covered in more detail in Chapter 5.

3. A more strategic role for Government

Introduction

3.1 If our railway is to function efficiently and effectively, we need clear leadership from the Government, the Office of Rail Regulation (ORR) and the whole industry. We also need clarity about their respective roles. Under the last Government, control over the railways became more and more concentrated in Whitehall. This needs to change if we are to reduce the cost of running the railways and deliver better value for money and better services for passengers. This chapter sets out how that change will happen.

3.2 The Railways Act 2005 requires the Secretary of State to set out:

- what she wants to be achieved by railway activities (the so-called High Level Output Specification, or HLOS); and
- the public financial resources that are or are likely to become available to do so (the Statement of Funds Available, or SoFA).

This process sets the strategic direction for the rail industry, prioritising major network enhancements and the funding levels required to deliver them. It provided a workable and relatively successful mechanism in the ORR's last periodic review in 2008.

3.3 The *Rail Value for Money Study*, discussing the period after the first HLOS in 2007, expressed the view that "subsequent decisions appear to have been made incrementally without reference to that [HLOS] vision". It flagged "a level of Government involvement in railway affairs which many observers consider is now greater than it was under the nationalised British Rail", and added that late changes from Government to the scope of projects was a common driver of cost increases. We share many of the concerns set out in the Study and we believe that Government itself can take decisions more effectively to reduce cost pressures.

3.4 More broadly, Government's involvement in the railway has been shaped by a number of factors, in particular:

- the level of public subsidy invested;
- the need to take a strategic overview where more than one industry party is responsible for delivery, or where decisions are required beyond existing franchises or control periods;

- the importance of ensuring that wider social, environmental and economic factors not captured in ordinary commercial decisions are taken on board in the configuration of train services, so that different locations and communities continue to get the services they need;
- real time financial considerations arising from the structure of current franchise contracts; and
- the need to secure value for money on major projects such as the InterCity Express Programme and Crossrail.

3.5 Because of the continuing need for taxpayer support for the operation and improvement of our railways, Ministers need to remain responsible, and accountable to Parliament, for setting a top-level strategic direction for rail and for the use of public funds. They will also, with the ORR, set out the incentive framework which drives the key rail organisations to make operational decisions that are right for farepayers and taxpayers.

3.6 However, the industry has not always been ready or, at times, permitted to show the necessary leadership. Under our predecessors, Government became too involved in the detail of the rail industry on too many occasions, for example on issues of train service specification and deployment of rolling stock. The result is that Government is seen as holding much of the responsibility for industry's performance as well as many of the risks relating to its costs. Consequently, there has been a lack of leadership and whole-systems approach within the industry, which has not taken responsibility for reducing costs and delivering better results for passengers. This means that detailed decisions about the efficiency of the railway are not always being taken by those in the best position to do so.

3.7 The *Rail Value for Money Study* also suggested that franchise agreements let by the last Government give train operators limited flexibility to respond to emerging market developments or changes to policy. It indicated there may be advantages in transferring more decisions on local or regional rail services to the local level where decisions may be better informed regarding local need.

3.8 In line with the Government's decentralisation agenda, we will seek where appropriate to devolve more accountability and decision-making to the professionals who run our railways – the train operators and the industry as a whole. We will also explore the potential to devolve more decisions about local services to sub-national bodies such as Passenger Transport Executives (PTEs) and local authorities.

Setting a network strategy for our railways

3.9 By July 2012 the Department will publish the High Level Output Specification (HLOS2) setting out our required outcomes for Control Period 5 (CP5): 2014-2019. HLOS2 will be framed within the context of the Department's longer-term strategy for the railway to:

- put passengers first by maintaining the reliability and safety of our railways;

- improve rail services by enhancing the connectivity and capacity of our national rail network, particularly for the journeys that matter most for economic growth – i.e. major inter-city, commuter and freight flows; and links to international gateways;
- improve value for money from our rail network for passengers and taxpayers; and
- support the achievement of UK environmental targets.

3.10 In developing HLOS2, we expect to consider six key market segments:

- inter-city services between London and other major conurbations;
- inter-regional services between key urban centres;
- freight services – both domestic and international;
- commuter services into major cities;
- local and rural services in the regions; and
- international passenger journeys, including via the Channel Tunnel and providing surface access to major airports.

3.11 Within the constraints of affordability, our aims for improving the rail network in the future include the following:

3.12 From 2026 onwards, various services within the first two segments will include HS2 services running onto the existing network. The substantial amount of line capacity on the existing network released by HS2, initially on the West Coast Main Line between London and the West Midlands, and subsequently more widely, will allow a significant enhancement of commuter, regional and freight services. The complementary nature of the existing and high speed networks will also affect the way the existing network develops so that it is best placed to meet the future demands which will be placed on it. We will work with HS2 Ltd, Network Rail and others to ensure the optimal integration of the high speed and existing networks.

3.13 For inter-regional routes which are not directly served by high speed lines, we will seek to improve connectivity between key urban centres by increasing line speed and capability, and connections to high speed services. This will ensure communities are well connected with one another, unlocking jobs and economic growth. The recent announcement of the electrification of the north TransPennine route from Manchester to the East Coast Main Line via Leeds will provide significantly enhanced travel on the economically important axis extending from Liverpool to Newcastle.

3.14 TransPennine electrification, together with the Great Western Main Line and North-Western electrification projects, also represents a significant further step in delivering our rolling programme of electrification. Electrification is an important element in delivering a long-term low-cost railway. Electrification will allow us to replace diesel trains, reducing journey times, increasing the railway's capacity, and improving its environmental performance. These benefits will progressively extend to freight as well as passenger services. With the decarbonisation of electricity generation, our electrification programme will be able to make a further contribution to meeting the

UK's carbon and air quality targets for transport, notwithstanding the substantial forecast growth in rail usage.

3.15 One of the key future roles of the existing rail network will be to continue to support the growth of freight services, particularly for inter-modal containers. Our strategy is set out in the Department's Strategic Rail Freight Network policy.[10] We aim to fund a targeted programme of investment designed to make the best use of the existing rail infrastructure and to support continued private sector investment in the industry. Where there is a business case, and subject to affordability, we propose to increase network capability to accommodate forecast freight growth. HS2 will also release capacity on the existing network to enable more freight services to operate.

3.16 Following the programme of loading gauge enhancement to accept taller containers on the rail routes between ports and major interchanges, we will seek to progressively upgrade these and other strategic freight routes to accept longer trains, to resolve capacity pinch-points and performance constraints, and to secure the level of freight network availability increasingly demanded by customers.

3.17 Rail has a vital role in the national economy in enabling very large numbers of people to commute between home and workplace in our major cities. We will continue to support this essential business and community requirement, working with local authorities, PTEs and train operators to make the best use of our urban rail networks, investing in greater capacity where this represents value for money for the taxpayer.

3.18 Outside the major cities we will continue to support regional and local services that link businesses and communities, as these make a significant contribution to local economies in less heavily populated parts of the country. As set out later in this chapter, we are consulting on the opportunity to give decision-making powers to sub-national bodies in respect of such services. Community Rail Partnerships and local authorities will continue to play an important role in the success of such lines.

3.19 High speed rail services to Europe via HS1 and the Channel Tunnel directly meet international business and leisure travel demand. The first phase of HS2 will include a connection with HS1 to allow through running of international services. Rail also plays an increasingly important role in providing sustainable surface access for passengers using our major airports. We will continue to work with airport operators and local authorities to develop options for enhancing rail access to major airports. The Government also supports a direct high speed link to our international hub airport, Heathrow, to promote modal shift to rail and to make Heathrow more accessible to the Midlands and the North.

10 *Britain's Transport Infrastructure – Strategic Rail Freight Network: The Longer Term Vision*, Department for Transport, September 2009.

3.20 Planned investment in the network could provide an opportunity to route other infrastructure services along the line of the railway. This has a number of potential advantages, including reduced cost, disruption and land use, the provision of services such as high-speed data to passengers and local communities and increased resilience of infrastructure networks overall. The National Infrastructure Plan 2011 noted the barriers to realising these opportunities, including risk aversion and lack of co-ordination across sectors, and set out actions to overcome these. These included pilot reviews of a number of major infrastructure projects, including HS2, to consider what opportunities for interdependencies may exist and how they may be exploited. We will look to Network Rail to plan ahead for opportunities on the railway, collaborate with other infrastructure providers and facilitate access to its network on fair commercial terms. The ORR also has a role in ensuring that its actions as regulator do not discourage shared projects of this kind.

3.21 The High Level Output Specification will establish the next steps in realising this strategy. Amongst other things, it will set out requirements for the railway's safety and environmental performance, together with high level metrics specifying the level of service reliability to be achieved and the level of major city peak capacity to be provided. We will aim to make funding available for industry-led investment in initiatives such as: the Strategic Freight Network; high value small schemes; and preparatory work for schemes in the following Control Period (from 2020). Subject to affordability, additional major projects may also be specified.

Funding and delivering major projects

3.22 Government will continue to have an important role in the delivery of enhancement projects that represent a step-change for the railway. Recent examples include Crossrail and the electrification of key parts of the network. Where rail projects are of such scale and significance that central Government will carry the underlying risks around delivery, we will continue to be the promoter. This means that we will continue to take a view on the case for investing in such projects.

3.23 Other projects are of a scale where industry should take responsibility for their delivery. Government's next High Level Output Specification (HLOS2), will set the framework for industry to deliver these enhancements during Control Period 5.

3.24 HLOS2 will recognise that there will be further projects where passenger or freight operators, being closest to their customers and the market, are best placed to develop and invest in improved services and facilities that pay their way from a commercial perspective. To support this investment Government is developing proposals that allow train operators to finance infrastructure using Network Rail's Regulated Asset Base, where this is appropriate and agreed by the ORR. Train operators would need to work in partnership with Network Rail on such projects.

3.25 Further, at a local level, local authorities and PTEs are best placed to promote projects of local importance and can use funding streams for transport as a whole to make decisions on investment across the whole transport spectrum.

Local investment in the rail network

The transport network must continually adapt to housing and population growth, and changes in employment patterns. Local authorities, Passenger Transport Executives (PTEs) and Local Enterprise Partnerships (LEPs) are best placed to identify these trends and, working with the relevant partners, to meet new travel requirements. This may include the provision of new train services, and re-opening railway lines and stations.

Local bodies already have the ability to take forward capital schemes on the railway. For example, we have recently made announcements confirming funding for new schemes from the Local Sustainable Transport Fund, Regional Growth Fund and Major Local Transport schemes budget. These include, for example, new stations at Kirkstall Forge, Apperley Bridge and Stratford Parkway, and new direct services between Burnley and Manchester via a reinstated Todmorden Curve. The next Major Local Transport Schemes budget, to be introduced in April 2015, is likely to provide similar opportunities. We are currently considering how to reform this funding stream to enlarge the role of local and sub-national bodies, such as councils and LEPs, in decisions on which projects to prioritise.

Where a new service requires revenue funding, we believe it is important that local promoters provide subsidy from local budgets for at least the first three years to demonstrate the viability of the project and establish evidence on local demand. As the Department currently funds the bulk of the rail network centrally (and without prejudice to our consultation on rail decentralisation) we will consider taking on responsibility for these services after three years or after April 2015 (whichever is the latest), once they have demonstrated value for money, and subject to funds being available.

We recognise that there is support in a number of local communities for re-opening disused railway lines. Building a business case for such projects can be challenging. However, recent progress on the Todmorden Curve and the East West Rail proposal to re-open the Bicester to Bletchley line demonstrates that in the right circumstances such projects can be viable. Government therefore encourages planning authorities to bear in mind the potential for future re-openings when deciding applications. This is reflected in the draft National Planning Policy Guidance which states that:

> "Local planning authorities should identify and protect, where there is robust evidence, sites and routes which would be critical in developing infrastructure to widen transport choice."

In some parts of the country, closed railway lines are used as footpaths or cycleways. Government encourages such use, which leaves open the prospect that they might be used again for their original purpose in the future. Combined with our desire to decentralise decisions where possible, this approach represents an opportunity for local communities to shape much of their local transport network over the coming years.

Reforming our franchising system

3.26 The existing franchise framework has delivered some advantages but needs reform in various important respects. For example, current incentives do not adequately reward franchisees for reducing costs, while fares have been growing at above inflation. Anecdotal evidence also suggests that it has sometimes been too easy for operators to benefit from the engineering work and performance compensation regimes rather than serving passengers effectively.

3.27 We will strike a better deal on behalf of farepayers and taxpayers. Between 2012 and 2016, we will undertake the largest programme of refranchising since privatisation. Fourteen franchises will be re-let, including for services on the West Coast Main Line, the Great Western Main Line and the East Coast Main Line. Government's role will be to develop, specify, and procure franchises that incentivise train operators towards efficient, collaborative and customer-focused performance that is value for money for taxpayers.

3.28 The franchises we procure will be longer, giving operators more responsibility and more flexibility in the services they provide, as well as more incentives to invest. While we will continue to be vigilant in protecting the interests of farepayers and taxpayers, our overall approach will be to treat operators as mature companies with a vested interest in satisfying their passengers.

3.29 Different approaches will be needed for different areas, particularly where local and regional services require special support. We will continue to ensure that different locations remain adequately served. Nonetheless, specifications will be more flexible (particularly for long distance services) allowing franchisees to use their knowledge of their own passengers' needs to develop service patterns.

3.30 The previous chapter on passengers set out how franchisees will be held to account in respect of their obligations towards passengers. The next chapter provides further detail about changes to the current 'cap and collar' revenue support arrangements, and aligning franchised operators' interests with those of Network Rail.

Devolving rail decisions to the local level

3.31 This Government has already demonstrated its commitment to localism. We have abolished the Audit Commission's Comprehensive Area Assessment of local public services, and also the National Indicator Set and the Government Offices for the Regions, which central Government used to oversee local delivery. We have also massively scaled back the amount of data demanded of local government.

3.32 We believe in transferring power and responsibility to the appropriate local level, scaling back Whitehall's command and control structure. In rail, this would mean giving communities the opportunity to take more decisions about the local services they require, and to have transparency over the cost of such services in comparison with other solutions to local transport

priorities and wider local objectives. It would mean allowing the rail industry and local partners to lead delivery, and to deliver services that meet the needs of local communities and rail passengers.

3.33 Scotland already has fully devolved executive powers over train services and infrastructure. In Wales, while rail infrastructure is not devolved, rail services are managed by the Welsh Government with support in specialist areas such as procurement being provided by central Government. Central Government also remains the operator of last resort. We will continue to work with the Welsh Government to ensure that devolution works in the best interests of rail passengers. For both Scotland and Wales, cross-border services will continue to fall within the remit of central Government.

3.34 In London, Transport for London has devolved responsibility for the London Overground network. Likewise, the Merseyrail network is an operating concession devolved to Merseytravel, the local PTE.

Community rail

Community rail initiatives allow local people and volunteers to help improve their local rail services and stations. In doing so, they can increase revenue, reduce costs, increase community involvement and support social and economic development. Community rail routes usually provide low speed, non-commuter services in rural areas, although a few routes operate in urban areas.

Projects range from local people helping to maintain station gardens to the refurbishment of small stations with artwork from local schools. Around 4,000 volunteers work in community rail contributing over 1.2 million hours of work, bringing around £27 million of extra value to the rail industry, and with an estimated benefit–cost ratio of £4.60 benefits for every £1 spent.

Recognising the value of community rail, the Department has formally designated over 30 community rail routes. Designation encourages good standards across the community rail industry.

Severnside Community Rail Partnership is a good example of the benefits of Community Rail, on the line between Severn Beach and Bristol. For instance, a number of station improvements have been completed to improve the environment and ambiance at stations on the line. These schemes include garden and artwork projects, clearance of rubbish and overgrown foliage, renovation and repainting work along with a restructuring of the pattern and times of local services. All this has helped to generate a 90% increase in patronage on the line since 2007/08.

Heritage Rail

Many heritage railways have become highly successful tourist attractions. Often run by volunteers, such railways can make a significant contribution to local economies by:

- attracting visitors to local areas. As all-weather attractions, they help to extend the tourist season;
- purchasing local goods and services; and
- in some cases, providing jobs and opportunities to develop skills.

Heritage rail attracts substantial numbers of volunteers willing to work for the community, in many cases undergoing training and undertaking managerial or supervisory roles. As such, it is a good example of 'Big Society' in operation.

3.35 These examples of devolution represent only a small proportion of local and regional services. Alongside this Command Paper, we are conducting a public consultation to examine the further possibilities for rail decentralisation. This consultation[11] will invite sub-national bodies to come forward with their proposals for increased involvement in specifying and delivering rail services locally.

3.36 We welcome the opportunity to move to a more localised approach to decision-making on the railways. Nevertheless, before we do so, and as set out in the consultation paper, there are some complex issues to be addressed. In some areas – London and the north of England PTE areas, for example – the current political structures do not match the operational geography of franchised services. Additionally, some of the decentralisation options might involve transfer of significant risks to local authorities in terms of revenue fluctuations. Careful consideration would need to be given to all these issues before deciding how and whether the current approach should change.

3.37 The position with London and South East services needs to be considered in the light of the considerable amount of investment being directed to the heavy rail network in and around London. The routes into most London terminal stations are at or approaching capacity (both for the number of trains, and the length of trains) to the extent that major infrastructure investment is required to address the problem. Current and recent examples of this are Thameslink, Crossrail and HS1.

3.38 The need for additional capacity is driven by growth in demand, not just on inner London services but on longer distance commuter services into London from places such as Northampton, Oxford, Newbury, Brighton, Norwich and Southampton. Indeed, all central London terminal stations are shared by trains that serve both the London area and places well beyond the GLA boundary, and 47% of all passenger demand into London in the morning peak takes place on long distance, outer suburban and airport services.

11 Department for Transport – *Rail Decentralisation* – March 2012 – available from www.dft.gov.uk

3.39 Because of the magnitude of the investments required and because of their strategic impact, wide-scale sub-national devolution is not appropriate and central Government is best placed to fund such investments and make the strategic decisions on how these investments are best used. Nevertheless, Government remains open to considering proposals for devolution of specific services where these are both compatible with the effective operation of the network and capable of providing clear accountability between decision makers and passengers.

A greater leadership role for the industry

3.40 Under the last Government, concern grew about the level of Whitehall involvement in the railways. We now need the role of Government to focus on a core strategic role, setting the rail industry the right incentives and giving it the responsibility to shape its own approach to meeting diverse passenger needs across different franchises.

3.41 Meanwhile, the *Rail Value for Money Study* highlighted a lack of industry leadership, noting the consequent absence of a whole systems approach on issues ranging from provision of passenger information during service disruption to mature asset management.

3.42 Government agrees with these conclusions. The industry must now show it is capable of forming a coherent and cost-effective response to investment and service decisions. All parties need to demonstrate their capacity to deliver timely cost savings and to take a whole-industry financial view of the effect upon Government finances.

3.43 Government therefore welcomes the establishment in May 2011 of the Rail Delivery Group, which has responded to the recommendations of the value for money report by taking and shaping the industry's agenda for a sustained programme of improved management and running of the rail network.

The Rail Delivery Group

The Rail Delivery Group (RDG) comprises the Chief Executives of the owning groups that operate the rail industry's passenger franchises, the leading rail freight companies and Network Rail.[12]

The RDG was established by the industry to shape, and then lead, its collective response to the strategic and operational challenges it faces on cost-effectiveness. The RDG will not duplicate or override the primary accountabilities for delivery in the rail industry. These will remain with the passenger and freight operators, and with Network Rail. Its role is to provide a forum in which the industry can first agree and then articulate the responses to those challenges. It provides a platform from which the industry can take a central role in leading the delivery of reform.

12 Further information on the Rail Delivery Group, including its membership and minutes of its meetings, is at www.raildeliverygroup.org

The RDG wants to work with Government to help tackle the most important issues facing the industry. It has selected six priority areas where it believes that industry itself has the critical role:

- **Asset, programme and supply chain management:**

The RDG is considering the scope of and accountability for major projects, efficient planning of the maintenance work bank and the early involvement of passenger and freight operators when investments are specified. Aligning incentives between Network Rail and train operators will be crucial for success.

- **Contractual and regulatory reform:**

The RDG is looking at how better designed franchises and a culture of partnership working can help make contracts less complex and more flexible.

- **Technology, innovation and working practices:**

People costs are approximately one-third of the industry's costs. Developing the skills of railway staff is vital and the RDG has supported the creation of a cross-industry graduate recruitment scheme. Effective and sustained engagement with industry stakeholders, including unions and the workforce, will be vital. The RDG is looking at how technology and innovation can help improve working practices and underpin the development of a customer focused industry, and secure savings from overhead and administration costs.

- **Train utilisation:**

In London and the South East, in particular, there is scope to do more to match the supply of rolling stock to passenger demand to improve the passenger experience and reduce the cost of meeting growth. The RDG is looking at how trains can operate more than one service during the morning peak – the primary driver of rolling stock requirements. It is also considering how passengers can be encouraged to travel outside the high peak, within the fares and ticketing framework set by Government.

- **A whole-system approach:**

An integrated technical, financial and commercial response can underpin both a better railway and a more cost-effective railway, especially in implementing technical change. The RDG is looking at how it can work with existing industry bodies to provide a better focus in this area.

- **Industry planning:**

The RDG is already overseeing the industry's planning processes that feed the ORR's Periodic Review. These include the Initial Industry Plan (published in September 2011), the industry's Strategic Business Plan, and Network Rail's Strategic Business Plan and related route plans.

To ensure transparency, the RDG publishes on its website a summary of proceedings from each of its meetings.

3.44 We intend to work in partnership with the Rail Delivery Group. As the Group's capacity and confidence grows, there will be opportunities for Government to return key roles and responsibilities to the rail industry. Where the long term interests of passengers, freight customers and other railway users are enhanced by such changes, we will support them.

3.45 We are also encouraged by the Initial Industry Plan, which responded to the ORR's Periodic Review 2013 consultation and was developed by the whole rail industry. This faces up to the reality that costs cannot continue to rise for ever. The challenge to industry is now to deliver. Sir Roy McNulty's report has set out the opportunity to industry of tackling costs in the region of £3.5 billion per year by 2018/19, benefiting farepayers and taxpayers. The objective of the reforms we set out here is to enable the industry to work collaboratively to deliver on this opportunity.

Smarter regulation for the railways

3.46 There is increasing recognition that we need to look at the totality of regulations in force on our railways and consider whether these remain appropriate. We have therefore held a 'Red Tape Challenge', inviting stakeholders and members of the public to identify opportunities for scrapping unnecessary regulation.[13] The Department will report on its proposals for implementation shortly.

3.47 Government's Better Regulation agenda recognises the role that effective and efficient regulation can play in reducing administrative burdens, and considering new and innovative ways of delivering the same outcomes. In developing plans for rail reform, and to deliver a better, more efficient railway for passengers and for freight, Government has sought to work together with the rail industry, aiming to establish a consensus on issues rather than legislate or regulate.

13 Further information on the Red Tape Challenge for rail is at: www.redtapechallenge.cabinetoffice.gov.uk

4. A more efficient industry

Introduction

4.1 This chapter deals with the framework of structures and incentives overseen by Government and the Office of Rail Regulation (ORR) to encourage the rail industry to deliver the outcomes and savings that benefit both farepayers and taxpayers.

4.2 While the gross cost of the railway has declined from its peak in 2006/07, the incentives that will drive the much-needed further cost reductions need to be significantly strengthened. This means stronger incentives for rail industry players to deliver cost reductions individually, but also to encourage them to align and work more effectively together, to tackle the whole-industry, whole-life, whole-system costs. We need to create an incentive structure which continues to deliver the same high levels of safety but in a more efficient way on behalf of farepayers and taxpayers.

4.3 In particular, more needs to be done to create leadership and to align the incentives of track and train around the key objectives of improving outcomes for passengers and reducing costs.

Greater alignment between rail industry parties

4.4 In the past, incentives have not successfully aligned the interests of the main organisations running our railways. This has led to the perception that, at times, behaviour in the rail industry has been driven by narrow, sectoral interests rather than focused on the best solution for the system as a whole and the passengers and taxpayers who fund it. In most cases, this isn't a fair description of how those running our trains and railways work in practice. Even so, action is needed to ensure the prevailing industry culture shifts decisively from an attitude of "My trains, your tracks" to a shared focus on "Our railways" and on delivering the best outcomes for passengers and freight in the most cost-effective way possible.

4.5 The challenge set by the *Rail Value for Money Study* is to align the interests of Network Rail and train operators at a local level around operational efficiency and planning in order to achieve efficiencies. The study envisaged three possible levels of integration (Table 4.1):

Table 4.1 McNulty levels of integration	
Level of integration	**Arrangements between Network Rail and train operators**
Minimum	Cost and revenue sharing; joint targets
Intermediate	Joint venture/alliances
Maximum	Full vertical integration through a combined concession of infrastructure services and train operations

4.6 Government welcomes the direction of the study's recommendation and considers greater alignment of incentives for efficiency between Network Rail and train operators to be the most pressing reform necessary to drive down costs for rail industry. Government is committed to exploring the full menu of options for promoting greater alignment, including options to place responsibility for train operations and infrastructure management in an area in the same hands.

4.7 We also believe that decentralisation of certain functions within Network Rail and the formation of alliances with train operators is essential if we are to make Network Rail more accountable to its train operator customers.

Incentives for train operators

4.8 The existing franchise framework largely removes train operators' exposure (up or down) to changes in Network Rail's costs. So train operators have had little incentive to negotiate or facilitate Network Rail cost reductions. The mechanism for protecting operators also involves significant regulatory burden. We are reforming franchises to give train operators an interest in those Network Rail costs they are able to influence. This will be done by incentivising partnership working to identify and secure savings (for instance, train operators working closely with Network Rail on the way that rolling stock works with railway infrastructure) and removing costly, bureaucratic burdens from the system.

4.9 As proposed in the ORR's December 2011 consultation on incentives,[14] this could involve exposing train operators to:

- Network Rail's performance against its efficiency targets for Control Period 5 and future Control Periods, at a Network Rail route level;
- changes in Network Rail's costs occurring at future regulatory reviews; and
- other regulatory changes, such as future improvements to the compensation payment schemes for engineering works and unplanned delays.

Any incentives will need to recognise that the ability of train operators to bear risk has limits, and there are some costs and decisions that cannot reasonably be influenced.

14 ORR – *Periodic Review 2013: Consultation on Incentives* – December 2011. Available at www.rail-reg.gov.uk

4.10 In time for the next Control Period, which starts in April 2014, Government and the ORR propose to put in place new centrally-designed incentive mechanisms within Track Access Agreements and franchise agreements to establish at least a basic alignment of incentives between franchisees and Network Rail. This will focus joint working on the reduction of costs and on improving services for passengers. Amongst these incentives is the ORR's proposed Regional Efficiency Benefit Share. This would ensure that train operators would benefit from outperformance (or be exposed to underperformance) against Network Rail's local efficiency targets.

Delivering alliances in new franchises

4.11 We want to encourage closer cooperation between operations and infrastructure. However, a one-size-fits-all model is not likely to be appropriate. The extent and type of alignment will vary depending on the nature of rail operations on the relevant part of the network. For instance, where a part of the network is heavily used by a single train operator (such as on Network Rail's Wessex or Anglia routes), the franchise may be suitable for deep levels of partnership working between the management of track and train. The proposed arrangements currently being developed between South West Trains and Network Rail are an excellent opportunity to see what can potentially be achieved even within the existing franchise arrangements. On more complex routes, with many operators or no single dominant operator, such arrangements may be more difficult. Nonetheless, Government believes that in principle most franchise routes are suitable for some form of alliancing arrangement beyond what currently exists.

4.12 Government will therefore design future franchises to facilitate and where appropriate encourage bespoke arrangements for cost and revenue sharing, including the forming of alliances between train operators and Network Rail. This could cover all aspects of train operator and Network Rail activities, including major renewals and enhancement projects. We will support such alliances as long as we are confident that passengers and taxpayers will receive a fair share of the savings delivered. We will also work with the ORR to ensure that the necessary legislative and regulatory requirements are being met. The ORR is publishing a policy statement setting out how it will consider proposals for alliances, including ensuring that adequate safeguards exist for those outside an alliance. Network Rail will also be publishing its own policy statement to encourage other industry parties to come forward with proposals.

4.13 With the majority of franchises expected to be replaced in the next two to three years, there is now an unprecedented opportunity for supporting alliancing and other efficiency schemes. The type of arrangements put in place could vary based on the specific requirements of the route and the extent of possible savings. Different types of efficiency scheme might be suitable where there are:

- operators that run the majority of services on the Network Rail route;
- multiple operators on the route;
- operators that cover more than one route; and

- schemes that are focused on a particular task or more system orientated.

4.14 The two models we are considering for upcoming competitions are:

- alliances that operate from the beginning of the franchise and are included in franchise bids; and
- alliances that can be implemented during a franchise, where gains are subject to a specific negotiation regarding the profit share mechanism.

We expect proposals to be worked up collaboratively with the industry. It is for Network Rail and operators to own the solutions and their delivery.

4.15 The scope for greater alignment is not limited to new franchises. Network Rail is already engaging with a number of current franchisees to develop arrangements for joint working, with a view to delivering cost savings and better outcomes for passengers. Government welcomes these developments and will support amendments to existing franchise contracts to enable such alliances, again subject to the conditions set above. Work done so far indicates that alliances might include the following:

- joint working to improve performance for passengers by reducing delays and optimising timetables;
- better planning for engineering works to minimise costs and disruption to passengers;
- more efficient maintenance of stations and depots;
- integrated control centres to deliver smoother and more efficient network and train service operations; and
- enabling, training and licensing staff from the train operator and Network Rail to carry out operational duties on behalf of each other, to deliver a better passenger service and reduce disruption.

A more devolved, responsive Network Rail

4.16 If alignment is to work properly, Network Rail needs to be incentivised to engage with train operators as well as vice versa. Network Rail's centralised structure was necessary to get a grip on safety and performance after the Hatfield tragedy. It has helped deliver savings of 27% in the period 2004–09 (CP3), and at least 11% so far in 2009–14 (CP4). However, its maintenance and renewal costs are still considerably higher than the very best of its European comparators. The Initial Industry Plan outlines possible 16% efficiency savings for the period 2014–19 (CP5) from Network Rail. If these further savings are to be found, Network Rail must work more closely with the rest of the rail industry, identifying and responding to opportunities at the local level.

4.17 In February 2011, Network Rail responded to emerging findings from the *Rail Value for Money Study* by announcing a programme to devolve much greater day-to-day decision-making autonomy to its routes, with accountability resting with the post of the Route Managing Director, which has enhanced decision-making powers. Each route has been given its own profit and loss account and targets, with management incentives based more on the specific Network Rail route than overall national performance.

4.18 Network Rail completed this programme in November 2011. The changes are intended strongly to enhance Network Rail's capability to engage with train operators on projects of benefit to each other and to passengers, driving down costs and improving performance. Core system operator functions will remain with Network Rail acting on a national basis (as set out below).

4.19 This represents the crucial reform for Network Rail, but other changes will also help deliver improved alignment. The ORR intends to strengthen the so-called volume incentive. This is supposed to give Network Rail an indirect stake in maximising train operators' revenues, but anecdotal evidence suggests it has not worked well to date. Government strongly supports the underlying aim of the incentive, and believes that a more effective mechanism will drive closer alignment with train operators.

4.20 Further steps must be taken within Network Rail to drive up efficiency. With Network Rail holding the monopoly for managing infrastructure for much of GB rail, there have been no good domestic comparators against which the ORR can compare progress when setting efficiency and performance targets, nor competitors to sharpen Network Rail's incentives.

4.21 To aid comparability, Network Rail has separated out the accounts of its routes. This will help the ORR to benchmark the relative performance of these routes against each other, and for Network Rail to identify and spread good practice and innovations.

Infrastructure concessions as a further route to efficiency

4.22 To further improve comparability, the *Rail Value for Money Study* recommended that Network Rail let long-term concessions to third parties for infrastructure management for particular areas of its network.

4.23 A concession approach is not entirely new to the UK. It is already used on High Speed 1, which connects London St Pancras International and the Channel Tunnel. In 2009, the Secretary of State for Transport let a 30-year concession to High Speed 1 Ltd to run and maintain the railway infrastructure, including stations. High Speed 1 Ltd has subcontracted the operations and maintenance work to Network Rail (CTRL) Ltd and has the option to market-test if there is an opportunity to improve efficiency.

4.24 This shows that concession models can work, including delivering important comparative evidence on efficiency. Accordingly, Government strongly supports Network Rail's proposals to take forward concessions.

4.25 Different parts of the network have different characteristics, and as with alliances, a one size infrastructure concession will not fit all. Government believes that there are some Network Rail routes, such as Kent, Anglia and Wessex which may be particularly suitable for the letting of concessions and we will work with Network Rail to help deliver these where detailed work shows that they are appropriate. Concessions can happen as soon as Network Rail is ready and Government will not arbitrarily attempt to create a programme which ties concessions to the letting of new franchises. We would expect alliances to be able to work between train operator and concessionaire as well as between train operator and Network Rail.

4.26 Any proposals for further concessions need to:

- be based on a detailed understanding of the asset condition;
- offer value for money for the taxpayer;
- support the principles of a safe, customer-focused and efficient railway; and
- be compatible with EU legislation, upholding principles of competition and fair access.

Considerations for further integration

4.27 The *Rail Value for Money Study* examined the scope for vertical integration, which means that responsibility for infrastructure services and train operations rests with the same organisation. We agree that vertical integration could offer promising benefits in the longer term. So building on alliancing and concessions, and subject to EU legislation, we will explore how full integration on discrete parts of the network might potentially drive further efficiency benefits and investment, helping both track and train to align around service delivery. This is most likely to be an option on Network Rail routes such as Wessex and Anglia where the majority of passenger train services are run by a single train operator.

4.28 Any form of closer integration would need to be compatible with EU legislation and satisfy a number of criteria, including but not necessarily limited to:

- protecting passenger interests, including safety and punctuality of services;
- respecting competition and fair procurement principles;
- ensuring fair access to rail infrastructure for freight and other passenger operators with decisions on track access and charging being ring-fenced and kept rigorously independent from operational functions all under the continued regulatory oversight of an independent ORR;
- as with an infrastructure concession, based on a detailed understanding of asset condition; and
- value for money for the taxpayer.

Regulatory protections

4.29 Both Government and the ORR are determined that any changes proposed to the structure of the industry continue to protect the interests of freight and other operators on the network. Regulatory and statutory protections already exist to ensure that Network Rail, in aligning itself with the major train operator in a given area, will not discriminate against such operators.

4.30 While we welcome efforts to decentralise at Network Rail, there are certain core functions that must continue to be carried out by the company on a national basis. Network Rail has proposed the establishment of a central function, known as the System Operator, to bring together key network-related activities such as timetabling, allocation of network capacity, network planning and sale of access rights. This, coupled with the existing

standards and central assurance processes, aims to ensure that all train operators are treated fairly, in line with EU and domestic law, and that the railway network as a whole can be optimised and operated seamlessly.

The franchising and incentive framework for train operators

4.31 In most previous franchises, Government made a contractual commitment to protect train operators from wider economic forces that they cannot control. This is done by sharing revenue risk and reward if revenues from ticket sales go above or below a certain threshold.[15] The commitment has insulated prospective franchisees from the consequences of overambitious bids and unrealistic revenue growth forecasts. Once maximum Government support for train operator revenues is triggered, train operators have little incentive to invest or improve services in order to grow passenger numbers since they receive so little of the extra revenue generated. Unless care is taken, there is a risk that this issue would be exacerbated by the move to longer franchises, as economic conditions in the later stages of a franchise carry greater uncertainty.

4.32 The next round of franchises will seek to address these problems by developing new methods of sharing external economic risks with franchisees. The new InterCity West Coast franchise will index-link franchise premia payments to GDP. This may be the appropriate approach for other, future franchises, although the design of risk sharing mechanisms needs to be chosen carefully to fit the specific level of risk that Government wishes to transfer. One option would be to use a similar mechanism but to link payments to or from train operators to economic variables other than GDP, such as employment in major urban centres. Government also intends to take a share of profits above a defined level, to ensure that train operators do not extract disproportionate profits in the event of better than expected growth in the local or national economy, or other external changes that increase rail travel.

4.33 However, while train operators have had some success in dealing with certain aspects of their cost base, they have not been incentivised to achieve the level of efficiencies found in other sectors. Too often, the easy option has simply been to pass through costs to the Government – and ultimately the taxpayer – in franchise bids. Future franchises must manage down the costs of their businesses and gain the rewards of doing so. As part of the process for selecting future franchises, proven records of successfully reducing costs in the past and clear plans for the future will be assessed.

Considering the structure of track access charges

4.34 Train operators also need the right incentives to optimise their use of network capacity, especially where that capacity is scarce. Currently, the variable charges that operators pay to Network Rail for running additional trains only reflect the additional costs of operating those trains. This means

15 Under these arrangements, reward is shared from the start of the franchise, and risk only in the later stages.

that operators may see no cost difference between running an additional train on a little-used branch line, compared with a highly congested section of the network. Nor do track access charges reflect geographic differences in costs, but instead average them out across the whole network.

4.35 The ORR is considering the structure of access charges as part of Periodic Review 2013, and has consulted on the use of a scarcity charge to reflect high demand for certain parts of the network which would mean that the economic value of alternative uses of the capacity is better factored into decision-making. Government supports the principle of an incentive to ensure that best use is made of existing capacity, but recognises that there are practical issues to be carefully resolved before it could be introduced.

Encouraging train operator investment

4.36 In a world of constrained public finances, it is also important to maximise opportunities for private sector investment in rail. We also recognise that passenger and freight operators, being closest to their customers and the market, are best placed to develop and invest in improved services and facilities that pay their way from a commercial perspective.

4.37 Our commitment to longer franchises, which give a better timescale for investments by train operators to pay back, will facilitate such investment. We expect that this approach will result in investment by train operators in stations, ticketing systems and, in some cases, infrastructure upgrades which benefit the franchisee. It is not realistic to expect that very large scale investment such as entire new rolling stock fleets and major infrastructure upgrades could be delivered in this way.

A better passenger experience at stations

4.38 At the stations where responsibility for maintenance is divided between train operators and Network Rail, there is a risk of duplication of effort, inefficiency and slow decision-making. This makes it slower, more expensive and more difficult to run, maintain or improve the stations for passengers.

Streamlining station delivery

Southern Railway and Network Rail identified an opportunity for a better solution for the management of Gatwick Airport station. Working together, they developed a proposal to transfer the management and operation of the station from Network Rail to the train operator – with the goal of removing duplication of effort and providing a more coherent approach to customer services for Southern's passengers. Gatwick Airport has now joined the other 156 stations in Southern's portfolio. Having developed a sound proposal and held discussions with Government and key stakeholders, Southern and Network Rail were able to quickly implement this change from January 2012. This demonstrates that industry parties can take steps towards more efficient delivery with better passenger outcomes and that efficiencies do not have to centre on major schemes.

4.39 Stations are a key part of the passenger experience. We are piloting a policy of transferring greater responsibility for stations to train operators who are the part of the rail industry serving passengers directly day to day. The pilot involves adding responsibility for long-term maintenance and renewals to the train operators' current duties for day-to-day maintenance and operation. This aims to enable an efficient streamlined approach by placing most responsibilities with one party. The largest stations (such as London terminals) and the freeholds of all stations will remain the responsibility of Network Rail. Where appropriate, train operators would also be given greater commercial freedom, including rights to develop stations for the benefit of passengers and to improve commercial returns, with safeguards to prevent inappropriate station use or disposal. The ORR will monitor and enforce any arrangements we introduce for stations under a new licence condition. These changes are already being trialled in the Greater Anglia franchise (awarded in 2011) and will be reviewed to understand how successfully they are delivering greater efficiency by eliminating duplication of activity and supply chains.

4.40 Such changes could allow for a better passenger experience at stations. Examples of improvements could include, at medium and larger sized stations, an increased retail offer and finding space for businesses that extend beyond the rail journey itself, but perhaps link to it, such as a crèche at a commuter station.

Summary of franchise reform

The *Rail Value for Money Study* supported DfT's ongoing development and reform of passenger franchises. Franchise reform includes the following measures, which aim to give train operators more commercial flexibility while continuing to protect the interests of farepayers, taxpayers and wider society:

- longer franchises giving train operators stronger incentives to invest;
- more flexibility about how services are configured, but with the Government continuing to specify a core level of service;
- outcome-based requirements, for instance on customer satisfaction and performance, to ensure that train operators' interests are better aligned with those of passengers;
- less intrusive day-to-day management of the franchise by the Government;
- the possible move, subject to consultation, of some regulatory functions from the Department for Transport to the ORR;
- a profit share mechanism to better ensure taxpayers' interests are protected; and
- the alignment of incentives with Network Rail.

Open access operators

4.41 Most passenger services are currently provided within the franchise framework though there is some limited competition from open access operators, particularly on the East Coast Main Line. The ORR has consulted[16] on the scope for higher levels of open access operations, citing the potential for efficiencies and wider economic benefits, albeit at a potential cost to Government.

4.42 Government values the benefits of competition that open access can bring, such as greater choice and lower fares for some passengers. However, these benefits must be set against the need to reduce the overall cost of the railway to taxpayers. Open access operators are only charged marginal track access costs compared to franchised service operators who are charged full track access charges. This means that open access operators are effectively being subsidised by passengers on franchised services which are paying full track access charges to support the maintenance and operation of the network. Furthermore, where franchise bidders perceive a risk of open access competition undercutting them on costs they are likely to offer much lower bids. This detrimentally impacts on the taxpayer's interest by putting further pressure on fares and making it harder to deliver the rail upgrades that passengers want. Given the UK's financial position, Government does not therefore at this stage support an increase in open access competition.

An expanding rail freight sector

4.43 The rail network transports approximately 90 million tonnes of goods per year. It is of strategic importance – rail freight delivers over a quarter of the containerised food, clothes and white goods, and delivers nearly all the coal for the nation's electricity generation. Rail freight has expanded by 60% over the last decade,[17] and expects to grow by a further 30% in the five years from 2014.[18] The congestion and environmental harm from transferring such traffic to road would be enormous, and there would be significant road safety concerns as well.

4.44 There is fierce competition in the logistics market. Not all the external costs of road freight are paid by users of the road network, so there is a strong case for Government to continue providing support for the rail freight industry to create a level playing field. This has taken the form of:

- rail freight only paying a proportion of the track charges paid by franchised passenger operators, as required by EU legislation;
- targeted funding (through the mode shift revenue support scheme) to assist with the operating costs of running rail freight services where there are environmental and social benefits from doing so; and

16 Office of Rail Regulation – *The Potential for increased on-rail competition – a consultation document*. October 2011. Available from http://www.rail-reg.gov.uk

17 Source: ORR – National Rail Trends. Increases are measured in tonne miles.

18 Source: MDS Transmodal. Increases are measured in tonne miles.

- funding improvements to rail infrastructure to unlock key parts of the network for freight.

4.45 The competitive environment has also forced rail freight to find significant efficiencies over recent years, and it has encouraged Network Rail to do the same.[19] As a result, in an industry that has had difficulty in reducing costs, freight has made good progress. Government seeks to repeat this approach with similar success for passenger services.

4.46 The Government recognises the valuable wider benefits that rail freight delivers, and the need to give it certainty over its future. To support rail freight:

- Government will consider further investment in the Strategic Freight Network (SFN), both to help make best use of the existing network and, by increasing its freight capability, to leverage continued private sector investment in rail freight growth;
- Government is continuing to provide support through the mode shift revenue support scheme to shift freight from road to rail where there are overall environmental and social benefits from doing so;
- Government will provide a clear planning policy framework to support further private sector investment in rail freight terminals and rail-connected distribution parks, including Strategic Rail Freight Interchanges (SRFIs), to support growth;
- Network Rail will work with the industry to safeguard strategic freight capacity and to facilitate strategic investment in SRFIs. It has also appointed a Freight Director to provide a single interface for freight in a world of greater devolution within Network Rail; and
- the ORR plans to give the freight industry early assurance over the level of access charges, by setting a cap on these in June 2012.

4.47 In exchange, freight operators will need to continue to pursue cost savings. They are working with Network Rail to review which parts of the network they no longer need to access, and to establish the extent to which maintenance and renewals can be differentiated as a result. They are working with Network Rail to review which parts of the network they no longer need to access, and to establish the extent to which maintenance and renewals can be differentiated as a result. The ORR is considering the scope for mark-ups on Network Rail track access charges for freight trains (for example, those serving the nuclear and electricity supply industries) which could help to cover a greater share of the costs associated with their use of the network.

Better governance for Network Rail

4.48 Network Rail is a private-sector, not-for-dividend company, limited by guarantee. Consistent with the changes brought forward at privatisation and with our overall approach to rail reform, we believe the existing

19 Unlike franchised passenger operators, freight operators bear the consequences of changes in track access charges at regulatory review. As a result, freight operators engaged considerably with the ORR and Network Rail during Periodic Reviews 2003 and 2008, pushing hard to challenge Network Rail's costs.

structure is capable of delivering the outcomes and the savings we need without disruptive and unnecessary organisational change.

4.49 In general, Government believes that equity is a strong driver of efficiency and value for money. Bearing in mind the context and history of Network Rail, we consider that the benefits of equity are best achieved through reform measures that the company is taking in a number of key areas:

- partnership working and alliancing with private sector, commercially driven train operators;
- letting concessions to manage the infrastructure in particular geographic areas; and
- working to introduce greater competition in major enhancements and other work.

4.50 In the meantime, the company continues to reform itself with the aim of delivering further efficiencies. It is important that the Board is held accountable for driving this reform programme. Under the current arrangements, it is the role of around 100 members to hold the Board to account. These members are technically the owners of the company (although they have no financial investment in the company and cannot trade their stake). We agree with Network Rail's leadership that there is room to improve this structure so that members hold the Board to account more effectively

4.51 As one of Network Rail's members, Government will continue to encourage Network Rail and the industry as a whole to develop governance reforms which support the following principles:

- that taxpayer interests are protected, with strong incentives on Network Rail to ensure it delivers value for money on the funding it receives from Government;
- that Network Rail's direct customers – the freight and passenger train operators – should be able to hold it to account for its performance;
- that Network Rail should be incentivised to behave in a manner that promotes the interests of end-users of the railway – passengers and freight customers; and
- that Network Rail develop an effective remuneration policy to recruit and retain the quality staff it needs but with robust challenge over the delivery of objectives.

4.52 Government believes that these principles can best be delivered within the current Company Limited by Guarantee structure. We therefore welcome the governance proposals that Network Rail is announcing, including:

- reducing the number of members to a more sensible level, thereby improving the quality of decision-making. This could include removing industry members, who are prevented by conflict of interest from playing a substantial role;
- evolving the selection criteria for members to ensure the appointment of a membership with a skill-set better aligned to holding a large commercial organisation to account;

- strengthening the links between the membership and the non-executive board members;
- appointing a Public Interest Director, to ensure the interests of taxpayers are articulated during board discussions. This person will be appointed, in close consultation with the members' coordinator, to demonstrate specific skills and interests in public policy, finance and corporate and social responsibility; and
- ensuring members are provided with research support which is funded by Network Rail but is independent of the company's management.

Network Rail will continue to drive this area of governance reform in parallel with its efforts to decentralise certain decision-making functions in Network Rail to enable alliances to be formed with train operators to improve the company's accountability to its customers.

4.53 Executive remuneration has been the focus of public debate. As a private sector company, Network Rail sets performance pay levels for its senior staff. In response to questions from the wider public about bonus awards that have been perceived as excessive in relation to Network Rail performance levels, Network Rail has worked with the ORR under the terms of its licence to adapt its remuneration approach. The ORR has made clear throughout this review that its objective is to ensure that Network Rail's executive bonus payouts are simple, transparent and clearly aligned with performance, meeting long-term taxpayer objectives by rewarding only sustained outperformance of long-term financial targets, notably efficiency, while also reinforcing the need to hit overall non-financial regulatory targets, including safety and reliability.

4.54 Network Rail has announced further changes to the way it works to deliver better value for money, and ultimately to provide better services for passengers and freight users. Key changes include the devolution of greater accountability to a more local level through its ten Routes and the development of stronger alliances or partnerships between these Route teams and their customers. In addition, in relation to capital projects:

- it will involve suppliers at an earlier stage, giving them the opportunity to bring more innovative ways of working that will see improved delivery of projects and, as a result, lower costs;
- Network Rail's investment projects business will become more of a separate business within the group, providing stronger accountability, improved transparency, and reduced overheads;
- Network Rail will look to work more closely with operators in relation to the delivery of projects;
- where appropriate Network Rail will invite other companies to compete against its core business. As discussed above, it will also seek to establish alliances with train operators to improve services for passengers and promote further improvements in value for money; and

- the projects business will also be expected to compete for business in other areas, for instance, other UK-based transport and international rail projects, so that it is able to test itself and learn in other markets, with a view to applying good practice to its core business.

Network Rail – skills and employment opportunities

Network Rail is committed to playing its part in developing a skilled GB workforce through recruitment and development opportunities. This includes:

- Recruitment of apprentices – Network Rail is one of the UK's leading apprenticeship providers, taking on over 200 new apprentices annually on three-year programmes, based predominantly out of its HMS Sultan training centre in Hampshire.
- Graduate programme – in 2011 Network Rail took on more than 100 graduates and 50 post-graduates with skills ranging from IT through to engineering.
- Track and train programme – a new cross-industry programme has recently been launched to offer opportunities to unemployed graduates. The Network Rail funded scheme involves more than 25 other industry organisations, including train operators and engineering contractors. It will take on 100 people in its first year, offering them three six-month placements with different industry participants.
- Training – Network Rail is committed to the ongoing training of its people throughout their career. This commitment ranges from people training to be accountants through to specific engineering skills and a new senior and executive leaders programme.

A common sense approach to standards

4.55 The *Rail Value for Money Study* was clear that industry should be proud of its excellent safety record over recent years. However, it also noted that safety and performance achievements were not always being secured in the most cost-effective way. It warned progress was being impeded by a culture rooted in an excess of process and risk aversion, with procedures that failed to incorporate modern management thinking on continuous improvement. As a result, standards were too easily used as a defence against change.

4.56 Technical standards should match the needs of the railway and its customers – not the other way round. They should therefore recognise that the UK network is diverse – the West Coast Main Line has very different requirements from the Looe branch line in Cornwall. The railway should be able to accommodate locally appropriate solutions. The challenge is to ensure that bespoke solutions do not add unnecessary costs or unduly restrict the market. Safety will always be of paramount importance across the whole network.

4.57 There is a common core of the national rail network where Technical Specifications for Interoperability (TSIs), which are already becoming the default global standards, can provide a platform for the railways. Such standards remove national barriers to the free movement of goods and people. Appropriate construction and maintenance standards can also ensure that environmental issues are addressed, in particular that the rail network is resilient to the potential risks of climate change.

4.58 However, where service levels can be maintained without such standards, the industry is already looking to differentiate based on business and operational need.

A Green Light for Light Rail

In September 2011, the Department published the report *Green Light for Light Rail*,[20] which examined the opportunities for making light rail systems cost-effective solutions to local transport issues. It found that light rail can play a significant part in improving the appeal and quality of public transport in major conurbations by moving large numbers of passengers quickly, reliably, and with less pollution than the car or bus. In particular, the report identified tram-trains – hybrids that can run both on the street and on existing rail lines – as an approach that could bring whole system cost reduction. The Government is examining the potential for tram-train use, and is considering the business case for a pilot scheme in South Yorkshire.

The Government has also removed unnecessary burdens on funding provisions and facilitated investment in light rail. Up to £350 million is being invested over 11 years for the renewal of the Tyne and Wear Metro. This is already an example of light rail vehicles using heavy rail infrastructure (between Pelaw Junction (South Shields) and Sunderland). Operating procedures were adapted, and signalling modified, to allow these trains to run in between normal passenger and freight trains. This allowed the services of the Metro to be extended to Sunderland without the need for providing expensive additional lines, and without compromising safety.

20 Department for Transport – *Green Light for Light Rail* – September 2011 – available from http://www.dft.gov.uk

4.59 It is right that industry should continue to lead on the definition, evolution and application of standards, within the core framework of TSIs and the requirements of EU interoperability legislation. The Government supports work by Network Rail and operators to identify the purpose of particular lines, and to then take a common sense and business-led approach to establishing the standards required. We welcome the commitment of the Rail Delivery Group to consider how thinking about standards can be taken forward by the industry on a whole-system basis.

4.60 Partnership working between Network Rail and operators, described earlier in this chapter, will give the industry direct incentives to address standards at the local level, driving out unnecessary costs and focussing on the needs of rail's customers. We have introduced measures to support the technical liberalisation of the European railway network in a way that delivers the best value for the UK overall.

4.61 Nonetheless, we must be clear that the number of lines that offer real scope for significant further differentiation is necessarily limited and savings will come only when renewals would otherwise be required. The intelligent application of standards across the network has the potential to realise savings by lowering the cost of renewals over time. This will also help secure a future for parts of the network that might otherwise require significant and unnecessary investment.

4.62 Subject to the Government's consultation on decentralisation, there is also an opportunity for decisions about the local network to be made in the context of local transport priorities and expectations, and within the bounds of local budgets.

Technical innovation

Today's railway relies on a wide range of different technologies covering signalling, communications, infrastructure and rolling stock to deliver a reliable and efficient train service. In the years to come, the railway will need to take advantage of technical developments if it is to continue to improve its performance and cost-effectiveness and reduce its environmental impact.

The industry has not always pursued innovation effectively, owing to a misalignment of incentives and risk aversion. Although there is much more to be done to embed an innovation culture, we welcome the fact that the industry is already pursuing a number of initiatives:

- Network Rail's new Innovation Management Process, which exemplifies the increasing recognition that innovation needs to be managed and encouraged;
- the creation of the Rail Research UK Association, in 2010 to bridge the gap between academia and industry; and
- the heavily oversubscribed "Accelerating Innovation in Rail" competition, launched by the Technology Strategy Board and Rail Safety and Standards Board (RSSB) which has the potential to bring new ideas into the rail sector.

The first Rail Technical Strategy (RTS),[21] published by DfT in 2007, considered how the railway could harness technology over a 30 year period to improve its performance, cost-effectiveness and environmental sustainability. The RTS is more properly an area for the industry to lead. Consequently, the second, updated version of the strategy, to be published in autumn 2012, will be produced by the industry's Technical Strategy Leadership Group.

The new RTS will help suppliers, policy makers and researchers understand the direction of rail technical development, the benefits that could be delivered by different types of technology and the commercial opportunities available from having the right products available at the right price.

Ticketing provides an important example of where technical innovation can benefit passengers and deliver a more efficient railway. This was discussed in Chapter 2. Similarly, improvements in rolling stock and track design could reduce rail-related noise,[22] benefiting the many people who live near or alongside the railway.

Securing savings from rolling stock

4.63 Train operators typically lease their rolling stock from privately owned rolling stock companies (ROSCOs). The Competition Commission's recent investigation into the rolling stock leasing market[23] concluded that on the whole it is an imperfect market, with competition restricted by the limited number of alternative fleets available to train operators when bidding for franchises. The Competition Commission's remedies applying to ROSCOs came into force in February 2010, so they have had only a limited time in which to deliver results. Nevertheless, Government is not yet persuaded that they will be sufficient to deliver the transparency required to secure value for money.

4.64 The 'feast or famine' approach to orders for new rolling stock has made it difficult for the supply chain to deliver value for money. The cost to Government is also driven up by the fact that ROSCOs often perceive there to be a significant risk that rolling stock will be left unused and unpaid for at the end of a franchise. However, over the last ten years very little rolling stock has been left unused, because of the growth in the market, so this risk has not materialised.

4.65 Longer franchises, with output-based specifications, give train operators a stronger commercial incentive to optimise their rolling stock solution. As a general principle, in future Government will give greater flexibility to franchisees over the rolling stock decisions they make when bidding for franchises. This will allow private sector experience to be used in the

21 Department for Transport – Rail Technical Strategy – July 2007 – http://webarchive.nationalarchives.gov.uk and http://www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/railwhitepapertechnicalstrategy/pdfrailtechstrategyrts1.pdf

22 Government's long-term policy for noise is set out in the *Noise Policy Statement for England,* available from: www.defra.gov.uk

23 Competition Commission – *Rolling Stock Leasing Market Investigation* – April 2009 – available from http://www.competition-commission.org.uk

procurement process. However, there may remain instances where, under the current approach, Government involvement becomes necessary or is requested by the industry, for instance:

- in major procurement exercises spanning several franchise areas or linked to large scale infrastructure works extending beyond the duration of the franchise;
- working with the industry on the future pipeline for possible new and refurbished rolling stock orders, and how these are reflected in individual franchises;
- by considering whether there are any common features of rolling stock procurement it wishes to see, for example to minimise whole-system costs;
- where there is a good case for doing so, giving some certainty to ROSCOs that rolling stock will continue to be used beyond the end of franchises; or
- more broadly, if value for money from a market-led approach cannot be clearly demonstrated.

4.66 In December 2011, the Association of Train Operating Companies (ATOC) published a discussion paper aimed at securing better value from rolling stock. Under these proposals:

- industry would publish a high-level, industry-wide rolling stock strategy, to assist planning, and to give more visibility to the supply chain;
- within this broad framework, franchise bidders would have greater flexibility to find the best value options for rolling stock;
- train operators would also introduce an option into their contracts with ROSCOs to allow rolling stock to be re-leased on the same terms for three years so that there is more time to work through rolling stock decisions;
- train operators would work closely with Network Rail on the way that rolling stock works with railway infrastructure; and
- in order to work towards greater transparency, and to help secure greater value for money, train operators would work with ROSCOs to publish details about the lease costs for different classes of rolling stock, making the information more widely available.

4.67 Government welcomes ATOC's contribution to the debate. In particular, we believe that their proposal to produce a high-level industry-wide rolling stock plan could deliver important benefits, including better value for money and greater visibility for manufacturing suppliers. We also strongly support the principle of introducing further transparency, given the natural constraints of the rolling stock market. We will monitor progress against this new framework for procuring rolling stock and the Competition Commission's transparency order. We will expect to see train operators working closely together with ROSCOs, and to see value for money clearly demonstrated. Our preference would be that, building on the Competition Commission decisions and this work, operators and ROSCOs drive better value through

a market-based approach. However, if value for money continues to be problematic, we will need to consider more radical options, including those identified in the *Rail Value for Money Study*, such as greater government involvement or possible regulation.

A strong and competitive rail supply chain

4.68 A strong and competitive supply chain will be essential to deliver better value for money, and to provide quality rolling stock to enhance passengers' journeys. Government is working to provide the right conditions for our country's manufacturing to prosper as part of our overall plans to deal with the deficit, invest in infrastructure and skills, remove unnecessary burdens on business and rebalance the economy. Our extensive programme of rail capacity expansion will also provide important opportunities for manufacturing supply chain businesses in the rail and train sector.

4.69 We will ensure that we improve dialogue with suppliers in order to strengthen the capability of the UK supply chain. On the limited occasions when Government chooses to procure rolling stock in the future, bidders will be required to set out how they will establish a local presence to manage the delivery of the contract and be asked to make clear which elements of the contract will be sourced in the UK so that we can better understand and communicate the benefits to the UK economy. We will work to ensure that UK-based suppliers can compete with their overseas competitors by:

- working more closely with our UK-based rail manufacturing companies so that they are geared up to win contracts both at home and abroad;
- working with the industry to enable its publication of a long-term rolling stock plan giving more visibility to the supply chain, and ensuring a whole-system approach is taken; and
- encouraging the industry to adopt a similar approach with their respective supply chains.

This will enable companies to more effectively compete to provide the best value for money for the UK taxpayer and future farepayers.

4.70 In November 2011 the Government took decisive action to promote economic growth and jobs in the rail supply chain by giving the go ahead for a further £1 billion investment in rail. We will continue to assess proposals for infrastructure enhancements from the rail industry, including the supply chain, leading up to our High Level Output Specification announcement by July 2012.

Using technology to benefit passengers – InterCity Express Programme

The Department for Transport's InterCity Express Programme (IEP) aims to replace ageing intercity trains from the 1970s and 1980s with new trains that will be faster accelerating, more reliable, and will help relieve crowding by providing over 20% more seats than existing trains. The new trains will operate both on electricity and diesel, ensuring flexibility of future deployment, and allowing operation even if overhead power is lost. They will also be more energy efficient, producing approximately 40% less carbon emissions per seat mile compared with the trains they replace.

The trains will meet modern accessibility standards and will be equipped with best in class legroom and saloon luggage space. They will be equipped for wi-fi, have more tables, electronic seat reservations and will be able to receive passenger information direct from the control centre. With this better on-board passenger experience, and by allowing for improved journey times and a greater frequency of services, the trains are expected to generate additional passenger demand as well as modal shift from other, less carbon-friendly modes of transport.

A highly-skilled and productive rail workforce

4.71 One of the key barriers to efficiency, as pointed out by the *Rail Value for Money Study*, has been the often confrontational nature of industrial relations in the rail industry. We want to involve the people on the front line running our railways and serving passengers. Ultimately, both senior management and operational staff have a shared interest in the success of the railway, both from a performance and a cost point of view. To the extent that the rail industry can identify net savings by cutting costs and driving growth in demand, this has the potential to generate more jobs. Additionally, this Government is putting unprecedented investment in the railways, with £18 billion over this Spending Review period alone, providing real opportunity for jobs growth.

4.72 Successive substantial increases in pay have inevitably been one of the pressures behind the escalating costs of the railways. Given the industry's costs challenge, there is a need for restraint on salaries and bonuses, from the board room to the platform. It is unlikely to be possible to deliver the degree of cost savings passengers and the public need without some modernisation of working practices and clear focus on skills development. We therefore want to see the rail industry and the unions working collaboratively to address a range of issues that would improve efficiency.

4.73 There is a need to broaden the pool of qualified people available to work on our railways. For example, the Government believes that encouraging more women to consider a career in the rail industry would have a hugely positive impact on the rail sector as well as promoting equality of opportunity. While some progress has been made at senior levels, currently only 13.2% of Network Rail's workforce is female.[24] We are interested in working with the

24 The RMT union has also drawn attention to the low number of female train drivers – while we do not have recent figures, those compiled by the RMT some years ago indicated that only 580 out of 18,500 train drivers (3.1%) were female.

unions to explore the reasons for this gender imbalance and to consider how we might break down barriers to a more diverse workforce.

4.74 A key way to expand the range of people suitable to work on the railways is modernising training approaches. We would like to see new providers start to enter the market for rail skills training so the next generation of railway staff can be skilled up to the high standards industry and the public want to see. Government supports the existing work of both Go-skills, the passenger transport sector skills council and the National Skills Academy for Railway Engineering (NSARE) who are working with the industry and further education providers to add diversity and depth to both the rail workforce and the training landscape. Consideration also needs to be given to whether more streamlined training programmes can be developed which can deliver the equivalent level of skill over a shorter time period. This could enable railway staff to more easily and rapidly develop their skills and careers within the industry.

4.75 We want to see a more collaborative approach between the workforce and management. In particular, it is important for all industry stakeholders to find ways to make sure staff identify with the franchise service they are providing to passengers and feel they have a stake in how well it performs. This has long been the case in relation to rail freight but has been much harder to deliver in the franchised sector.

4.76 We believe that longer franchises can play an important role in this context. The short franchises let by the previous Government sometimes engendered a culture amongst employees that a change of franchisee means very little except a new senior management team. A longer franchise gives the train operator greater scope to engage with employees, build up long term working relationships and develop long term solutions to the challenges franchises face.

4.77 The rail industry and the unions now need to consider how working practices could become more efficient. One example is the scope, facilitated by new communications technology, to move more train services to driver-only operations where appropriate. This is already the working practice on around 30% of existing franchise services (including on most commuter services in London and Glasgow, London Underground trains and for proposed new projects such as Thameslink and Crossrail). It is a safe method that can improve performance: reducing the number of people involved in train dispatch reduces the risk of human error and miscommunication. There will be cases where a second member of staff is desirable for commercial, technical or safety reasons, but more widespread use of driver-only operation could assist industry efforts to reduce costs and deliver better value for money for passengers.

4.78 As new staff are recruited, the industry will also need to consider taking them on with new terms of employment, reflecting for example:

- the availability of new technology that changes the way work is done, and

- the need for flexibility in the way that staff are deployed (e.g. the automation of track inspection techniques and the use of service trains to inspect the track would allow staff to be focused on maintaining the infrastructure).

4.79 Giving staff the option for more flexible and part time working is also important, particularly to help expand the participation of women in the rail industry.

Safety

4.80 The UK rail network is amongst the safest in the world, and is considerably safer than road. Over Control Period 4 (2009-14), Government has specified a requirement for a 3% reduction in risk to both passengers and the railway workforce. As Government and the industry take forward an ambitious agenda for rail reform, we must maintain this improving safety record. It is essential that reform is delivered in a way which continues to ensure the highest standards of safety.

4.81 Following Hatfield, there was a pressing need to learn lessons from the tragedy and fix the problems it highlighted. This vitally important task has been tackled with real success leading to today's high levels of safety. It has to be acknowledged, though, that the response to Hatfield is one of the factors that have driven costs upwards over recent years. The challenge now is to continue to deliver the same high levels of safety in a more efficient and cost-effective way. Government believes that more efficient railway management and asset management should go hand in hand with continued improvement of our safety record.

4.82 Government is also clear that resorting to expensive infrastructure solutions may not always be the most cost-effective way of delivering safety improvements. The rail industry is undertaking research to understand more about the behavioural causes of safety issues, with a view to taking forward intelligent, targeted interventions:

- the RSSB on behalf of the industry, will continue to undertake research to investigate the motivations for trespassing on the railway, which see on average over 40 people killed every year; and
- Network Rail and the Samaritans will continue their five-year partnership to reduce the number of suicides on the rail network. Government greatly welcomes this collaborative work, which in its first year contributed to a 10% reduction in suicides and a 22% reduction in consequential train delay.

4.83 Safety remains the responsibility of individual duty holders within the rail industry. Under their statutory duties, they will maintain, or where reasonably practical reduce the level of safety risk in their operations. The ORR, as the independent safety regulator, will continue to hold them to account by monitoring and enforcing the delivery of these obligations. The Rail Accident Investigation Branch will exercise an ongoing role in investigating accidents and incidents on the UK's railways to improve safety. In future, it is crucial for passengers to be assured that the railways are not only some of the safest in Europe but continuing to improve on that record.

Environmental sustainability

4.84 Rail is a clean and low-carbon mode of travel, particularly for parts of the network that have been electrified. An efficient and attractive rail system will mean more people choosing to travel by train, increasing its carbon efficiency and reducing carbon emissions from other modes. By giving franchises greater flexibility to tailor their services to customer needs, more efficient loading of services can be achieved, with even less carbon per passenger.

4.85 In 2009 the rail industry published the ten Sustainable Development Principles[25] that are now an integral part of the industry's culture and decision making processes. These include principles aimed at reducing rail's environmental impact, and to be carbon smart and energy-wise.

4.86 Government supports these principles and welcomes the progress the industry has made in embedding them in its strategic and day-to-day activities. The Initial Industry Plan, for example, includes proposals to manage rail-related noise and carbon emissions in Control Period 5.

4.87 While it is primarily for the industry to deliver this agenda, the Government has a role in reinforcing these principles through policies, appraisal processes and investment plans. For instance, we have included environmental requirements in the franchise specification for InterCity West Coast and our appraisal methodology takes account of a wide range of environmental impacts.

Station Travel Plans

Government will continue to promote sustainable travel by supporting the development of travel plans for local rail stations. This will encourage people to travel to the station by low-carbon modes (such as by bike or on foot), and to integrate rail travel with local bus services. The Cycle Rail Working Group is promoting the use of bike to get to and from the station and will work with industry to facilitate cycle improvements.

4.88 However, more needs to be done to improve rail's sustainability performance. In many cases this should also result in lower industry costs through smarter design of rolling stock, infrastructure, stations and depots that reduces consumption of raw materials, minimises embedded carbon and improves energy efficiency. Designing infrastructure to be resilient to future climate change, or adapting it in the course of routine maintenance or renewal work, is more efficient than repairing damage after severe weather. We intend to embed the industry's sustainability principles in those projects where Government is the principal funder and sponsor.

25 RSSB – *The Rail Industry Sustainable Development Principles* – February 2009 – available from http://www.pacts.org.uk

4.89 Rail must play its part in helping to meet our legally binding air quality and carbon commitments as well as contributing to other environmental goals, including those on water quality and use, biodiversity, climate change adaptation and noise. While rail's overall carbon footprint might rise if it takes journeys from other higher carbon modes, carbon (and other emissions) per passenger/tonne mile must decrease. The fact that rail is already an environmentally friendly mode of travel does not leave room for complacency: other modes are rapidly reducing their environmental footprint and rail will lose its competitive advantage unless it takes further action.

4.90 Improving energy performance is also crucial to keep costs under control. For instance, the industry spends considerable amounts of money lighting and heating depots and stations in ways that are often hugely inefficient. Rising energy costs could increase the industry's annual diesel and electricity bill for traction from £600 million currently to over £900 million[26] in today's prices by 2019.

4.91 The rail industry will propose long term strategies to manage carbon and energy more efficiently and reduce other environmental impacts in the next version of the Rail Technical Strategy, for publication in autumn 2012. It is already clear that a crucial element of this sustainability strategy will be further electrification of the rail network.

4.92 Electrification can improve rail journey times and air quality at the same time as reducing operating costs, dependency on fossil fuels and noise. In a world where more of our electricity is produced from low carbon sources (by 2050, the power grid will need to be near-zero carbon), this will help reduce our carbon emissions. So the benefits of rail electrification will grow as we make progress on de-carbonising electricity generation.

4.93 Government is already funding various electrification schemes. In the Chancellor's Growth Review,[27] our programme of electrification was extended to include the north TransPennine route between York, Leeds and Manchester. We recognise the efficiency benefits of maintaining a steady programme of electrification to reduce costs and make best use of available plant and skills. We will consider the case for further electrification as part of the High Level Output Specification this year.

4.94 Nevertheless, many parts of the rail network will continue to rely on diesel rolling stock for the foreseeable future. The industry has made some progress at reducing the carbon, noise and air quality impact of diesel trains, with operators taking steps to reduce unnecessary engine idling and to refurbish rolling stock with cleaner, more efficient engines. New diesel rolling stock will also become progressively cleaner as tougher EU emission standards come into effect. In the longer term, developments in technologies such as fuel cells, batteries and flywheels may provide alternatives to conventional diesel operation. Where appropriate, Government will work with the industry to support the development and trialling of such technologies.

26 DfT estimate reflecting Department of Energy and Climate Change (DECC) assumptions about increases in oil and electricity prices.

27 *Growth Review* – HM Treasury – November 2010 – available from http://www.hm-treasury.gov.uk

5. Better information

Introduction

5.1 This chapter sets out the measures Government, the Office of Rail Regulation (ORR) and the rail industry are committed to taking to improve the availability of data and information to passengers and taxpayers in three separate areas:

- the rail industry's finances;
- the railway's performance; and
- openly available rail data.

5.2 As the Open Public Services White Paper[28] highlighted, public services must be responsive to the people they serve, and organisations delivering public services should be held to account by citizens and elected representatives. Transparency and open data, which are at the heart of the Government's efficiency and reform agenda, are crucial if this is to happen.

5.3 Much information is already made available on rail-related issues. For example, the ORR publishes whole industry performance information on safety, punctuality and passenger satisfaction. It also publishes information about Network Rail's finances and progress against efficiency targets. Timetable, fares information and real time progress of trains is available both at stations, online, and increasingly people are accessing this information through mobile computing applications.

5.4 However, transparency requirements need to apply equally to providers of public services whether they are in the public, voluntary or private sectors. In the context of the rail industry, where £3 billion of public subsidy was invested in 2010/11, the public has a right to clearer and more transparent information on costs and on performance.

28 Cabinet Office – Open Public Services White Paper – July 2011.

5.5 Research[29] indicates that rail passengers believe greater transparency leads to improved scrutiny. The research showed that although rail passengers generally have limited interest in taking action themselves, they do want to see scrutiny and challenge coming from intermediary organisations displaying newly available information creatively and effectively. Such scrutiny could be achieved via formal national bodies such as Passenger Focus or via local groups such as the Cotswold Line Promotion Group.[30]

5.6 In the context of an industry that many looking from the outside have often found difficult to understand, and where data has not always been available to the public, it is vital that information transparency now becomes embedded in the culture. For example, Government welcomes Network Rail's plans to publish more of its information and data on its website later this year – this represents a step in the right direction.

5.7 The industry stands to benefit from a more open approach to data. For example, improving passenger access to timetables and information on services is likely to encourage more people to use the railways as an alternative mode of travel. Government recognises that in some areas, commercial confidentiality means a completely open approach to data is not practical.

5.8 Furthermore, transparency and openly available data can be a significant driver of economic activity. We can tap into the UK's tradition of creativity and innovation by allowing new information-based businesses access to open data to create useful services and applications. New information services and applications have the potential to give passengers increasingly accurate and real-time data about live rail services, and get more people travelling by train.

5.9 The way data is provided is also important: data must be made meaningful to those using it. People need clarity about what is available, and it must be user friendly, reflecting everyday user experience. The data should also be searchable from a common reference point, such as http://data.gov.uk. Finally, research indicates that passengers are more likely to trust information if it is published or assured by an independent source and updated regularly. There is a case for introducing quality control measures, such as an industry code of practice on the use of open data, or an accreditation scheme, to ensure that the information given to passengers is as reliable and up-to-date as possible.

5.10 The ORR is committed to ensuring that passengers' information needs are properly understood and satisfied, and that data produced by the industry is high quality, consistent and can be turned into reliable information to support key decisions. The ORR's National Rail Trends data portal provides access to up-to-date rail statistics on a whole range of subjects.

29 This paragraph refers to research carried out for the May 2011 ORR and Passenger Focus publication – *Putting Rail Information in the Public Domain*, available from www.passengerfocus.org.uk

30 This group has 1750 members and seeks improvements to services between Oxford, Worcester and Hereford.

5.11 Government welcomes the ORR's plans to consult on its approach to transparency and where and why transparency is relevant to this sector. The consultation would provide examples of the broad categories of data and information already available and set out the benefits and challenges of moving towards greater transparency in the future.

Transparent finances

5.12 Given the significant amounts of public subsidy invested every year in the railways, Sir Roy McNulty's *Rail Value for Money Study* expressed an expectation that there should be more transparency around the railway's finances. Government agrees that a much more open and transparent view of the whole industry's finances is needed – not just those of Network Rail. This could play an important role in ensuring those who are charged with running the railways become more accountable to farepayers and taxpayers.

Where subsidy is being spent

5.13 We propose to use transparency as one of the ways to push forward with reducing the cost of running the railways. We can only deliver a better value railway if we are able to make judgements about where public money is being well spent and where value might be improved. That in turn can inform decisions about how and where subsidy is deployed. It is right to use subsidy to buy desirable outcomes for passengers that the market would not otherwise deliver, but subsidy should not be used to mask inefficiency.

5.14 This Government has therefore published clear figures showing the amount of subsidy paid to (or premium paid by) each passenger franchise, as well as an estimate of the proportion of fixed infrastructure costs that relate to them.[31] We have also published further information about the cost of running the network.[32] The net cost to Government and passengers of the three broad categories of railway service – long-distance, London and South East, and regional, is set out in Table 5.1.

Table 5.1 Source of funding for railway services

	Net cost to Government per passenger mile	Ratio of taxpayer to farepayer funding
Long distance	7.3p	25%/75%
London and South East	4.8p	19%/81%
Regional	31.1p	61%/39%

31 Department for Transport – Rail subsidy per passenger mile – May 2011 – http://www.dft.gov.uk/publications/dft-business-plan-indicators-input-01/

32 Department for Transport – Cost of running the rail network – October 2011 – http://www.dft.gov.uk/publications/dft-business-plan-indicators-input-07/

5.15 As a further step towards transparency, and to help inform judgements about the use of public money on the railway, Government aims to publish information on its website by the end of 2012 to show:

- the amount of subsidy by service group and by train journey; and
- the ratio of taxpayer to farepayer funding, by franchise (rather than by service type, as shown in Table 5.1 above).

The flow of subsidy to the rail industry

6.16 The *Rail Value for Money Study* advocated that the Department for Transport should consider removing the Network Grant it pays to Network Rail, so that all of Network Rail's funding comes through train operators (and property income). The study concluded that this change would provide greater transparency over industry costs, as well as making it clearer that Network Rail's principal customers are train operators. Government agrees that transparency over the way money flows around the industry needs to be considered further, taking into account the impact on industry behaviours, as well as wider fiscal issues. We plan to announce our proposed way forward in our Statement of Funds Available, due by July 2012. We will work with the ORR through its Periodic Review to make any changes required.

Network Rail costs and revenues

5.17 As part of the periodic review process, and on an annual basis, the ORR monitors and publishes Network Rail's financial data at a national level.[33] From 2011/12, the ORR is requiring Network Rail to publish detailed financial information for each of its regional operating routes for the first time, including apportioning central costs to the route level. The ORR has also published information about the costs, income and subsidy of Network Rail and franchised train operators for each operating route.[34]

5.18 These initiatives will help facilitate the partnership arrangements between Network Rail and train operators described in Chapter 4 that expose operators to Network Rail's costs at a regional level. This encourages operators to support efficiency initiatives and provide challenge where appropriate. The initiatives will also make Network Rail's regional financial performance more transparent and comparable, driving down costs and improving performance.

Train operators' costs and revenues

5.19 In order for whole industry collaboration on cost reduction to have full effect, we need to go beyond consideration of the infrastructure manager. Greater visibility of train operators' costs and revenues is also needed. This will allow passengers and taxpayers to scrutinise the value for money being secured by each operating company in the provision of services. It will also enable the ORR to benchmark and publish the comparative cost-efficiency of train operators, including the cost of rolling stock, providing a reputational

33 Disaggregated between England and Wales, and Scotland.

34 Office of Rail Regulation – *GB rail industry financial information 2010-11* – January 2012 – available from http://www.rail-reg.gov.uk

incentive for operators to reduce costs and enabling quicker identification and take-up of best practice.

5.20 We recognise, of course, train operators' legitimate wish in certain circumstances to maintain commercial confidentiality. Nevertheless, Government and the ORR are working with train operators to make appropriate cost data more readily available so that greater transparency, scrutiny and accountability can play a bigger role in driving cost-efficiencies, just as it has done across central Government already.

Transparent railway performance

5.21 As the April 2011 White Paper *Better Choices: better deals*[35] points out, greater transparency over performance information can support individuals and communities in managing public service providers, to drive improvements to services.

Transparent performance information

An example of information in action is a website that plots school performance data (from OFSTED amongst others) against a Google map to help parents view how schools have performed.[36]

5.22 The railway's record on publishing data on reliability, safety and other performance is considerably better than on financial data. The ORR's quarterly publication *Network Rail Monitor* gives information on Network Rail's progress on various aspects of its performance such as safety, punctuality and the delivery of projects to improve the network. Through the new National Rail Trends portal on its website, the ORR also publishes many more detailed performance statistics including punctuality for each train company. The publication of this type of information can put pressure on the service provider to drive up the quality of services.

5.23 However, Government believes there is not only much scope but also much need for improvement if passengers and others are to get a true sense of the performance of their railways, and if it is to be presented in terms that they can relate to.

Performance information below the whole franchise level

5.24 Punctuality figures are currently published on the basis of the average achieved across the whole franchise. This means that a passenger's experience of the line they use regularly could be very different from the

35 Department for Business Innovation and Skills and Cabinet Office – *Better Choices: Better Deals* – April 2011 – available from http://www.cabinetoffice.gov.uk

36 See http://www.locrating.com

published figures since poor performance on one part of the franchise can be masked by high levels of reliability elsewhere.

5.25 Government and the ORR have been working with the industry to allow performance information on punctuality and reliability to be produced with a granularity below the whole franchise level. The ORR plan to publish this information by May 2012. This will allow passengers, or intermediary organisations on their behalf, to hold operators to account where performance issues exist. The recently announced franchise for the Greater Anglia network will publish reliability information below the whole franchise level. First Great Western and First TransPennine Express have also recently added more disaggregated performance information to their website on a trial basis.

Improved information on train crowding

5.26 Until recently, information on crowding on peak train services has only been available for services in London and the South East arriving at a London terminus. In 2011, the ORR published new information by London terminus and for selected regional centres outside of London and the South East. This shows service provision, passenger demand, standing passengers and (for London only) crowding information.[37] By autumn 2012, we plan to release further information on crowding, particularly for regional centres, as more data becomes available.

5.27 The Department for Transport is leading on procuring a centralised passenger counts database and is pushing for the increased automation of passenger counting technology on trains. The database, which should be operational in early 2013, will provide much more information on the numbers using rail services, enhancing the planning information available to the industry.

Crowding information pilot project

Following joint research by the ORR and Passenger Focus, the ORR is working in partnership with South West Trains to make crowding data available at certain stations. The aim is to assess whether making more crowding information available has an impact on passengers' perceptions and on their choice of when to travel. Data was made available at stations and on their website in November 2011.

Complaints information

5.28 The ORR is working with train operators with the aim of publishing more disaggregated and consistent passenger complaints data, starting in the summer of 2012. This will allow passengers and their representatives to highlight those areas which are of greatest concern to passengers, with a view to exerting pressure for remedial action.

37 Office of Rail Regulation – National Rail Trends 2010-11 Yearbook – July 2011 – http://dataportal.orr.gov.uk/

5.29 Over recent years, other sectors such as health and hotels have seen a significant rise in the amount of information generated by users about services (one example is the website TripAdvisor). This information can be highly useful to users in making decisions about and driving improvements to these services. Given the number of people using train and other public transport services, one might expect there to be more user-generated information about the operation, quality and suitability of services. Government is therefore encouraged by the recent launch of My Society's "Fix My Transport", following the highly successful "Fix My Street", which has recorded over 180,000 reports from users.[38]

Openly available data

5.30 Up to this point, this chapter has dealt with information that can be used to analyse past railway performance, whether financial or operational. As information technology and systems develop, passengers have a right to, and are increasingly demanding, more complete and more timely information about their train services.

Open data helping passengers in London

A number of examples of how information services can benefit users can be found in London. Free Android and iPhone apps have been developed for the Barclays Cycle Hire Scheme in London. These allow users to see how many bikes and docking stations are available at each location. In addition, apps are available to provide live bus information, informing users of when the next bus will arrive at any London bus stop and live departure information for London Underground and DLR services.

5.31 Increasingly, passengers are accessing information about public transport online or through mobile computing applications through National Rail. Information is available to third parties for a fee, under licence. Government is keen for data to be made openly available so that it can be used by information-based businesses or individuals to create new services and applications. We are working with the transport industry to make data more openly available on timetable and real time train and bus information by April 2012. This will support the development of a real-time transport information market, helping passengers make better travel decisions and making public transport easier to use.

38 Fix My Street – www.fixmystreet.com. Fix My Transport – www.fixmytransport.com

5.32 The Department for Transport (DfT) will also work with the rail industry to broaden access to data on rail fares. As part of its fares and ticketing review, DfT is consulting on how the rail industry could provide this data in a way that encourages innovative use and the development of new information products but also protects passengers against potential misinterpretation of complex data on fares levels and restrictions. Opening up more access to this data has the potential to boost the market for fare finding and comparison services such as online search engines or mobile apps. This could include comparisons between different modes of transport. We would expect this to result in savings for passengers and businesses, better able to find and take advantage of the best deals available.

Network Rail transparency

5.33 As a private-sector company limited by guarantee, Network Rail is not currently subject to the Freedom of Information Act, although as a regulated provider of public services, in receipt of public subsidy, Network Rail publishes a significant amount of information including detailed regulatory accounts.

5.34 Network Rail recognises the demand for more of its information and data, and will begin publication on its website from mid-2012. Government welcomes these steps, which will improve the organisation's accountability to the travelling and non-travelling public.

Conclusions

5.35 Whether on the finances or the performance of the rail industry, there are great benefits to passengers and others from improving and increasing the amount of information publicly available.

5.36 Government and the rail industry are publishing more data than ever before, and will continue to consider how greater transparency can benefit passengers and the wider public.

6. Implementing rail reform

Introduction

6.1 This chapter sets out how the measures contained in this Command Paper will be delivered and how overall they contribute to reducing the cost of the railway. It flags what has already been achieved, and the timescales for future actions.

6.2 Both during the *Rail Value for Money Study* and in the period since its publication, Government, the Office of Rail Regulation (ORR) and the rail industry have been working together on how to implement the changes we need to deliver a better, more efficient railway for passengers. The process has been a collaborative one, with the parties coming together to try to reach consensus on the steps needed to address the efficiency and value for money challenge. The focus has been on agreeing structures and incentives that can be pursued, and pursued rapidly, for the benefit of farepayers and taxpayers, obviating the need for reform via legislation.

6.3 The collaborative approach to reform means that Government, the ORR, the rail industry and other stakeholders have already begun to deliver some of the plans set out in this Command Paper. This early start means that the actions needed to deliver savings are already being started far more quickly than would have been the case if a legislative route had been chosen. Progress to date includes the following:

- Network Rail announced a programme of devolving responsibility to its local route managers in February 2011. It completed this programme in November 2011;
- individual train operators are working with Network Rail to establish alliances at the route level that produce better outcomes for passengers at lower cost;
- DfT let the Greater Anglia franchise in October 2011. For the first time this gives train operators the responsibility for long-term maintenance and renewals at many stations, in addition to the operational functions given to previous franchisees. The ORR is taking over enforcement via the train operator licence;
- DfT has begun franchise reform through the issue of the Invitation to Tender for the InterCity West Coast franchise. Further reforms will be included in forthcoming franchises;

- the ORR has commenced consultation on its Periodic Review 2013, and has consulted on the incentive framework for the rail industry (December 2011). It has engaged well and established a good deal of common ground within the rail industry;
- PTEs and local authorities are already engaging with DfT over the opportunity for further devolution of rail decisions for regional and local services;
- alongside this Command Paper, Government is consulting on fares and ticketing, and on devolving rail decisions to sub-national bodies. The ORR and Government have recently consulted on the role of the regulator;
- Government and the ORR are working with the industry to improve transparency of data, with a view to securing better outcomes for passengers;
- Government is funding a substantial programme of rail improvements over the next few years to improve journey times and bring important relief from crowding, as listed in the introductory chapter;
- Government has announced its plans to build national high speed rail network, providing vital new capacity and faster journeys across the country from 2026;
- as recommended by the *Rail Value for Money Study*, the industry has formed the Rail Delivery Group to provide whole industry leadership on priority areas of reform; and
- this spirit of collaboration has resulted in an Initial Industry Plan that paves the way for greater efficiency and value for money.

6.4 This Command Paper sets a clear and firm framework for reforming and improving the railways for the benefit of passengers, freight and the taxpayer. However, Government's High Level Output Specification and Statement of Funds Available, its franchise competitions and the ORR's Periodic Review determination will be crucial to delivering rail reform. Future milestones include the following:

- over the coming months and years a significant number of franchises will be renewed (going out to tender for Great Western and Essex Thameside in May and June 2012);
- Government will set out by July 2012 the outputs it wants to buy from rail (the High Level Output Specification), and how much money is available (Statement of Funds Available) for the period 2014-19;
- Network Rail and the industry will respond in Network Rail's Strategic Business Plan in January 2013. The ORR will use this information to set Network Rail's revenue requirement and to decide the level and structural incentives of Track Access Charges; and
- Network Rail will be considering the scope to let concessions for managing the infrastructure on parts of the rail network, as a means of improving competition and comparison in the provision of infrastructure services.

Closing the efficiency gap

6.5 The framework for reforming and improving the railways set out in this Command Paper empowers the rail industry to deliver the changes that will close the £3.5 billion efficiency gap identified by Sir Roy McNulty's *Rail Value for Money Study*, putting us amongst the best performing of our European comparators.

6.6 We believe that, as a minimum, efficiencies of £2.5 billion per year by 2018/19 are deliverable. This would be the equivalent of closing the low end of the efficiency gap range identified in the *Rail Value for Money Study*. These efficiency savings are embedded in industry processes already under way that will set Network Rail's budgets and efficiency targets for the next Control Period and that will let the next generation of franchises for rail passenger services.

6.7 However, Government believes that more is attainable on efficiency and our objective is to achieve this within the framework set out in this strategy. While Network Rail regulatory efficiency targets and upcoming franchises may be focused around capturing those low-end savings identified in the *Rail Value for Money Study*, we will expect the rail industry, incentivised to outperform through dramatically better whole industry partnership working, to achieve a far more demanding goal on cost-efficiency. The combined impact of the reforms set out in this Command Paper has the potential to deliver savings of a further £1 billion by 2018/19, closing the high end of the efficiency gap range – £3.5 billion per year.

6.8 Achieving these savings will allow Government to commit to:

- reduce and then end above-inflation increases in average regulated fares; and
- reduce the burden on the taxpayer – capturing benefits either through lower subsidy or by re-investing savings to support the growth of the network.

Network Rail savings

6.9 There is a tried and tested mechanism in place for the delivery of savings from Network Rail's activities – the ORR's Periodic Review process which sets five-yearly budgets and efficiency targets for the company. Network Rail is already on track to deliver £1.2 billion per year of efficiency savings in the current Control Period (CP4, 2009–14). These represent the first tranche of the available savings identified by Sir Roy McNulty's review.

6.10 The second tranche of efficiency savings will come from Network Rail's efficiency targets for the next Control Period (CP5). The ORR previously calculated that savings of at least £0.6 billion would be achievable. These calculations were endorsed by Sir Roy's subsequent analysis, and they have been further evidenced by work undertaken by the rail industry in producing its Initial Industry Plan (September 2011). In total, this would make Network Rail's contribution to efficiency savings in the period to 2019 a minimum of £1.8 billion.

6.11 The ORR will shortly put advice to Ministers (expected on 15 March 2012) setting out whether it believes that Network Rail can in practice, go further than this in CP5. We are confident that it can, building from the work already in hand to devolve responsibility within the company, and to benchmark Network Rail routes and train operators against each other. We are clear that some of the additional Network Rail efficiency is only deliverable through partnership working between Network Rail and train operators. That partnership working relies on ensuring the right incentives, particularly the right financial incentives, are in place for the industry.

6.12 The Periodic Review process will give the ORR, the rail industry, and Government a clear understanding of the balance to be struck between setting demanding efficiency targets, and leaving open the possibility and incentives for industry outperformance against those efficiency targets. The Regional Efficiency Benefit Share mechanism currently being developed by the ORR provides the foundation of this behavioural change. Bespoke partnerships or alliances offer the prospect of even greater efficiencies. The benefits of any outperformance are not lost, but come to farepayers and taxpayers through:

- a share of any excess profit made by train operators (or additional revenue received in some older contracts);
- a lower Revenue Requirement for Network Rail in future Control Periods;
- better quality and more reliable services; and
- increased value from future franchising competitions.

Train operator savings and revenues

6.13 It is essential train operators play their part in driving for further efficiency. As franchises come up for renewal over the coming months and years, we will put much greater weight on bidders' proposals for achieving greater efficiency and cost savings. By making franchises longer and by addressing the skewed bidding incentives created by the previous cap-and-collar support regime, we are making it easier for franchise bidders to identify substantial, innovative cost reduction plans that can also deliver commercially for train operators. We are asking bidders to set out the key actions they will take to improve efficiency, and turning these into contractual obligations. Through this process, train operators will build efficiencies into their business plans, with firm deliverable dates. The benefits of this will accrue to Government in the form of higher yearly franchise premium payments from train operators (or in the case of some franchises, lower subsidy payments from Government to train operators).

6.14 The areas for savings will vary by franchise, and train operators are better placed than Government to determine how detailed savings should be achieved. However, we will ask bidders to look closely at the areas highlighted by the *Rail Value for Money Study*. These will include taking advantage of the more flexible franchising specifications that allow greater innovation in the way train services are scheduled, driving better value out of the rolling stock market and increasing staff productivity across the industry. Across all franchises, we expect the industry to identify and deliver

cost savings in the order of £1.2 billion by 2018/19 – the high end estimate for train operators in the *Rail Value for Money Study*. This will strengthen the competitiveness of firms and deliver value for farepayers and taxpayers along the way. This approach will be tested when the Department for Transport receives bids for new franchises. Bids for the first of the new round of franchises – InterCity West Coast – are due in May 2012.

6.15 Reducing the cost of running the railway is not the only way to make it more sustainable. Train operators will need to balance their drive for efficiency with efforts to attract more passengers. Growing demand for rail travel increases the industry's revenues independent of the cost of an individual ticket, and allows us to cover more of the fixed costs of running the network.

6.16 Much of the anticipated growth in demand over the coming years will be achieved through economic and social changes, for example with people choosing to live further away from their place of work, and carrying out increasing amounts of travel for leisure purposes. However, through our franchise reform proposals we are giving train operators the incentives to invest and to deliver the quality of service that will attract more passengers to rail. Growing the railway's revenues by increasing demand will be crucial to achieving our ambition to reduce costs for farepayers and taxpayers.

6.17 We want to see the industry, through the Rail Delivery Group, lead in driving up efficiency and demand for the railway. In times when public funds are constrained, there is no alternative to better costs management. If the railways are to earn their 'licence to grow' and serve more and more passengers better, it is for the industry to deliver more with less. If it cannot, Government will not be able to stand back and allow the current costs to farepayers and taxpayers to go unchecked. In all likelihood, this would mean considering greater Government prescription for the rail industry, and more radical steps to ensure value for money in the train operation and rolling stock markets.

Whole-industry support for savings

6.18 Many of the initiatives that will deliver savings are a matter for the whole industry working together. The Rail Delivery Group (RDG) will and must take a key leadership role in these areas. Among its immediate priorities are improved asset management, industry procurement, rail systems and standards, innovation and productivity, and rolling stock. The RDG's work should generate confidence over the industry's ability to close the low end of the efficiency gap. Its goal will be to find ways of outperforming the efficiency targets we set the industry over the coming years, with the objective of closing the high end efficiency gap of £3.5 billion.

6.19 Achieving a more efficient and effective rail network will not be easy, and will require a level of co-operation that has not been seen across the whole rail industry for many years. However, the Government is determined that these savings must be achieved. Working with the rail industry and with a wide range of other groups and individuals, we aim to deliver a railway that costs less to operate so we can give better value for money and better results for passengers, freight users, taxpayers and wider society.

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other accredited agents

ISBN 978-0-10-183132-1