

Rail Value for Money Study

Rail Value for Money
Investment, Efficiency and Reform
17 November 2011

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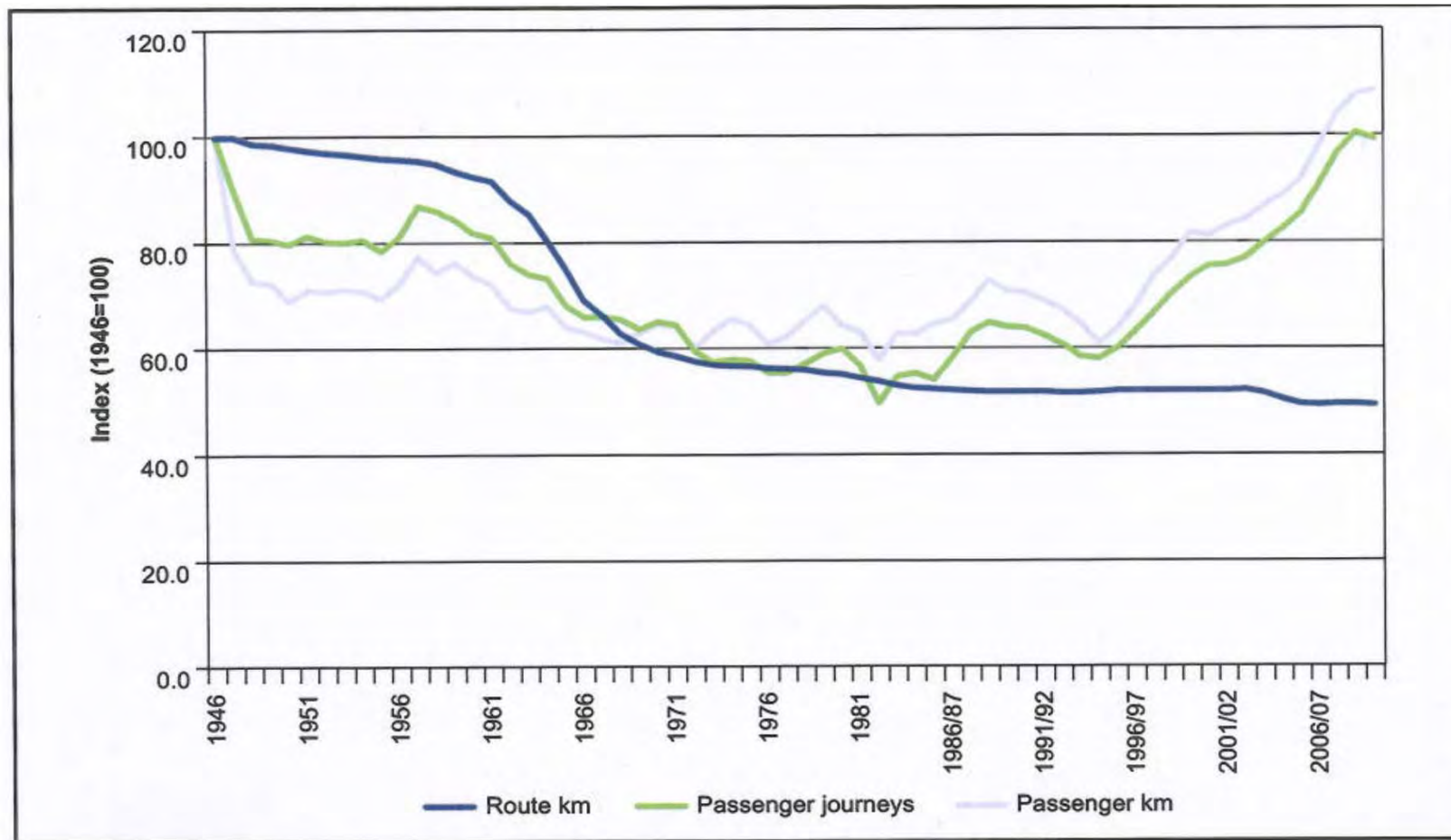
- GB Rail Performance
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GB Rail Performance

In many ways GB Rail has performed well

- Continued improvement in safety
- High levels of operational performance/punctuality
- Increasing customer satisfaction
- Significant investment
- Important contributions to decarbonisation, and to the economy
- Sustained growth – passenger and freight

Figure 2.1: Change in network length (route-km), passenger-km and journeys, 1948-2009

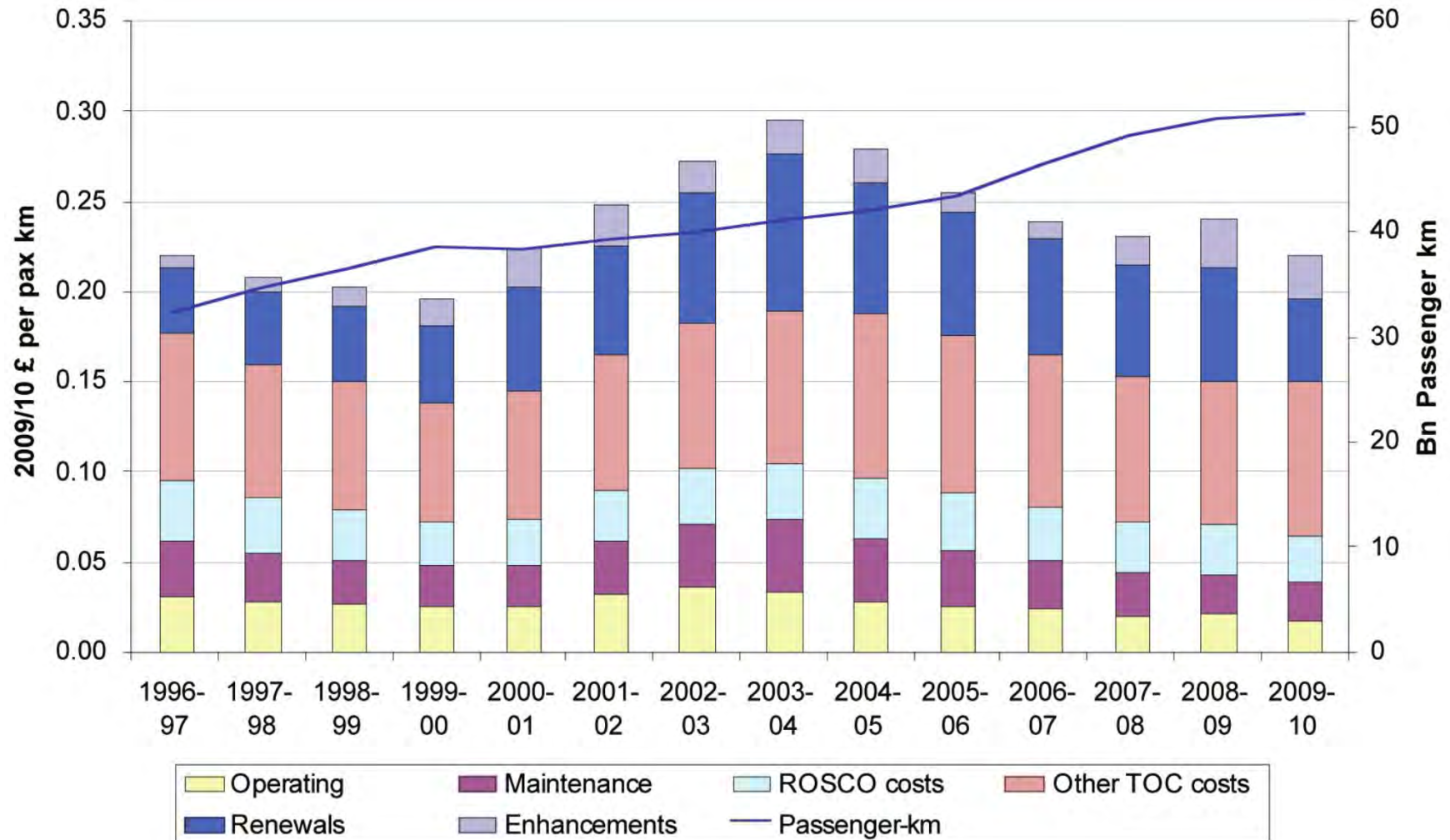


And GB rail has major opportunities for the future

- Prospect of doubling current levels of traffic by 2030
- But **NOT** if railway economics remain as they are
- GB rail has to earn its “licence to grow”

The efficiency gap

Figure 2.3: Industry expenditure per passenger-km (2009/10 prices)



**Table 2.3: Impact on industry costs of “should cost” exercise
(2008/09 prices)**

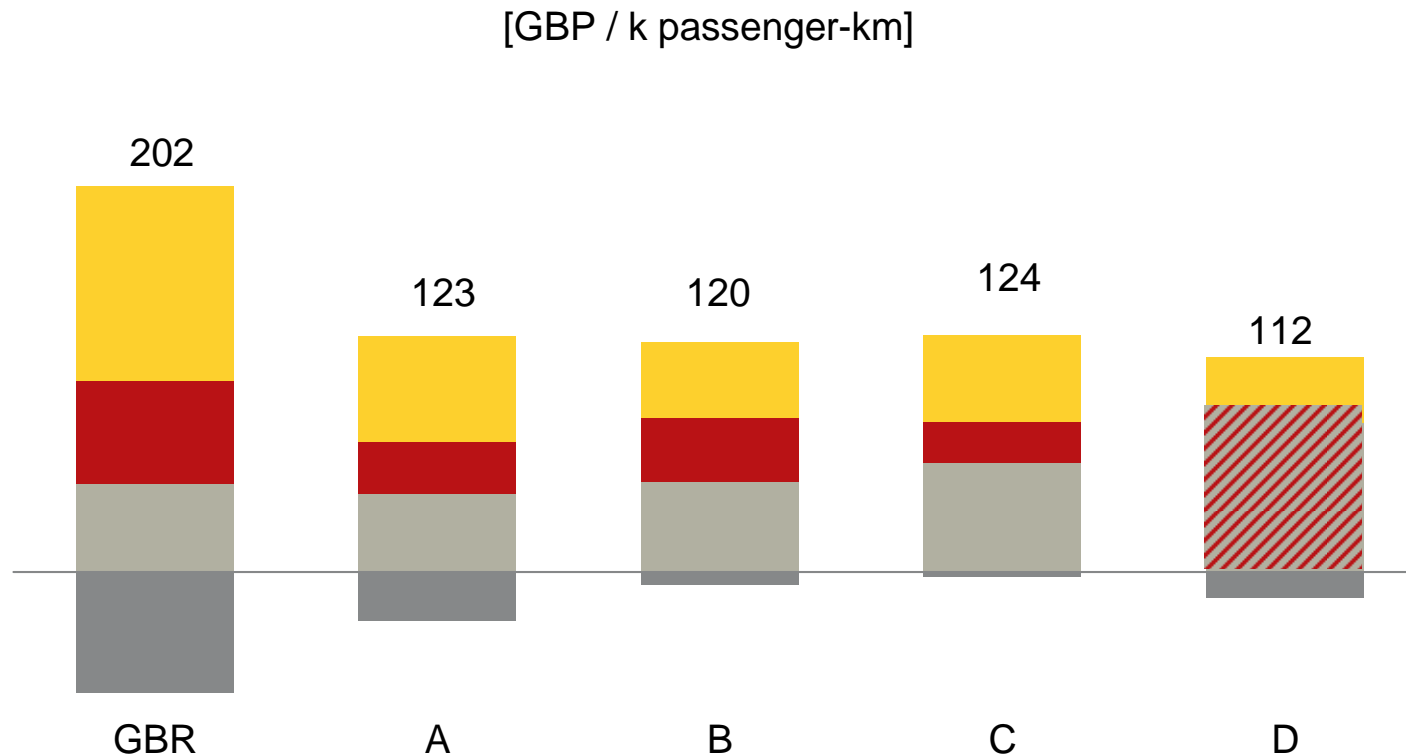
	Low Savings (£bn)	High Savings (£bn)
Total industry expenditure (2008/09 actuals)	12.0	12.0
Effect of closing the total efficiency gap	-2.5	-3.5
Resultant reduced industry costs (using 2008/09 base)	9.5	8.5

On this basis, the efficiency gap is 20 – 30%

International benchmarking

- Benchmarking GB rail against France, Netherlands, Switzerland and Sweden, based on 2009 data

Figure 2.10: Comparison of whole system costs (partly normalised)
£/k passenger-km



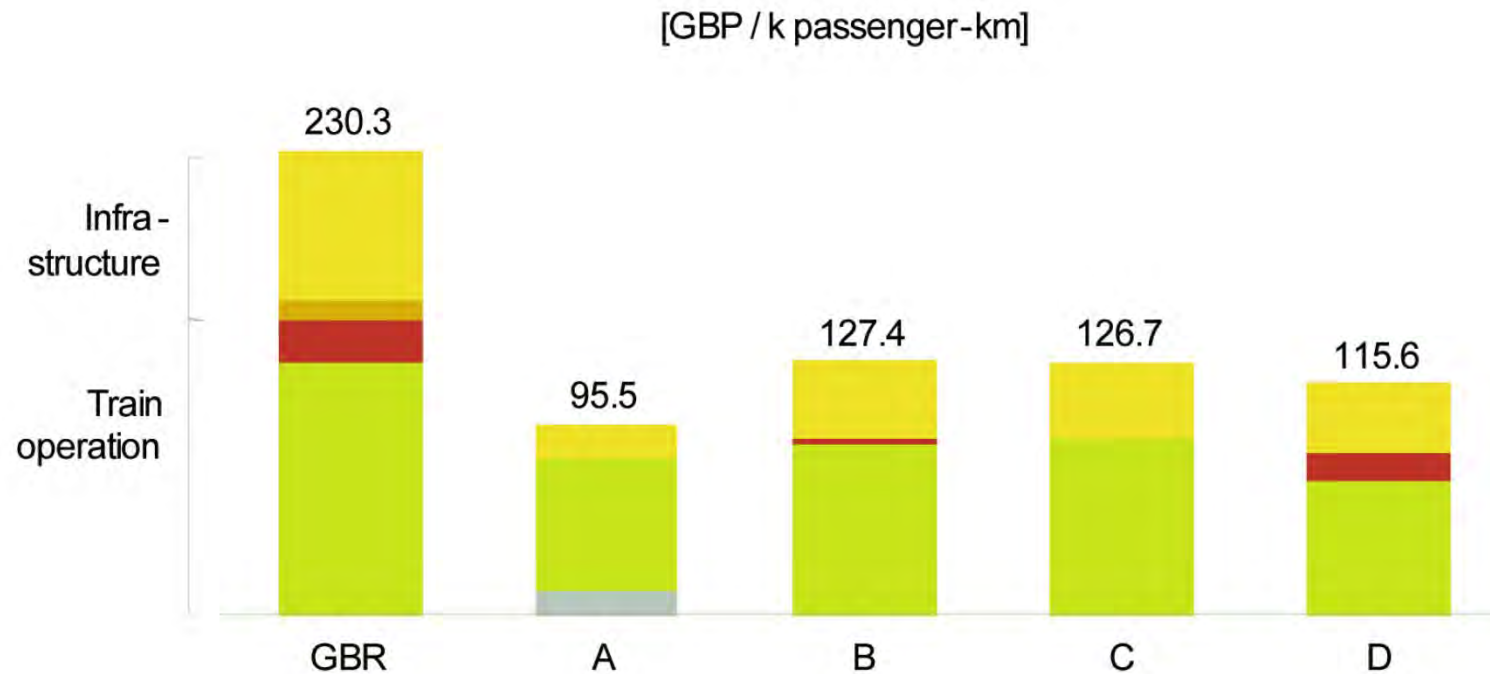
1) Infrastructure has been fully normalised, train operation and rolling stock has been normalised for the countries where normalisation factors were known

Numbers do not include track access charges

- Infrastructure
- Rolling Stock
- Passenger train operation
- Track access charges

Figure 2.13: Total income streams

Total income ¹⁾ streams (2009)



1) State and public funding (CAPEX excluded), farebox revenues and ancillary business excl. financial flows between TOCs and IMs

- Infrastructure state funding
- Infrastructure revenues
- Train operations state funding
- Train operations revenues
- Rolling stock funding

Findings on Costs and Revenues

- Unit costs of the GB passenger railway have not improved since the mid 1990's
- The study's desk analysis suggested that GB rail should cost 20-30% less than it did in 2008/09
- Benchmarking against four European comparators indicates an efficiency gap of some 40%
- Some of the difference between 20-30% and the 40% is due to difference in train utilisation, some of which may be systemic

The result of GB rail's higher costs is that GB Passengers and Taxpayers are each paying at least 30% more than their counterparts elsewhere

GB rail should aim for a 30% reduction in unit costs by 2018/19

Barriers to efficiency

Barriers to Efficiency

- Fragmentation – Structures and Interfaces
- The ways in which the main players have operated
- Roles of Government, ORR and industry
- Incentives
- Franchising
- Fares structures
- Legal and contractual framework
- Supply chain management
- Limitations on whole-system approaches
- Relationships and culture

Barriers to Efficiency - Conclusions

- Not a cause for despair
 - we need a thorough understanding of the causes of excessive costs
 - these barriers can be overcome, with strong leadership and concerted effort by all
- Not a simple set of problems; no “silver bullet”
- The problems get solved if everyone contributes

***Principal Recommendations
(1) Creating an Enabling Environment***

Creating an Enabling Environment

- Leadership from the top
- Rebalancing the roles of Government and Industry
- Clearer Objectives
- More Devolved Decision-making
- Changes to Structures and Interfaces
- More Effective Incentives
- Changes to Regulation

***Principal Recommendations
(2) Delivering greater efficiencies***

Delivering Greater Efficiencies

- Asset Management
- Programme and Project Management
- Supply Chain Management
- Safety, Standards and Innovation
- HR Management
- Information Systems
- Rolling Stock
- Lower cost Regional railways

***Principal Recommendations
(3) Driving implementation***

(3) Driving implementation

- Learn the lessons from the past
- Rail Delivery Group to take a lead
- Small independent change team

Making it Happen

*Why major change on this scale is **achievable***

- The barriers and solutions are well understood;
- Easier in an environment of growth;
- Significant changes are already in progress;
- Many people in the industry ready for change;
- The industry can provide the vision, leadership and energy to make change happen; and
- We have political leadership which is determined to see this happen.

Progress to Date

- RVfM analysis broadly accepted
- Rail Delivery Group (RDG) established
- Reform Working Group (involving DfT, ORR and Industry) addressing areas not covered by RDG
- DfT addressing long-term franchise policy
- Initial Industry Plan reflects much of RVfM analysis and objectives
- Changes underway in Network Rail and Train Operating Companies

Rail Delivery Group - priorities

- RDG now established and has had six positive meetings
- Tim O'Toole as chairman is a major demonstration of commitment
- Membership representation from owning groups, not TOC and FOC MDs, facilitates a considered industry view
- 7 Priority Areas:
 - Asset, Programme and Supply Chain Management
 - Contractual and Regulatory Framework
 - Train Utilisation
 - Innovation, Technology and People
 - The need for a “Rail Systems Agency”
 - The Initial Industry Plan
 - Cross-Industry Groups

Changes in Network Rail

- Introducing a new way of working with suppliers
- Devolving power and decision making to Routes
- Developing 'alliancing' agreements with train operators
- Introducing external benchmarking and competition
- Launching a behaviour safety programme
- Investing in asset condition systems

How will we know it is happening?

- A good set of project plans from the Rail Delivery Group, DfT and ORR, in the second half of this year
- A White Paper (or similar) which provides a clear Government policy framework for rail, by the end of this year
- A new Franchise Policy Framework which enables and incentivises TOCs to deliver greater efficiencies
- Franchise and Regulatory Policies which encourage stronger partnerships between NR and TOCs
- HLOS/SOFA (or equivalent) outputs in mid 2012 which set clear objectives, compatible with the RVfM end targets, and allow for the investment required – supported by credible Industry plans
- Measurable progress in line with project plans by mid 2012

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