

DB Symposium on Competition & Regulatory Affairs

Berlin

GB RAIL – TIME FOR CHANGE?

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Department for
Transport



Terms of Reference

1. To examine the overall cost structure of all elements of the railway sector and to identify options for improving value for money to passengers and the taxpayer while continuing to expand capacity as necessary and drive up passenger satisfaction.

2. In particular, to examine:
 - what legal, operational and cultural barriers stand in the way of efficiency improvements;
 - the incentives across different parts of the rail industry to generate greater efficiency;
 - the role of new technology, processes and working practices in fostering greater efficiency;
 - ways of generating more revenue, e.g. car parking, gating at stations, better utilisation of property; and
 - to make recommendations.

Terms of Reference (cont'd)

- 3.** The study will examine the whole industry costs and revenues and their composition. In doing so, it will look at comparable industries in the UK and abroad.

- 4.** The Office of Rail Regulation will be a joint sponsor of the study. ORR will remain responsible for delivering efficiency improvements by Network Rail and for safety regulation. The study should look at the benchmarking work the ORR did for the current control period targets that it has set.

- 5.** The work will divide into a scoping study and a detailed report, the former to be completed by the end of March 2010.

What is the RVfM Study finding?

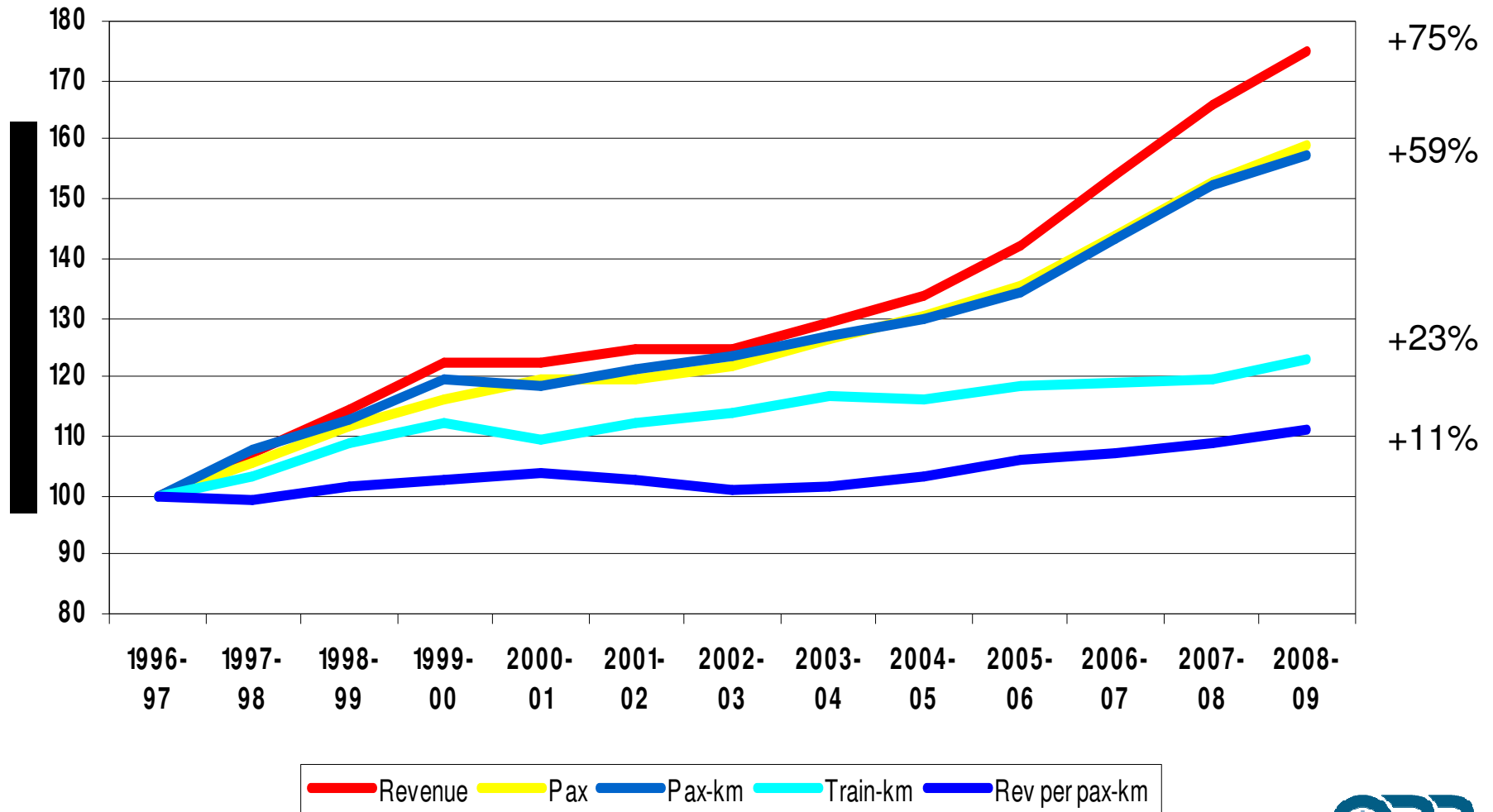
What is the RVfM Study finding?

- An industry that, in many ways, has been performing well:
 - Volume growth
 - Safety
 - Punctuality
 - Investment
 - Customer satisfaction

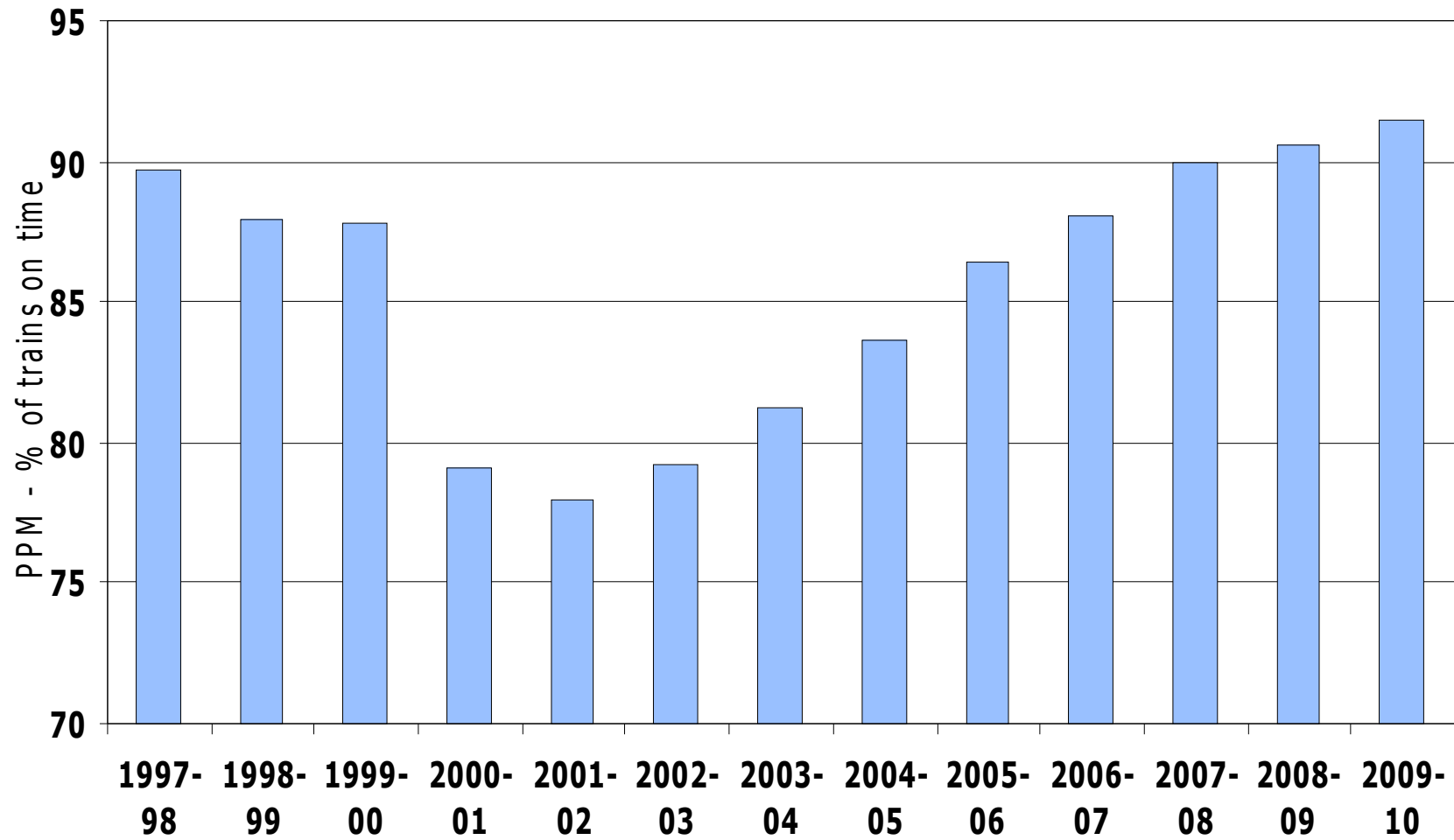
BUT

- Unit costs have increased, rather than decreased; and
- The level of public subsidy is unsustainable

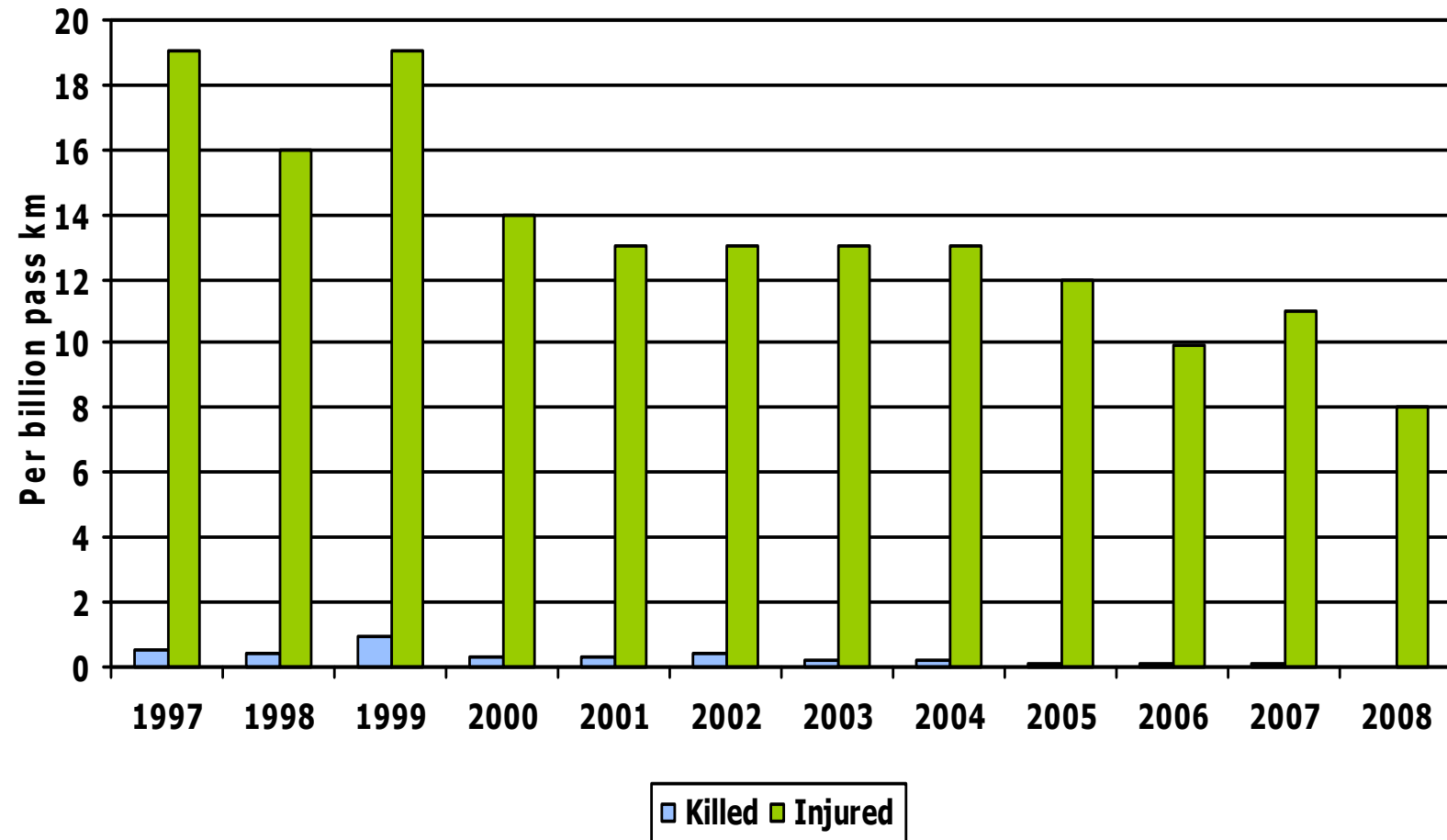
Revenue and patronage are up



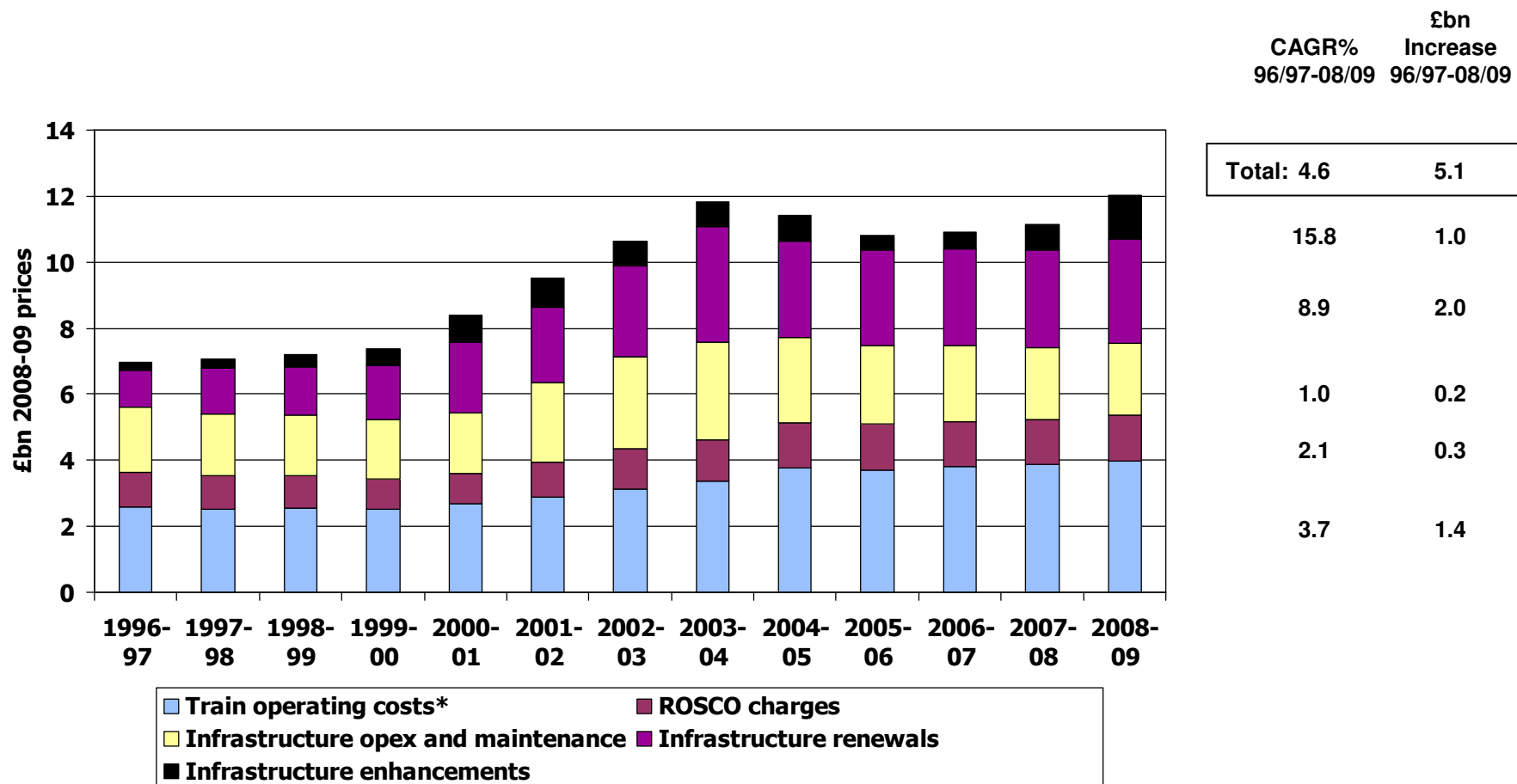
Performance has improved



Safety has improved

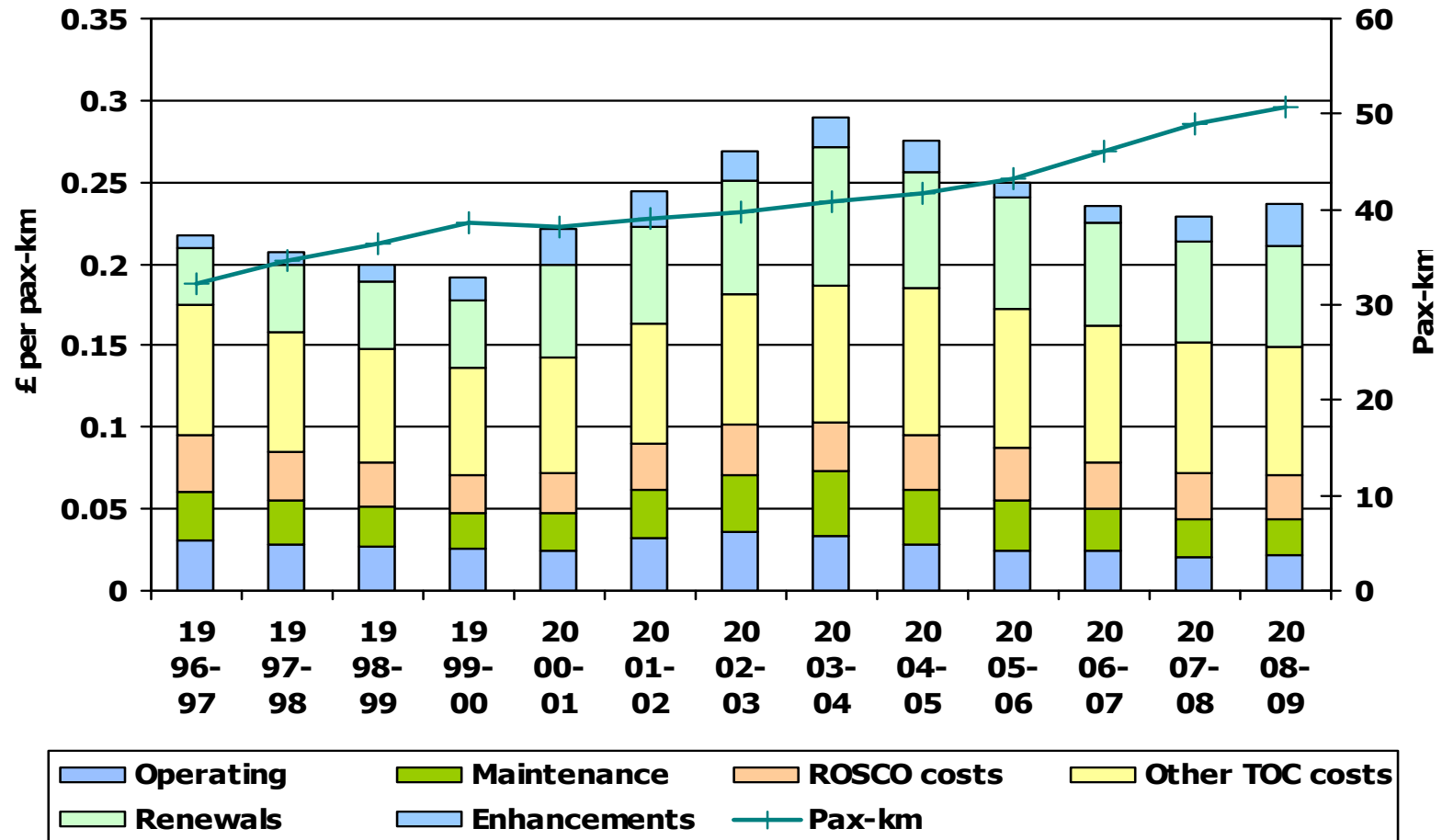


Total passenger rail expenditure has increased significantly, largely as a result of increased capital spending

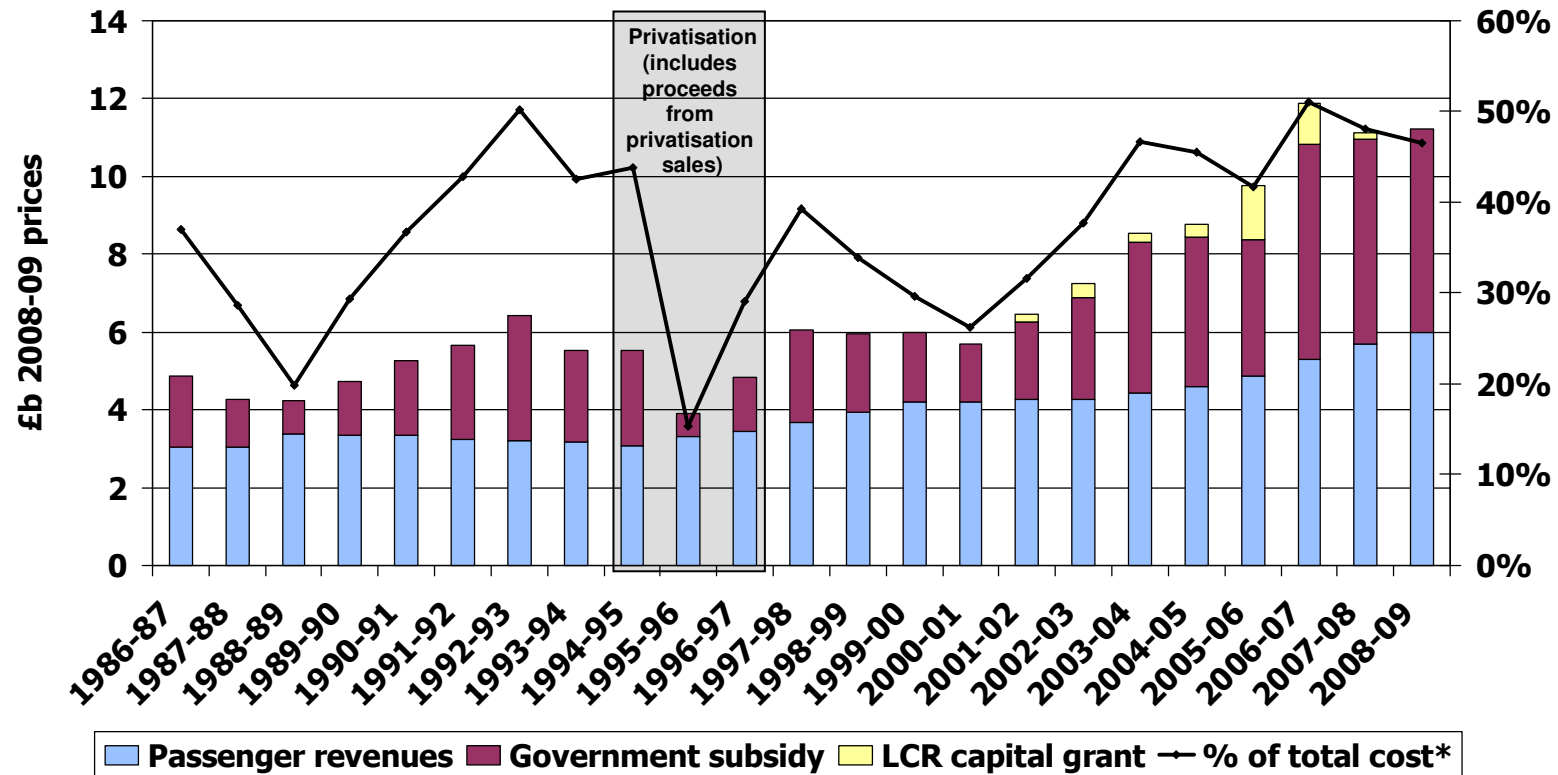


Notes: * excludes Network Rail access charges and ROSCO charges

Unit costs are little changed despite large increase in patronage



But government subsidy has increased substantially

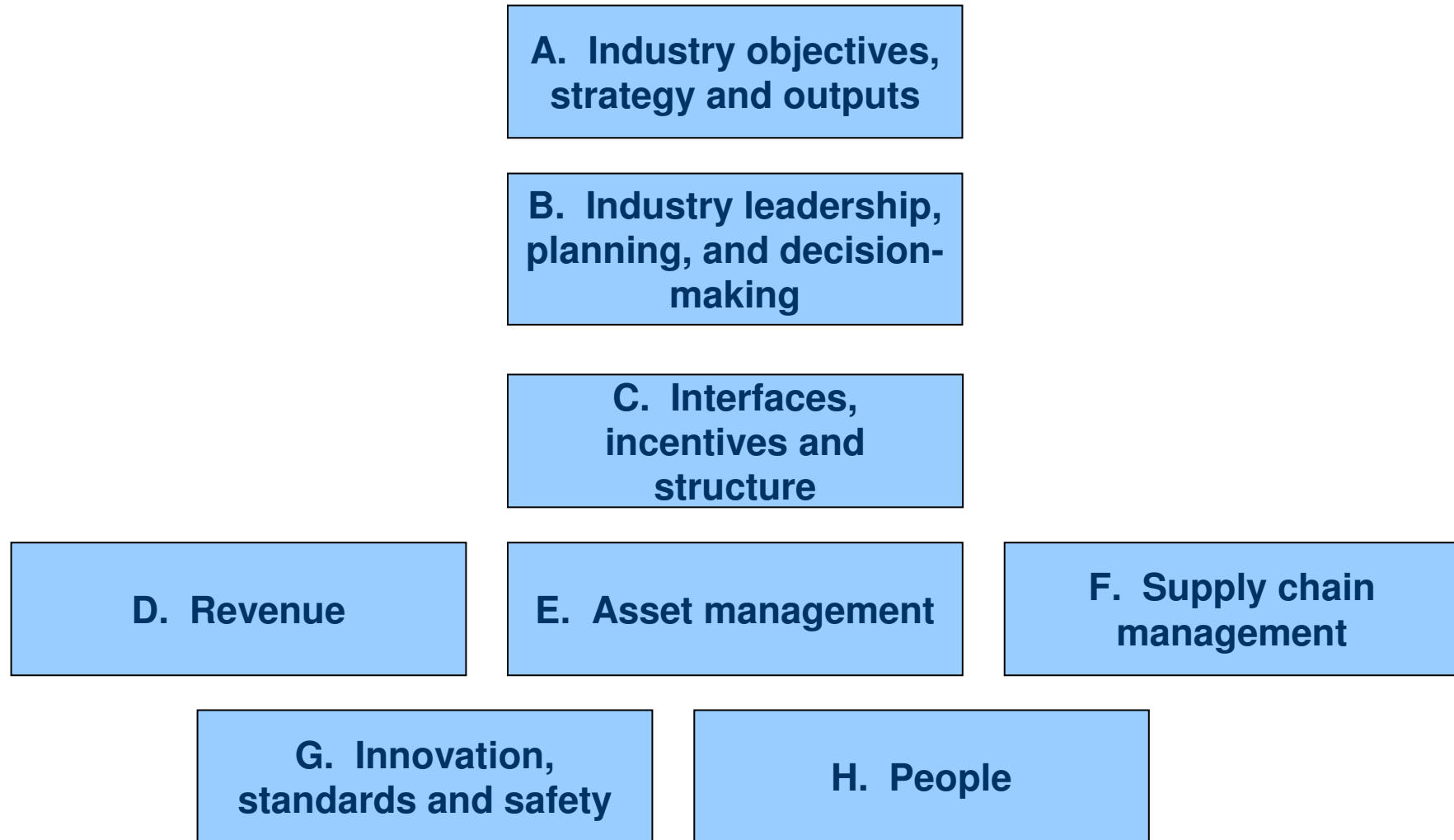


Source: National Rail Trends Table 6.2a, 6.2b and 1.3

Note: * Excludes LCR capital grant

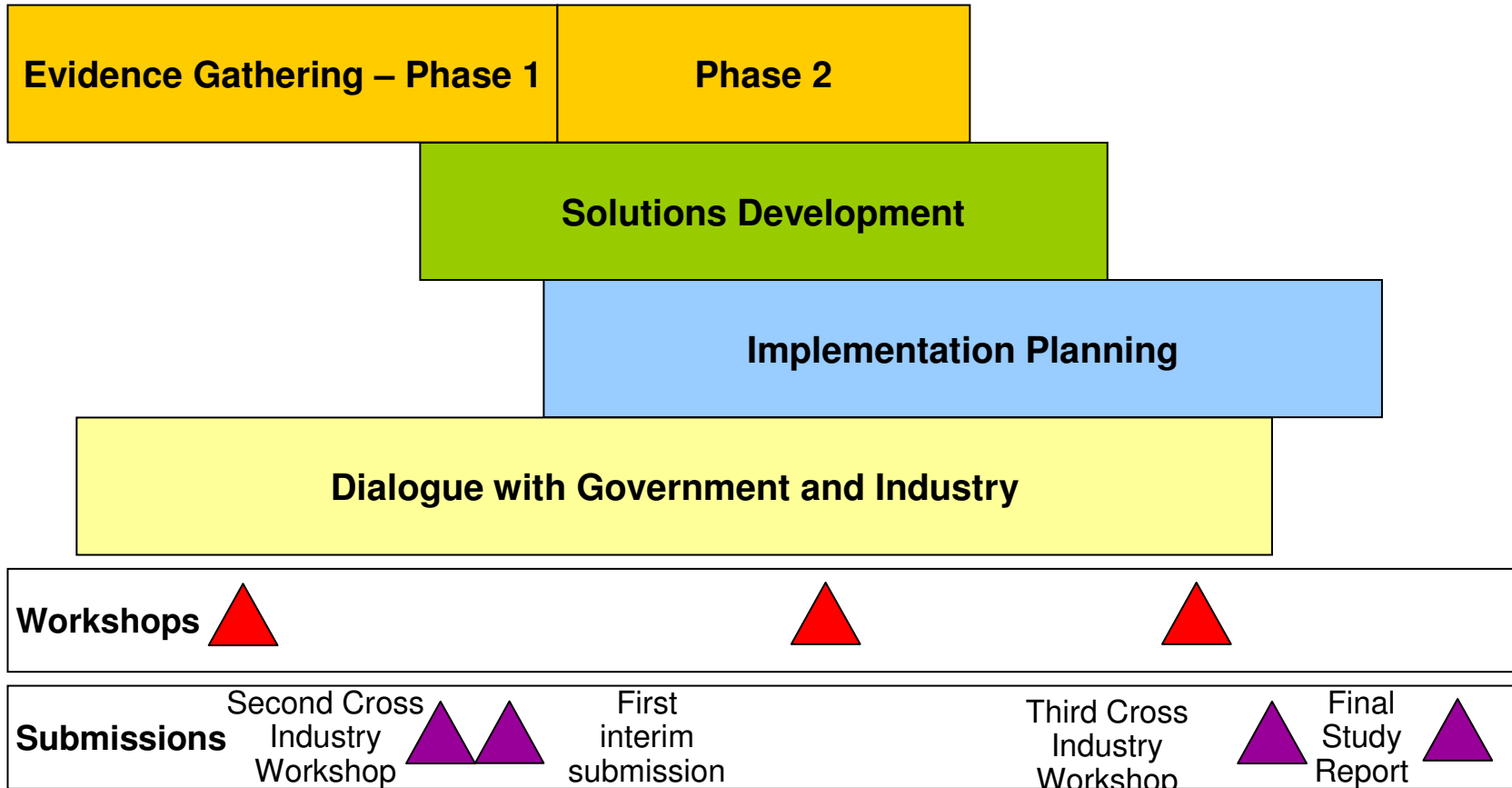
How are we organising the Study?

Areas of Study



Timescales – View today

June July August Sept Oct Nov Dec Jan Feb March April



Reducing Costs, increasing VfM

The GB rail cost problem

- The problem for Government – Public subsidy for rail £5.5 billion
- The problem for passengers – High fares
- The problem for taxpayers – High subsidy

THE ROOT CAUSE – HIGH COSTS IN GB RAIL

- GB costs per Train km are relatively high
- GB costs per Passenger km are relatively much higher

Cost to Government of Rail Sectors

| | Passenger miles (bn) | Net cost to Government | Pence per Passenger Mile |
|----------------------------------|----------------------|------------------------|--------------------------|
| Long-distance franchises | 9.4 | £693m | 7.3 |
| London and South East franchises | 15.7 | £760m | 4.8 |
| Regional franchises | 6.0 | £1,873m | 31.1 |

Long distance franchises 7.3p per passenger mile

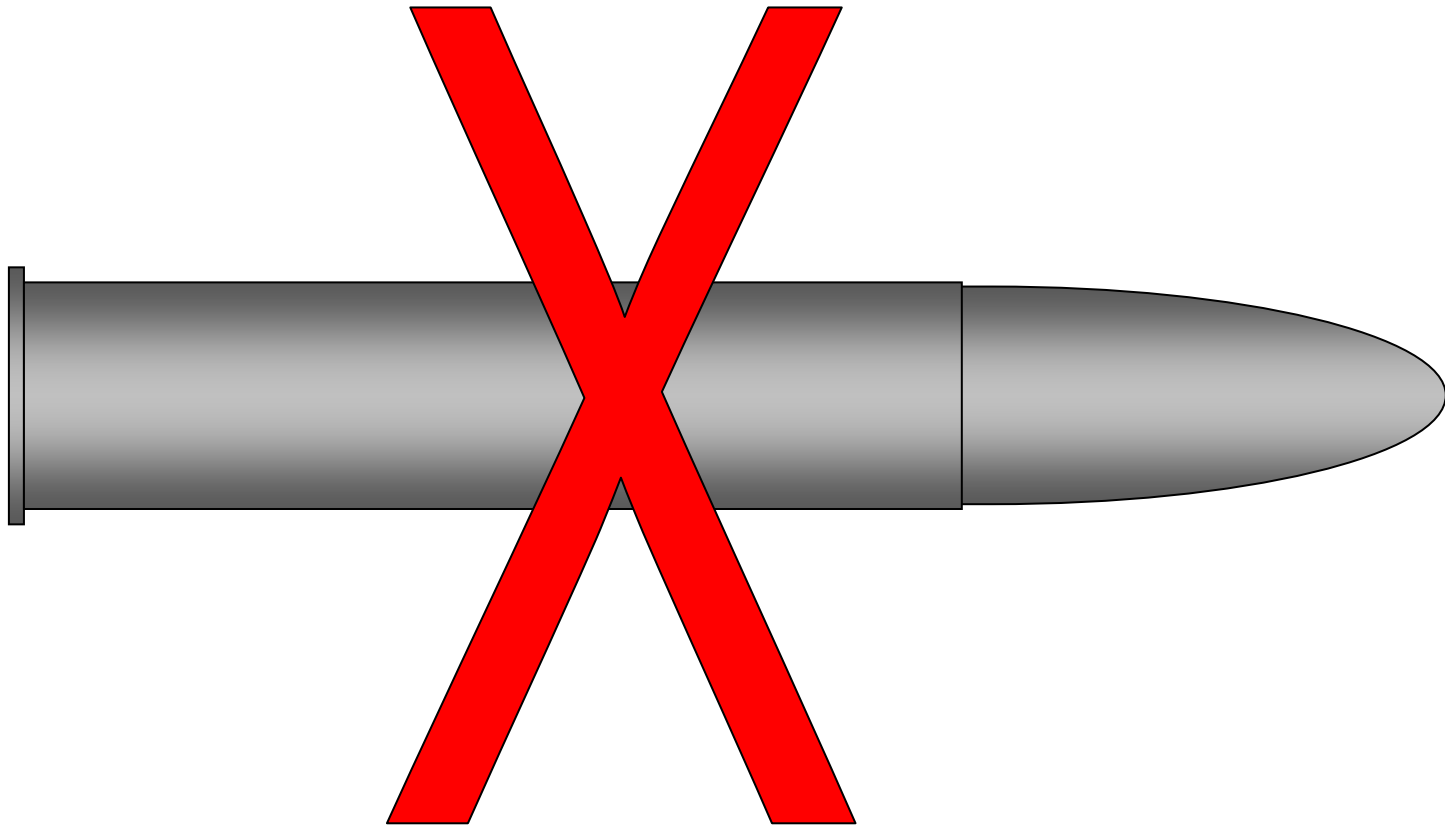
London and South East franchises 4.8p per passenger mile

Regional franchises 31.1p per passenger mile

Why did the structures set up at Privatisation not deliver the efficiencies required?

- Train Operators found Revenue Growth a much easier and more profitable option than Cost Reduction
- Railtrack as a concept was not a success
- In recovering the situation post-Railtrack, Network Rail needed to spend a lot more money
- The ways in which train was separated from track & the introduction of multiple actors & contractual interfaces in the industry has given rise to complexity, constraints and a LACK OF FLEXIBILITY
- Incentives have not been sufficiently strong or aligned between players, indeed some players have been set against each other
- There has been a notable lack of industry leadership in recent years, leading to incoherent strategy & a lack of cohesion

No silver bullet



Can major reductions in costs be achieved?

- In any activity, cost savings can always be made
 - GB Rail is no exception

HOWEVER

- Pre-requisites for cost reduction need to be in place e.g.
 - Leadership from the top
 - Clear objectives
 - Right values
 - Good financial information
 - Culture which continually questions status quo
 - Structures that help drive cost reduction
 - Incentives that encourage cost reduction
 - Constancy of purpose

Some areas where solutions might be found

- Clarity and alignment of high-level objectives
- Roles of Government and Industry
- Improved planning and decision-making
- Focus on costs and cost reduction
- Leadership from Government and Industry
- Industry structures which assist cost reduction
- Stronger, better aligned, incentives to reduce costs

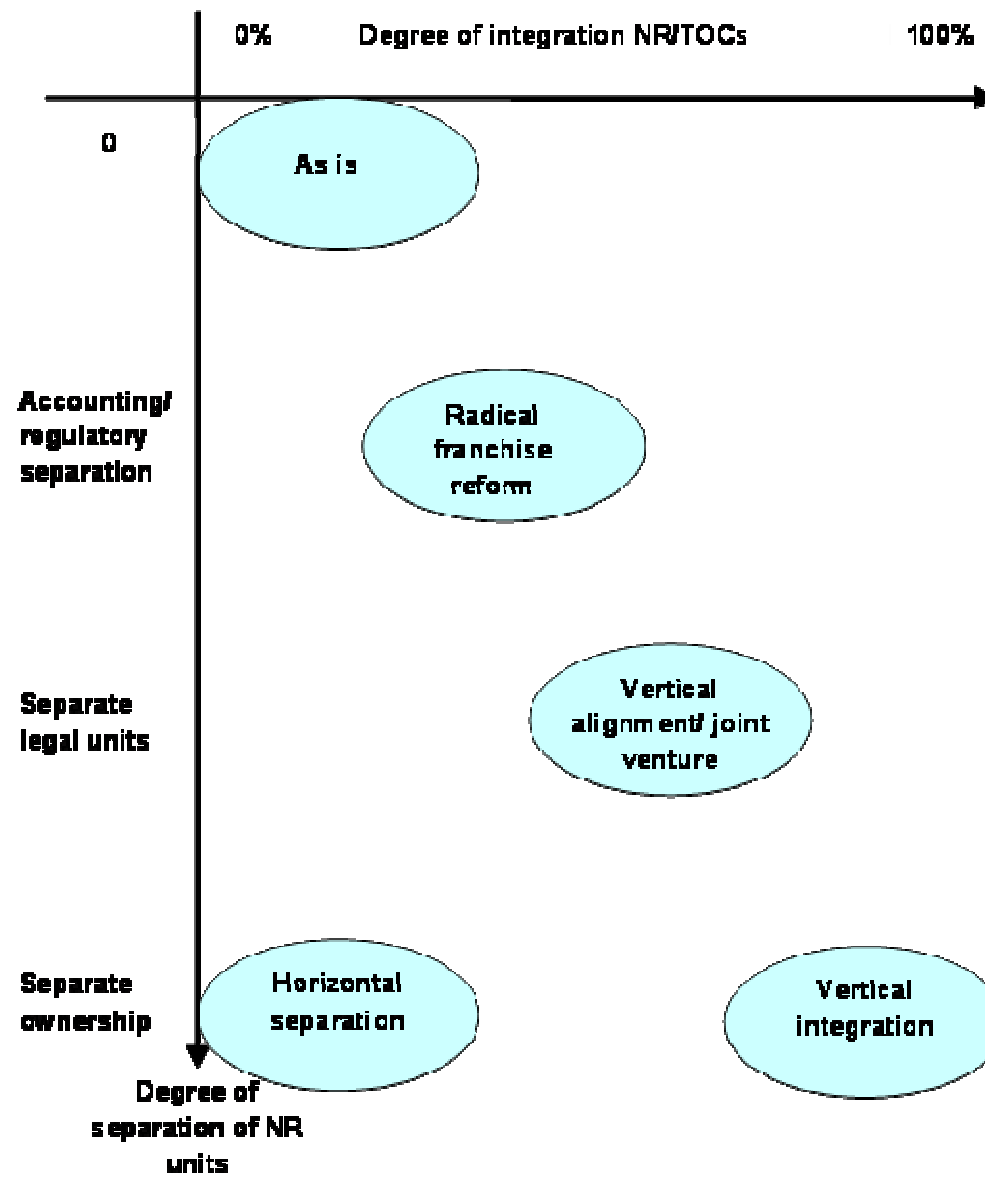
Some areas where solutions might be found (cont'd)

- Reform of franchising
- Standards, safety, innovation
- Major improvements in
 - Asset management
 - Programme & project management
 - Supply chain management
 - HR management
- “Whole system” approach to asset & programme management
- People productivity

Industry structures which assist cost reduction

- Move from silos to partnering
- Study's current direction of travel:
 - 1) Devolution/decentralisation within Network Rail (NR), compatible with running a safe and effective network
 - 2) Contestability within infrastructure services
 - 3) Alignment/partnership between NR and TOCs
 - 4) Safeguards for freight and open access operators
 - 5) "One size does not fit all"

Potential structural reform options

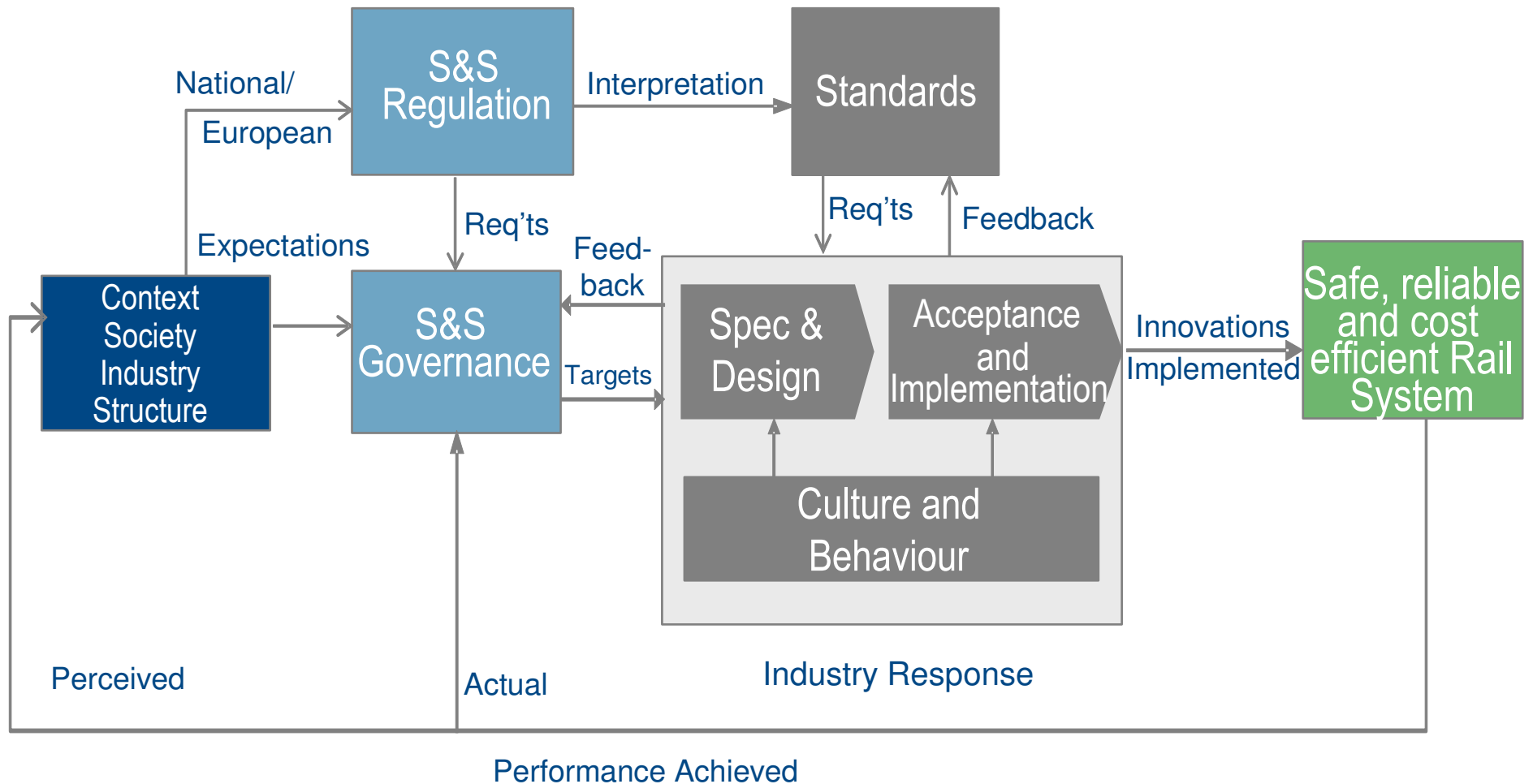


Other value adding areas

- Property income
- Ancillary income
- Stations management
- Franchise reform
- Fares reform -
 - Level of fares is primarily a decision for Government
 - Possible scope for fares reform
 - Possible scope for fares de-regulation
 - Scope for point of sale reform
 - Demand management

Safety, Standards & Innovation

Safety, Standards & Innovation – a model



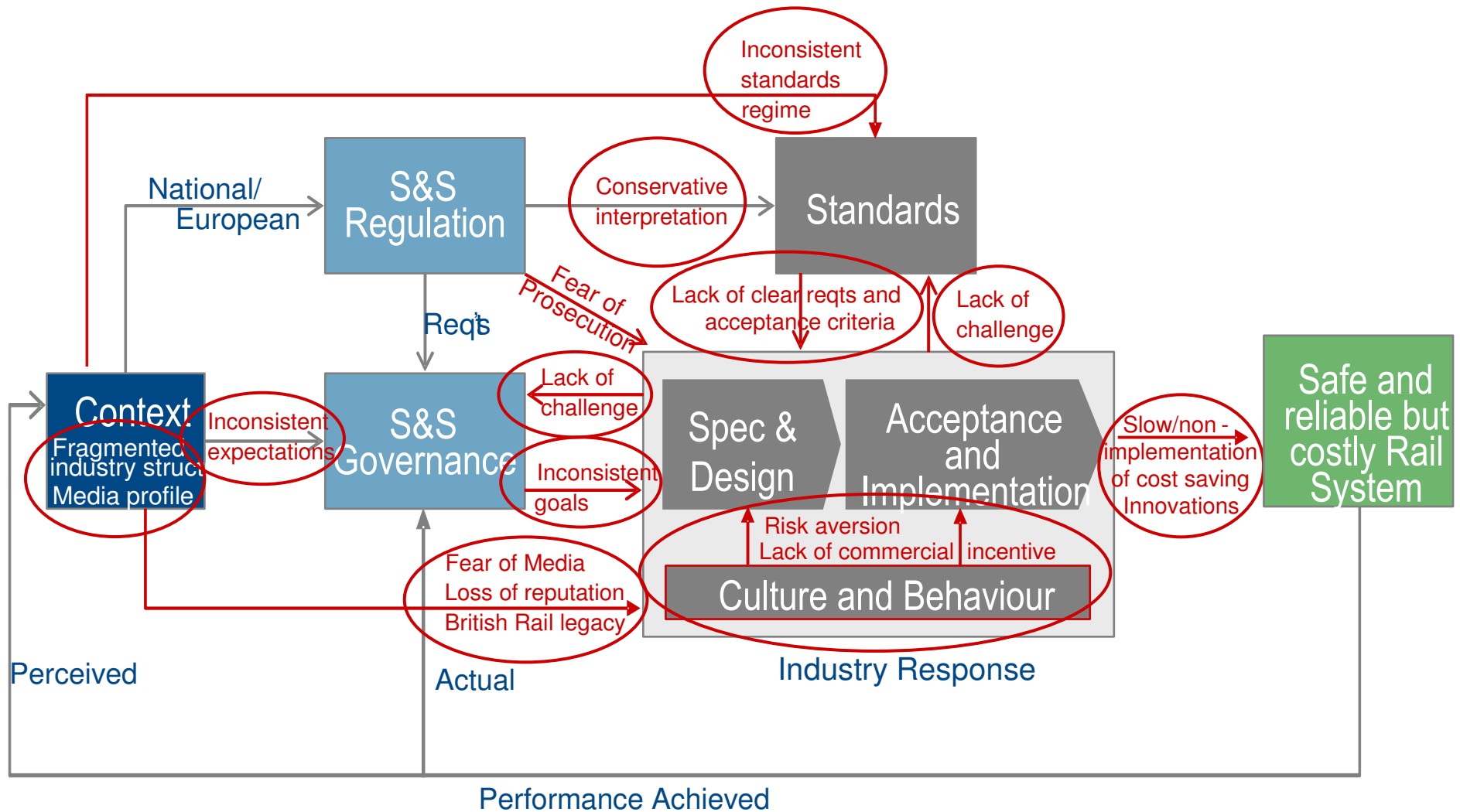
Context

Sector

Industry

Outcome

Safety, Standards & innovation - barriers



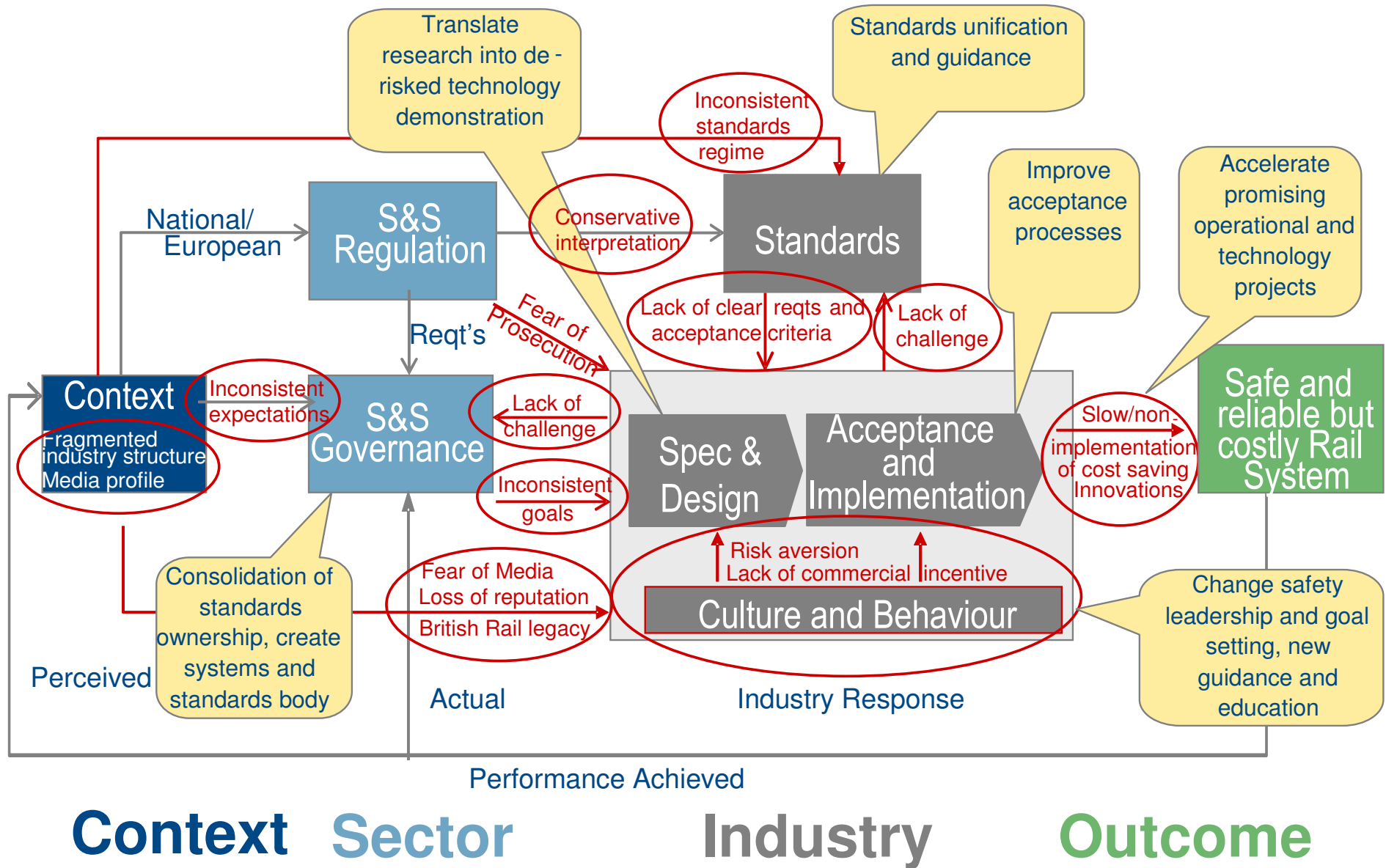
Context

Sector

Industry

Outcome

Safety, Standards & Innovation – possible initiatives



On-going work

On-going work programme

- Capacity management and utilisation
- Rolling stock
- Cross-industry information systems
- Asset ownership
- Regulation
- Legislation (if required)
- Fares policies
- Franchise specifications
- Quality of service (punctuality, overcrowding)
- Demand/capacity balance
- Subsidies and what they are buying
- How affordability is assessed

Implementation

- Not yet addressed in any detail, but some thoughts emerging:
 - A well developed plan for transformational change
 - Buy-in from Industry, Government, ORR etc – a “powerful guiding coalition”
 - Effective leadership from the top
 - An “independent”, and adequately resourced, Change Agent to drive implementation in the early phase
 - Progressive transition to the permanent governance arrangements
 - Effective leadership from the top
 - Transparent reporting of progress

Implications for the Rail Industry

Implications for the GB Rail Industry

- Opportunity to remove a lot of barriers
- Substantial degree of change is likely
- The key is getting the various players working together more effectively (partnering) -
 - Government / Industry / Regulators
 - Network Rail / TOCs & FOCs
 - Procurers / Suppliers
 - Industry / Workforce
- Costs have to be reduced substantially (Plan A)
- The only alternative would be less investment and a radically smaller network (Plan B)

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