

Keolis

Response to DfT Major Rail Review

CONTENTS PAGE

Executive Summary	2
1. Introduction.....	3
2. International Context.....	4
2.1 Markets for Rail.....	4
2.2 Reforms in France and Germany.....	6
2.3 Conclusions	7
3. Cost Increases.....	8
3.1 West Coast Main Line.....	8
3.2 Maintenance and Renewal Costs.....	8
4. Regionalisation	11
4.1 Introduction	11
4.2 Britain.....	11
4.3 Experience Elsewhere in Europe	12
4.4 France.....	13
4.5 Germany	14
4.6 Conclusions	15
5. Structure.....	16
5.1 Alignment of Network Rail Regions to Franchises.....	16
5.2 Service Specification and Operational Planning	16
5.3 Operational Control	17
5.4 Track Maintenance	17
5.5 Stations.....	17
5.6 Conclusions	18
6. Regulation of Safety	19
7. Conclusions.....	20
References.....	21

Executive Summary

In this response, we offer a view informed by our knowledge of the rail industry in several countries, including Britain.

Whilst the Government is understandably concerned about the cost of the railways to the taxpayer, the public contribution has historically been less than in countries with similar populations and level of income. This is partly explained by these countries having larger railways and greater use of rail.

Our main conclusions concerning the structure of the railways are as follows:

- To reduce costs and improve performance, there is a need to streamline the way in which the industry is controlled and to reduce the number of interfaces and simplify their nature
- Operators need to be able to determine what services they offer, especially on commercial services (subject to meeting network capacity constraints)
- Consideration should be given to giving operators responsibility for operational control
- Depending on circumstances, Network Rail might subcontract maintenance and sometimes renewals back to operators
- There needs to be a better and clearer allocation of risk between the public and private sector, especially in project development
- Structures and incentives are needed to ensure training and development of staff are improved
- Network Rail should not be given control of stations as it lacks incentives or capability to improve stations in response to customer needs

These changes would have a number of benefits including that of reducing costs.

Responsibility for specifying, funding and controlling service delivery should be more devolved to local government. Consideration should be given to vertically integrated franchises, particularly in PTE areas, and to giving PTEs primary responsibility for new franchises. Also Transport for London should play a much bigger role in main line rail.

The government should not in our view seek a 'blueprint' for the railways, since any new model may have faults and will almost certainly not be appropriate to the railways in 10 or 20 years time. Instead it should plan sequential reforms which move the railways in the right direction but which may be adapted to circumstances. This would allow it, at each step, to retain what works and change what does not work. This approach is being used in Germany.

The reforms may need to vary between different parts of the network and we support the use of pilots to test different models.

1. Introduction

The key issues concerning the railways have been identified in the Secretary of State's speeches and developed in other responses to this consultation. After making some general comparisons with other countries (Chapter 2), we give our opinion on cost issues (Chapter 3). We then draw on our experience in France and Germany (where we also operate) considering three areas of contention in more detail: regionalisation, industry structure and safety regulation (Chapters 4-6).

A key difference between Britain and most other countries in Europe is that more emphasis is given to commercial and measurable economic objectives and less to social ones, particularly those which are difficult to measure. This is reflected in the much higher fares in Britain: farebox revenue per passenger km is €0.15, compared to €0.09 in France, Germany and the EU on average (NERA, 2004).

Whilst the British government is understandably concerned about the cost of the railways to the taxpayer, the public contribution has historically been less than in countries with similar populations. This is partly explained by these countries having larger railways and greater use of rail.

Our understanding is that the main focus of this review is to ensure value for money rather than to increase rail use and we will respond with this in mind. However, it is important to recognise that there is a trade off between these two objectives and it will be difficult to affect one without affecting the other.

We hope that our views, informed by our knowledge of the rail industry in several countries, will assist the government by providing a different perspective.

2. International Context

It is helpful to compare the situation in Britain with that in other countries and we have chosen France and Germany as these are the countries we are most familiar with. We first compare the rail markets in Britain with those in France, Germany and the whole of the EU and then discuss the nature and impact of reforms in France and Germany.

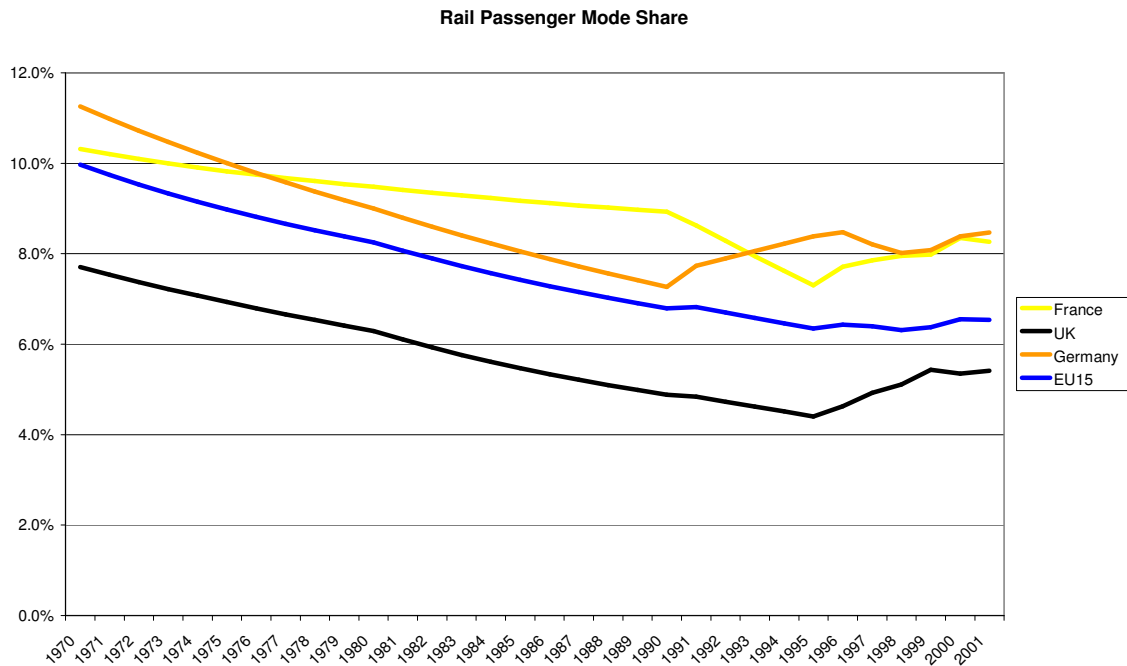
2.1 Markets for Rail

Britain has both geographic advantages and disadvantages for rail use. Population and industry is highly concentrated in the large conurbations of London, the Midlands, the North and Strathclyde. London plays a central role in business and Central London is unusually dependent on rail for commuter and business access.

The main disadvantages faced by rail in Britain are the more dispersed pattern of land use and the greater propensity to use the private car than most continental countries. Both of these factors make it harder for rail and other public transport networks to compete.

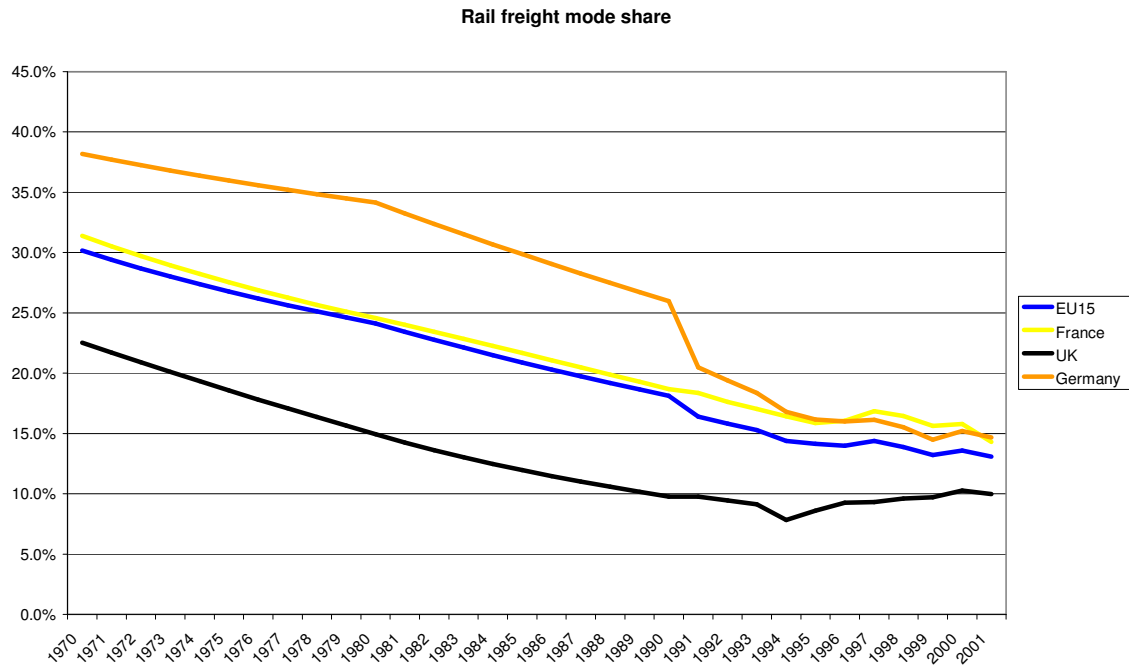
Rail appears to lack a natural competitive advantage in most markets in Britain (the major exception being trips to or from London). This, together with the high fares (compared to other EU Member States), explains why rail's share of land transport is smaller than in other European countries. Figures 1 and 2 below show how rail's share of passenger km and tonne km has changed in Britain, relative to France, Germany and the EU as a whole, over the past 30 years:

Figure 1: Proportion of Passenger Km by Rail



Keolis - Response to DfT Major Rail Review

Figure 2: Proportion of Freight Tonne Km by Rail



These figures show that until the 1990s, rail's share of land passenger transport was about 2% lower in Britain than in the rest of the EU and 8-9% lower for freight. By 2001, the gap had closed to 1% for passenger transport despite other countries arresting the decline in rail's share. Even more impressively the gap for freight had fallen to 3% as other countries have continued to experience a decline in modal share, whereas the decline in Britain has been reversed. At least some of these achievements are attributable to privatisation and it is therefore important that this gain is not lost in further reforms.

Table 1 compares key measures of the size and importance of rail in Britain, France and Germany.

Table 1: Size and Importance of Rail in UK, France and Germany

	UK	France	Germany
Population (2000) m / (UK=1.00)	59.6	59.2	82.2
No. of rail passenger journeys p.a. (2003)	1 bn	0.9bn	1.8bn
Rail passenger km p.a. (2003)	40.3bn	73.5bn(2002)	72.7bn ¹
Rail freight tonne km p.a. (2002)	18.7bn	50.0bn	72.4bn
Total length of rail network (2000)	17179 km	31735 km	38150 km

Sources: Eurostat and DfT

Table 1 indicates that, by most criteria, the railways in Britain are on a smaller scale than those in France and Germany. Most importantly the number of passenger km in Britain is about 60% of the levels in France and Germany.² Even if the objectives set for rail in the Ten Year Plan were achieved, traffic levels in Britain in 2010 would still be below those that currently exist in France and Germany. For example, the Ten Year Plan's ambitious 50%

¹ Estimate based on 69m DB passenger km and a 5% market share of other operators in terms of passenger km.

² Although farebox revenue from passengers is similar due to higher fares.

Keolis - Response to DfT Major Rail Review

target for the increase in passenger km (from 2000) would have achieved a level of rail use of 59 bn passenger km by 2010. Whilst this would represent a historic step change, it is below the levels of around 73 bn already being carried in France and Germany.

For freight, the existing gap is even larger and the targeted 80% increase in rail freight tonne km would produce only 33 bn tonne km in 2010, less than half that now carried in Germany³ and two thirds the level of traffic carried in France.

2.2 Reforms in France and Germany

In France, there was a major railway reform in 1997. It had two main purposes:

- To meet European requirements regarding the separation of responsibilities between railway operators and infrastructure managers (under Directive 91/440)
- To decrease the financial burden on SNCF by removing part of its debt.

To achieve these goals, *Réseau Ferré de France* (RFF) was formed as the state owned infrastructure manager. It was granted the property rights of the national rail network but it was also obliged to pay interest and to redeem €20.5 bn of SNCF's total debt of €30.3 bn.

RFF's objective is to promote rail transport in France and to develop and to enhance the national railway network. The 1997 Reform Law requires RFF to let SNCF manage and operate the railway infrastructure (on a contractual basis) for safety reasons. This has obvious parallels with the proposals for TOCs to manage maintenance in Britain.

The approach to reform in Germany was systematic, incremental, consensual and long term. Railway reform began in 1994 with the integration of the East and West German systems, and its central aim was to improve the financial performance of rail. The Government therefore took over *Deutsche Bahn's* (DB's) existing debt of approximately €34bn. DB was established as a company with five divisions:

- Network
- Freight
- Short distance passengers
- Long distance passengers
- Stations

In 1999, these divisions were established as subsidiaries. Open access was also introduced but entry was initially limited due to various obstacles, some allegedly erected by DB to keep out the competition. DB claims that it is not deliberately anti-competitive but, like other state railways, it has a long standing conservative engineering mentality, which can make it appear hostile to outside influence.

The retention of the incumbent state owned rail monopoly organisation, after on track competition had been introduced, was a notable difference to the situation in Britain. This is because the principle of a fair playing field for on track competition was not considered as important as the improvement in DB's financial and operational performance.

New rail freight and passenger operators have made inroads into DB's monopoly. Other operators now account for 8.5% of trains operated on DB's network (*Deutsche Bahn*, 2004).

³ Germany has a far more freight transport intensive economy than Britain.

Keolis - Response to DfT Major Rail Review

DB *Regio* continues to compete hard for regional passenger contracts and is expected to retain well over 80% of its market over the next few years. DB *Reise und Touristik* remains dominant in the commercial intercity passenger market as does DB Cargo in unit freight train markets. Rail freight carried by third parties reached 5.5 m tonne km in 2003 (having grown at about 50% a year over the period 2000-03). This is out of an overall market of 79.5 bn tonne km representing a market share of 7%.

2.3 Conclusions

Whatever policies and institutional reforms are adopted, rail's share of total traffic in Britain is likely to remain below that in France and Germany and probably below that in Western Europe as a whole. The main reasons are dispersed land use and a high propensity to use private cars. The gap is particularly difficult to close for freight, due to the decline of heavy industry and short distances to ports. To close the gap, very high levels of investment and lower fares (and consequently higher operating subsidies) are likely to be required. We doubt this would represent value for money.

Experience with reform in France and Germany shows that, although they are less advanced on the path of reform than Britain, they provide important lessons in some areas. For example, lessons can be learnt from French experience with the contracting of maintenance to the operator, SNCF, and from Germany's planned incremental approach to reform.

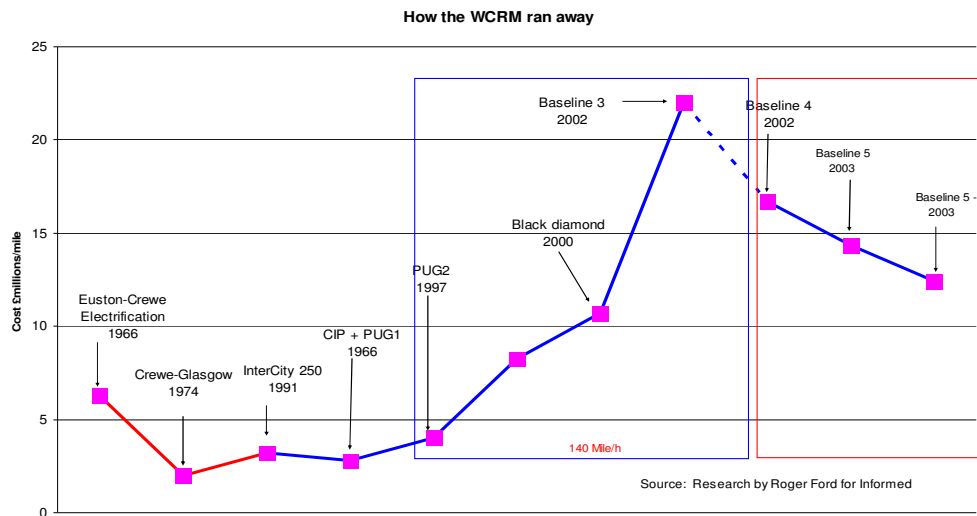
3. Cost Increases

The Ten Year Plan included many major enhancement projects which are now either unlikely to be achieved within the life of the Plan, or have been heavily de-specified because of spiraling costs. There is therefore a justifiable concern that the massive additional funds will deliver little discernable improvement compared to earlier periods in which investment was made at a fraction of the current level of cost.

3.1 West Coast Main Line

The most extreme example of costs escalation has occurred on the West Coast Main Line (WCML). Figure 3 shows the costs per mile (in constant 2000/01 prices) for various WCML projects between 1966 and 2003. Until PUG 2 in 1997, the costs were generally within a range of £2m to £6m per mile. Following this, project costs soared with the development of projects to deliver a 140 mph railway, starting with PUG 2 (shown in the blue box). The culmination was the 2002 Baseline 3 in which the total cost was estimated to be £13.5bn (£23.0m per mile). Following this, there were major efforts to reduce costs which resulted in a major despecification of the WCRM project. The red box shows the development of project costs to deliver a more modest 125 mph railway. The most recent project costing (Baseline 5) gave a total cost of £7.29bn (£12.41 m per mile), but even this is twice the top end of the range before PUG 2. The fact that much of this escalation was due to a higher specification does not detract from the central fact that, with such increases, the cost base of the railways is rising dramatically in real terms.

Figure 3: Upgrading projects: Costs per mile, 1966 – 2003 (constant prices)



Source: Ford, R., Paper presented at Transport Economics Group, March 2004

3.2 Maintenance and Renewal Costs

The rapid escalation of maintenance and renewal costs partly occurred because output based contracts were agreed to by Railtrack without a full understanding of how to deliver them. This occurred at privatization, during which many key internal staff were transferred to commercial organizations, taking much of the effective asset register information with them.

Keolis - Response to DfT Major Rail Review

An OECD report (2004) cites the following reasons for the high costs of maintaining, renewing and expanding the rail network:⁴

- (i) When Railtrack took over assets from British Rail, it lacked knowledge about the condition of assets and was slow to rectify this situation;
- (ii) The transaction costs of negotiating, agreeing, drawing up, monitoring and enforcing contracts between so many industry parties for complex projects are substantial;
- (iii) Network Rail must compensate operators for any delays or cancellations of services caused by infrastructure work. These payments represent genuine costs, but adding them to the cost of projects increases budgetary problems and, where budgets are constrained, projects are less likely to go ahead;
- (iv) There has been a major increase in safety spending, partly due to public reaction to train accidents since privatization;
- (v) Whereas the public sector pools risk, private sector contractors include substantial risk premiums in their prices, partly because the private sector is being asked to take on much of the risk in the industry.
- (vi) There has been a sharp increase in the demand for a number of scarce skills which has driven up salaries and wages. At the same time, the fragmentation of the industry has meant that recruitment, training and development have been reduced.

The last three points have serious consequences for costs. We discuss safety (point (iv)) in Chapter 6.

In the case of risk (point (v)), it is not simply the allocation of risk that is the problem but the lack of clarity as to who actually bears the risk. The recent NAO report on Light Rail highlighted the risk allocation problem but we consider it may be even more serious in heavy rail because there are more players involved.

In the case of skills (point (vi)), the increasing demand for skilled staff and the reduction in their supply mean that companies have had to compete for increasingly scarce resources. Salaries in the industry have therefore increased substantially, particularly for drivers. Perhaps more serious in the long term is the fact that “the generalist who understood how the bits fit together” (Nelson, 2004) are no longer able to acquire the breadth of knowledge required to run a railway (whether integrated or fragmented) since to do so, managers need to change companies, which many are reluctant to do. The National Rail Academy established by SRA is a good start but is unlikely to be enough. As a result, there will continue to be a lack of experience and fewer managers will have the breadth of skills and experience to manage the interfaces within the current structure. Unless this loss of “institutional memory” is addressed, the situation will become much worse since such skills and experience take time to develop and are specific to the railways and so cannot be bought in.

Turning to the contracting out of track maintenance and renewal, this has caused more problems than would have been expected from previous experience of contracting out in other industries and other railways. For example, DB Netz in Germany expects to achieve cost savings of up to 10% by contracting out. In the future this may be possible in Britain – a crucial precondition is that there is a ‘well informed purchaser’. The decision to take its track

⁴ They note that the current high investment needs of the network are partly a temporary problem, as requirements for renewals are at a peak in the cycle.

Keolis - Response to DfT Major Rail Review

work “in house” should therefore be seen as a transitional arrangement which should allow Network Rail to understand its own assets before putting this work out to contract again.

4. Regionalisation

4.1 Introduction

Regionalisation could be an important way of improving value for money in the provision of railway services. The key principles are that the services should be specified at the most local level possible and that whoever specifies, also pays any subsidy.

The following extract from NERA's EC financing and budget contributions report summarises the situation regarding regionalisation of rail services in France, Germany and Britain:

- *“In Germany, full responsibility for regional services is devolved to regional authorities.*
- *In France, legislation for devolution of authority and funding on regional services to regional councils was enacted in 2002, following devolution in pilot areas in 1997 to 2001.*
- *In Great Britain responsibility for services in Scotland has been devolved to the Scottish Parliament;*

Although devolution to local authorities is increasing in several countries, including England and Wales, regional services continue to be specified and funded by a ministry or agency of the state government.”

4.2 Britain

Britain has therefore been slow to pass responsibility to regional and local government for the funding of local rail passenger services. Devolution of powers to the Passenger Transport Authorities/Executives (PTAs/PTEs) has existed for some time: these influence but do not determine local services and most funding for local rail services, even in these areas, is still provided by the SRA. There are therefore mismatches between political accountability, the responsibility for specification and the source of funding.

SRA has recently announced its intention to devolve responsibility for the planning, funding and operation of a number of rural (branch line) services to local bodies on a vertically integrated basis. This will allow services to be planned to meet local requirements and for engineering standards to be adjusted appropriately. International experience of small scale vertically integrated operations suggests that this is a promising way forward.

Extending devolution to all urban and rural services could improve the allocation of resources, so that investment is better targeted, based on local need. This would allow rail's contribution to be determined in a way that is integrated with local transport and land use strategies. For example, the role of heavy rail (as opposed to light rail or bus) in particular corridors is best determined by local government which also has some powers to ensure that any heavy rail services are well integrated with other modes, including in the provision of interchanges. However, funding, as well as specification, must be regionalised otherwise there will always be a temptation for the regional body to over specify.

A unique arrangement has been possible on the self contained Merseyrail Electrics commuter network. Merseytravel (a PTE) now has responsibility for the network, which means it is

Keolis - Response to DfT Major Rail Review

exempted from the SRA franchising process, allowing Merseytravel to let the services as a local concession. The intention is to provide an opportunity to gain the benefits of closer integration with other transport modes in Merseyside, whilst retaining national rail network advantages.

The Government should consider replicating the arrangements in Merseyside elsewhere in Britain. There would still be a need for co-ordination of the specifications between neighbouring regions, since many services operate across regional boundaries. However, it would be more efficient for the PTEs to co-ordinate between themselves than for the SRA to try to reflect the requirements of each. The Northern franchise could, for example, be jointly specified and franchised by the relevant PTEs (some of which are contiguous) or be split and franchised by each PTE independently (if there were advantages to co-operation they would co-operate).

There would then remain the issue of shortages of capacity and a consequent conflict between the needs of local passenger services (the focus of local bodies) and the needs of freight and intercity passenger services. The SRA attempts to address these problems through consultative processes but it is not clear whether the SRA, with its national focus, is in the best position to manage this process. Rather it would appear to be more efficient if the process were managed by the PTEs. They would then consult the SRA concerning the interests of intercity passengers and freight services.

In London, the Mayor has limited funds but has powers to give Directions and Guidance to the SRA. However, the SRA may under certain circumstances ignore this advice (Transport for London claims that it usually does). In London, rail services carry many more commuters than in the PTE/PTA areas, mostly from within the Transport for London jurisdiction area. Also Londoners account for half the rail trips in the country (Transport for London, 2004), highlighting the particular problem of political accountability for London rail services.

Given the importance of London to Britain's economy and the poor state of London's transport (as pointed out by the Olympic evaluation committee), there is a particularly strong case for the greater involvement of local government in main line rail in London. Better integration could, for example, be achieved through strategic interchanges on the edge of Inner London (e.g., Stratford), co-ordinated service planning and a common fare structure; all measures which have been proposed by Transport for London. The obvious parallel to London, in terms of capital city primacy, is Paris which we discuss below.

4.3 Experience Elsewhere in Europe

In other West European cities, especially those in Germany and France, regional and local government bodies have taken over responsibility for funding local rail services (as well as other transport services), in exchange for compensation from central government. This makes sense, not just for reasons of local democracy, but also because the need to co-ordinate local rail with other local passenger transport services is generally greater than the need to co-ordinate local rail with other main line rail services (intercity passenger and freight).

A paper on the experience of regionalisation in Italy and France (Burlando and Guihery, 2003) highlights the central role which regional authorities can have in specifying services appropriate to their populations. However, they found that, to be successful the regions need a high level of knowledge and experience.

Co-ordination of local rail with other local passenger transport services has been particularly successful in the Netherlands. Keolis is a joint operator of the Syntus franchise in Achterhoek in a predominantly rural part of the west of the country. A key element of the franchise is that

Keolis - Response to DfT Major Rail Review

it provides for integrated train, bus and taxi services. There has been sustained growth since franchising in 1997. Such a multi-modal approach to franchising could also be adopted by devolved bodies in Britain as a means of improving integration between modes.

Below we consider experience in France and Germany in more detail.

4.4 France

Until the early 1980s, all public funding for rail in France came from the central government and, as a result, local train services were often poor and traffic levels were declining. Outside *Ile de France* (the Paris Region), rail's share of local trips in 1999 represented only 2.5% and in *Ile de France* rail's share was only 9%.

In the mid 1980s, local communities began to show increased interest and involvement in the railways. It was increasingly recognised that the social value of railways and accountability to both passengers and taxpayers could be better assessed at a local level. In 1997, there were initial steps towards devolution of authority for specifying and contracting regional services and fares from the State to the Regional Councils. Seven of the 22 Regional Councils (with an average population roughly that of Wales) volunteered to pilot this devolution. They were given authority on regional rail transport along with the relevant subsidies the State had previously provided to SNCF.

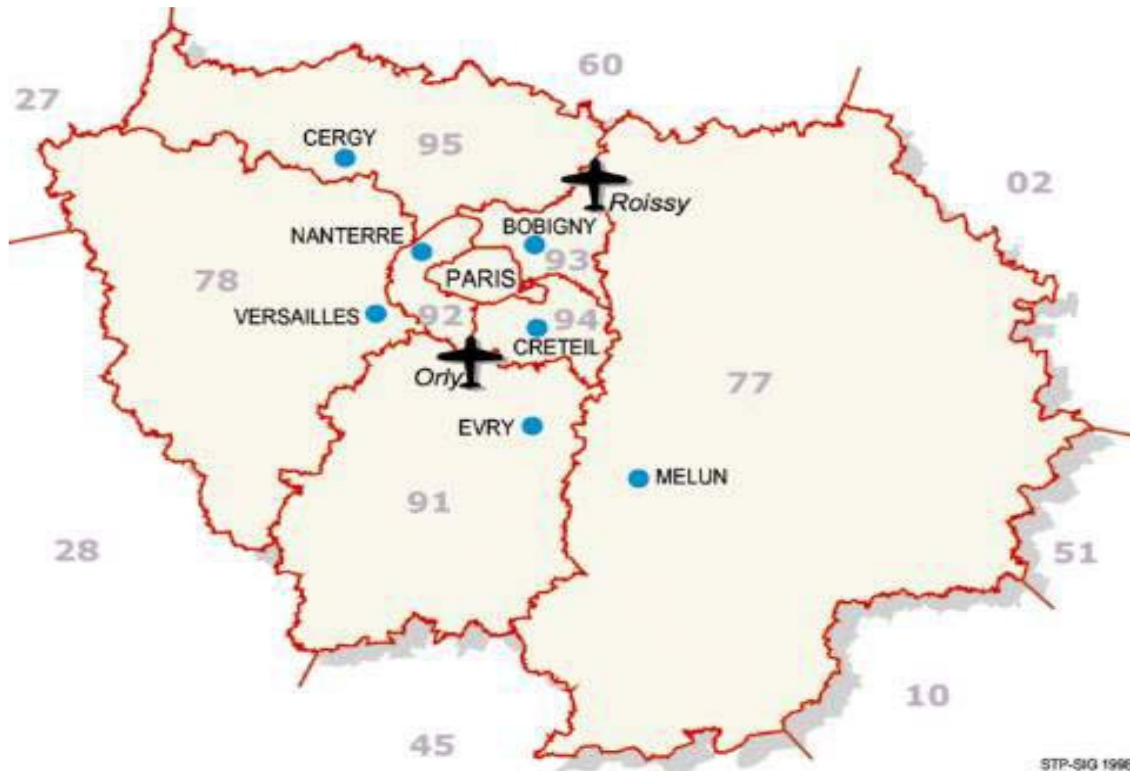
The impact on funding was mixed. At one extreme, *Rhone Alpes* Regional Council spent 25-30% of its total budget on rail, and this was second only to its expenditure on education (Burlando and Guihery). Most funds were paid to SNCF though some were used for the purchase of rolling stock. At the other extreme, some regions did little for rail. The effectiveness of these reforms is critically dependent on developing the institutional capability at the regional level; regions have so far used seconded SNCF staff.

It was found that, in the seven pilot regions, 12% traffic growth was achieved between 1997 and 2001, compared to 6% in other regions (Burlando and Guihery). Following the success of the pilots, devolution to all regions began on January 1, 2002. The Regional Councils now contract with SNCF on the operational and financial aspects of regional traffic.

It is too early to assess the full impact on customers and traffic but the regions have invested €3.7 bn in rolling stock since 1997, 400 stations have been renovated, and integration with local public transport has improved. However, according to the *Revue Generale des Chemins de Fer*, there are issues that need to be resolved: these include the loss of coherence and standardisation in the system and the lack of inter-linked regional policies leading to poor inter-regional connections. Burlando and Guihery also identify prioritisation *vis a vis* intercity and freight as an issue on saturated tracks around Paris and Lyon.

Of particular relevance to London is the situation in Paris. There the *Syndicat des Transports D'Ile de France* is responsible for public transport for the whole *Ile de France* region (population: 10 million) where it funds and controls mainline rail as well as metro and bus services across eight *departements* (counties). Figure 4 shows the extensive area served (the average distance from the centre of Paris to the boundary is about 40km):

Figure 4: Jurisdiction of *Syndicat des Transports d'Ile de France*



The *Syndicat* is managed jointly by central government and the eight *departements* and mostly funded by the *versement de transport* (a tax paid by companies located in Paris).

4.5 Germany

An important aspect of rail reform in Germany has been the transfer of responsibility for funding and procuring regional rail passenger services to the federal states. Currently there are more than 280 non DB rail operators using DB's network. Most, though not all, of the private operators are small.

The *Lander* (Regional Governments) specify what services they require and they can put the services out to competitive tender, although this is not obligatory. DB *Regio* remains the dominant operator for regional services. Of the €5.2 bn regional budget provided by the federal government to the regions for rail services in 2002, DB received €4.4 bn.⁵ DB *Regio* currently wins about 50% of the competitive tenders for which it competes and intends to increase this proportion so as to retain 80% of the market in 2009. The share of non DB operators is about 5% of total annual rail passenger km. A recent report⁶ shows that, on average, competitive tendering leads to average cost reductions of 18%.

The regional market provides relatively risk free income, because the *Lander* bear revenue risk and the market is growing – by contrast the long distance market operated by DB *Reise &*

⁵ Other operators received the remaining Euro 0.8 bn.

⁶ From the "*Mehr Bahn*" Association

*Touristik*⁷ is declining⁸ – retaining its share of the regional market is therefore of considerable financial benefit to DB. To this end the company employs a number of former senior politicians as ‘lobbyists’ for its interests with the regional governments.

4.6 Conclusions

Regional government is less well developed in England than in other European countries, and the capacity to undertake strategic responsibility at this level of government needs to be developed. In particular, there is no tax raising power at the regional level in either England or Wales, and in the case of England, little discretionary power over expenditure. The development of effective political accountability for performance of rail services in and between English regions may take some time. Counties also lack powers and capabilities outside the major cities.

However, there is considerable potential for devolving more powers over main line rail services to the PTAs/PTEs, to Transport for London and eventually to other existing local authorities. PTE franchises could, in some circumstances, be vertically integrated.

One difficulty is that the rail network is often congested and this might make the coordination of requirements between central and devolved authorities more difficult to achieve. However, in our view, co-ordination is best managed by local bodies co-operating, where it is in their interests to do so, and by local bodies consulting central bodies on issues with a national dimension (rather than the other way round). This is because most services are local ones and local bodies also have an interest in intercity passenger and freight services.

⁷ For which DB currently retains its monopoly position

⁸ In 2003 the regional market grew by 3.4% in terms of numbers of passengers, while the long distance market declined by 4.7%.

5. Structure

5.1 *Alignment of Network Rail Regions to Franchises*

Network Rail (NR) announced in its Business Plan, 2004 that its new organisation for operations will consist of eight routes each aligned, as closely as possible, to the operations of franchises. This should ease coordination between timetablers, signallers and operators. This proposal compliments the SRA's move to larger train companies and, depending on the complexities of interfaces at route boundaries, should help reduce costs and improve performance.

5.2 *Service Specification and Operational Planning*

There is some confusion surrounding operational planning. This begins with the specification of the network outputs that Network Rail is required to provide, in which both the Regulator and the SRA have been involved (in consultation with operators). The Regulator's role in this is clear because, to set access charges, he must first establish what operators are buying for those charges. The SRA's involvement arises because network outputs must be consistent with what services it wants to buy from operators. Unfortunately the result is highly bureaucratic and does not always reflect the needs of operators or, more importantly, of their customers.

In our view, the original model of Railtrack leading this process and responding to customers, might now work, at least on the more commercial parts of the railway. The reasons it could work now, where it has failed before, are that Network Rail appears to be a more competent organisation than Railtrack and that major projects are now being funded directly by the SRA rather than through access charges. There is therefore less reliance on Network Rail being incentivised to make investments.

Timetable planning currently involves the SRA, Network Rail and the train operators, with the Rail Regulator approving track access agreements with which timetables must be consistent. Under the original privatisation model, this was largely a matter between Railtrack and the operators but the SRA became involved because of strategic issues related to capacity allocation. Given Railtrack's lack of progress in this area, the SRA's involvement was initially useful, leading to the production of Route Utilisation Strategies. However, the SRA has become too proactive: for example, it now requires operators to have access contracts approved by it before they are submitted to the Regulator. Also the new model of franchise contract specifies a timetable which the franchisee is required to deliver. This makes it difficult for train operators to adapt timetables quickly to meet the needs of their customers.

It is helpful to consider how timetable planning works in France and Germany.

In France, in order to comply with EU Directive 2001/14, whereby the body responsible for allocation of capacity should be independent of any operator, RFF has been given the responsibility for allocating capacity (*Rail et Transports*, 2002). RFF has "super-timetablers" with a different role to that of the ordinary timetablers employed by SNCF, regional councils and other operators. The super-timetablers consider requests from operators and councils, analyse the demand for paths and request detailed studies to be carried out by SNCF. Most of the work is therefore carried out by SNCF which has most of the competence in this area.

In Germany, responsibility for timetable planning currently lies with *DB Netz*, the infrastructure manager. In order to comply with EU Directive 2001/14, responsibility is soon to pass to a pathing agency that will be independent of the DB Group (DB, 2004). It is not yet

Keolis - Response to DfT Major Rail Review

clear how the pathing agency will interface with *DB Netz* and operators and this may cause problems.

Experience in France and Germany confirms the need for more than one organisation to be involved in timetable planning. However, fewer organisations and simpler processes should be involved in trading off the needs of different operators in terms of customer service (stopping patterns, journey times and train frequencies), the efficiency of unit diagrams and the needs of engineering maintenance. Further, given the redrawing of the franchise map, particularly around London, a far bigger role should now be given to operators in timetable planning. It is the operators who understand the needs of the market. The publicly owned railways in France, Germany and elsewhere in Europe are now becoming more market responsive (following Britain's early lead in the 1980's) and it would be ironic if the privatised railways in Britain were to become less so.

5.3 Operational Control

The current allocation of responsibility for day to day operational control of trains is also a problem. Operational control, including signaling and train control, is currently under the overall control of Network Rail. However, operators must also have staff working in these areas and there is therefore duplication. In our view, the operators should carry out these activities and should run integrated control rooms (jointly where there is more than one major operator on the route). This would have a number of benefits over current arrangements:

- Recovery from perturbation would be faster after incidents, particularly if operators are in charge as they interface with customers and have more staff distributed around the network
- More time would be spent on analysis and prevention (rather than blame attribution) enabling both the number and length of delays to be reduced.

It would, of course, be necessary to protect secondary operators under such arrangements and existing provisions to do this in the Regulator's model clauses and the Network Code might need to be strengthened.

5.4 Track Maintenance

Both operational planning and control would be more effective if track maintenance (and some renewal) activities were integrated with train operations. We suggest that an operator be given responsibility for maintenance (under contract) on a pilot basis on a part of the network where there is one dominant operator. It should be recognised that some operators may sub-contract this work (as their core business is train operations, not track maintenance) but this should not be a problem since they would control the work.

5.5 Stations

Network Rail has suggested that it should take over train operators' responsibilities for managing stations. Whilst we understand Network Rail's concern that operators lack incentives to invest towards the end of a franchise, there are provisions in franchise agreements to ensure that stations are returned in good condition, as some operators recently discovered when they handed back their franchises. Also operators at least have commercial incentives to improve stations and their direct contacts with customers allow them to understand what customers want. Network Rail has neither incentives nor direct contacts.

Experience elsewhere provides some guidance. In France, in common with other infrastructure, stations are owned by RFF but managed by SNCF. In Germany, a separate subsidiary (neither the infrastructure manager nor the operator) manages stations.

Keolis - Response to DfT Major Rail Review

We agree that current arrangements are not ideal. There is duplication of staff and the lack of integration makes it difficult to respond effectively to customers needs and can also lead to delays in decision making. We therefore consider there is a need to review roles and responsibilities at stations but share with other operators some major concerns about Network Rail taking over stations.

5.6 Conclusions

The train operators now have weak control over the services they receive from Network Rail yet they still retain most of the risk over cost and revenue. The logical consequence of current arrangements would be for the operators to have gross costs contracts with the SRA. However we do not believe this would represent value for money for government since operators would not be incentivised to improve services or to reduce fare evasion. We have therefore proposed changes in structure to give increased responsibilities and more direct control to operators. We consider these to be crucial to improving services to customers.

6. Regulation of Safety

The rail industry needs to control the expenditure on marginal safety schemes which increases rail costs relative to those by road and which, if passed through to fares, reduces the overall safety of the transport system. However, there is no mechanism for balancing safety and cost and the imbalance has worsened since Hatfield.

The arrangements in France and Germany are quite different from each other and those in Britain (SDG, 2003). In France, economic regulation will, in future, be the responsibility of a *Mission Controle des Activites Ferroviaires*, essentially a Commission, which will be attached to the Ministry of Transport but whose members will not be employees of the Ministry. In contrast, safety regulation is the responsibility of the Ministry of Transport.

In Germany, *Eisenbahn Bundesamt* or EBA (the Federal Railway Office), an authority of the Ministry of Transport with 1300 staff and budget of €65 million, is responsible for:

1. Granting and revocation of licences to all railway undertakings operating in Germany
2. Ensuring non-discriminatory network access including arbitration if customers cannot agree charges with DB
3. Approval and technical supervision of roadway and rolling stock, and building inspection of installations
4. Accident investigations
5. Railway land
6. Preparation of projects and implementation of funding agreements for Federal government.

Responsibilities 1 and 2 are economic regulatory roles, 3 and 4 safety regulatory ones and 5 and 6 are essentially strategic management roles such as those carried out by the SRA in Britain. The main advantage of all these responsibilities lying in one organisation is that a pool of scarce technical skills is available to work in all these areas. It also ensures co-ordinated and consistent decision making.

As pointed out by Helm (2004), the arguments for and against integrating safety with economic regulation are finely balanced and depend on the importance attached to safety. Despite the successful integration of the two elements of regulation in Germany, it may therefore be best to leave them separate but instead to improve the alignment between the bodies involved in the different types of regulation and to ensure that safety decisions are more grounded in economics.

7. Conclusions

Our main conclusions concerning the structure of the railways are as follows:

- To reduce costs and improve performance, there is a need to streamline the way in which the industry is controlled and to reduce the number of interfaces and simplify their nature
- Operators need to be able to determine what services they offer, especially on commercial services (subject to meeting network capacity constraints)
- Consideration should be given to bringing responsibility for network operational control under the operators
- Depending on circumstances, Network Rail might subcontract maintenance and sometime renewals back to operators
- There needs to be a better and clearer allocation of risk between the public and private sector, especially in project development
- Structures and incentives are needed to ensure training and development of staff are improved
- Network Rail should not be given control of stations as it lacks incentives or capability to improve stations in response to customer needs

Responsibility for specifying, funding and controlling service delivery should be more devolved to local government. Consideration should be given to vertically integrated franchises, particularly in PTE areas, and to giving PTEs primary responsibility for new franchises. Also Transport for London should play a much bigger role in main line rail.

Lessons can be learnt from other countries, for example, from French experience with the contracting of maintenance to the operator, SNCF, and crucially from Germany's planned incremental approach to reform.

One of the problems with past reforms in the rail sector in Britain (particularly privatisation) is that they were implemented as a single package and it has been difficult to change direction in the light of experience. A recent report (Friebel et al, 2003) shows that rail reforms are most effective when they are carried out sequentially, rather than all at once. The government should not therefore seek a 'blueprint' for the railways, which may have faults and will almost certainly not be appropriate to the railways in 10 or 20 years time, when the market for rail may have changed dramatically. Instead it should plan sequential reforms which move the railways in the right direction but which may be adapted to circumstances. This would allow it, at each step, to retain what works and change what does not work.

These reforms may need to vary between different parts of the network and pilots could be used to test different models.

References

Burlando, C. and Guihery, L, *Regionalization of Passenger Regional Railway Transport: Experiences from France and Italy*, presented to European Transport Conference, Strasbourg, September 2003.

Commission for Integrated Transport, *European Best Practice in the Delivery of Integrated Transport, Stage 2, Case Studies, Achterhoek, Netherlands*, November 2001.

Deutsche Bahn AG, *Wettbewerbsbericht* (Third Competition Report - available only in German), March 2004.

Die Zeit, *Auf Crashkurs*, March 2004

Ford, R., *Rising Costs of Rail*, Presentation to Transport Economics Group, March 2004

Foster, Sir C.D. and Castles, C.J., (2004) *Creating a viable railway for Britain – What has gone wrong and how to fix it?* (unpublished draft)

Friebel, G., Ivaldi, M., and Vibes, C. (2003), *Railway (De)Regulation: A European Efficiency Comparison*. IDEI Report #3 on Passenger Rail Transport. Institut d’Economie Industrielle, University of Toulouse.

Guardian Report, March 20th 2004

Helm, D., *What to do about the Railways*, March 2004.

Manager-Magazin, 2004, “*Wir Brauchen Vier Milliarden*”

Modern Railways, *Editorial and Vertical Integration Gains Momentum*, March 2004

National Audit Office, *Improving public transport in England through Light Rail*, HC 518, April 2004.

NERA, *Study of the Financing of and Public Budget Contributions to Railways: Final Report*, for European Commission, DG TREN, January 2004.

Nelson, J. *Where are the people who know the railways?* Transit, 14 May 2004.

OECD, *Regulatory Reform of Russian Railways*, Annex B, *Lessons from the Privatisation of Britain’s Railways* by Drew, J., May 2004.

Parliamentary Transport Committee Report, *Future of the Railway (HC 145-I)*

Railway Journal International, March 2004, *Germany Report*

Rail et Transports, November 2002, p26, *Gestion des sillons. Horairistes: les nouvelles règles du jeu*.

Revue Generale des Chemins de Fer, Special Edition on Regionalisation , January 2004.

SRA Press Release, January 2002, *Merseytravel to Assume Responsibility for Region’s Local Train Network*

Keolis - Response to DfT Major Rail Review

SRA, January 2004, *Everyone's Railway - The Wider Case for Rail*.

Steer Davies Gleave (SDG), (December 2003) for DG Tren, *EU Rail Liberalisation: Extended Impact Assessment, Technical Notes/Regulatory Reviews of Germany and France*.

Transport for London, *London's Railways: Response to the Government's Rail Review*, May 2004.

X-Rail rail information website.