European Railway Reforms and the British Experience

A Practitioner’s Perspective

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Introduction

• Purpose and objectives of EU railway reform
• EU legislation to implement reforms
• Success to date and future challenges
• Britain’s rail restructuring
• Pros and cons of the British model
• Evaluating success – all about outcomes
• The role of Government and economic regulation
• Further reform is on the agenda
• Lessons
• Some observations on Paul Amos’ paper
Purpose and objectives of EU Railway Reform

• **Rail reform** introduced in the light of key role of rail in environmental policy, decline in modal share, worsening of State railways levels of debt, deterioration in services in some Member States

• **Opening markets**, to reduce costs, improve services by encouraging increased competitiveness, ensuring non-discriminatory market access and transparent market structures (establishing regulatory bodies)

• **Removing technical and regulatory barriers to interoperability**, providing incentives for an efficient infrastructure use and reducing other barriers to international passenger and freight services

• **Developing a common rail safety approach** to facilitate market access

• **Developing rail infrastructure** (EU funding available)

• **Securing the rights and obligations of users** and improving the quality of rail services
Relative decline of rail freight
Freight transport volumes (EU27, billion tonne kms)

Growth 2000 – 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road (EU27)</td>
<td>24%</td>
</tr>
<tr>
<td>Rail (EU27)</td>
<td>10%</td>
</tr>
<tr>
<td>UK road</td>
<td>3%</td>
</tr>
<tr>
<td>UK rail</td>
<td>15%</td>
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EU Legislation to Implement Reform

- **First package (2001):** mainly intended to stimulate competition in order to create more and better international freight rail services and to improve the efficient use of infrastructure capacity.

- **Second package (2004):** removing technical barriers – harmonisation of technical standards and safety regulation. Introduced as progress on market opening and interoperability affected by varying approaches to railway safety management and standards throughout the EU.

- **Third package (2007):** improving passenger rights and extending liberalisation to international passenger services.

- **Fourth package:** liberalisation of domestic passenger services being considered.
Success to date and future challenges

• Growth in freight and passenger traffic
• But implementation of reform slow
• **Organisational barriers**…
  • slow implementation of EU legislation
  • lack of independence of infrastructure manager
  • inadequate implementation of access charging regime (charging systems not based on direct cost of service provision, lack of proper incentives for cost and tariff reduction)
  • absence of independent regulatory body
  • non discriminatory access to facilities and supply of services
  • protectionist attitude of certain member states
  • long lead time for award of safety certificates and licences
• **Technical barriers**…
  • change of staff and locos at borders
  • different network characteristics, e.g. electricity and signalling systems
• Separation of infrastructure from operations seen as key
• Strong independent regulators needed to ensure fair play
• **Recast of First Package** to address these issues
Britain’s rail restructuring

- Industry privatised in 1994
- Structure
  - Private sector monopoly provider of the infrastructure
  - Maintenance, renewal and enhancement work initially contracted out
  - 20+ private sector franchised passenger operators – some consolidation over time
  - Open access freight operators – more competition over time
  - Limited number of open access passenger operators
  - Three rolling stock leasing companies
  - Regulators – ORR economic and safety regulator; Department for Transport regulates train operators through franchise agreement
- 18 years on Reform continues – more later
Pros and cons of the British model

• Pros
  • Allows for competition in train operations and in supply markets
  • Greater specialisation and a market-driven approach
  • In theory, competition and specialisation drives higher quality services, greater innovation and lower prices

• Cons
  • Complex structure with many interfaces
  • Can introduce additional risks, transaction costs, and duplicate wasteful activities
  • Developing efficient timetables with maximum network benefits more difficult?
Inspiring extraordinary environments

Rail industry funds flow – 2005/06, £bn nominal

<table>
<thead>
<tr>
<th></th>
<th>2008-09 (£ m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government grants</td>
<td>273</td>
</tr>
<tr>
<td>PTE grants</td>
<td>317</td>
</tr>
<tr>
<td>Direct rail support</td>
<td>4,266</td>
</tr>
<tr>
<td>Other elements of government support</td>
<td>356</td>
</tr>
<tr>
<td>Total government support excluding PTE grants</td>
<td>4,896</td>
</tr>
<tr>
<td>Total government support including PTE grants</td>
<td>5,213</td>
</tr>
<tr>
<td>Freight grants</td>
<td>21</td>
</tr>
</tbody>
</table>

(1) From National Rail Trends 2008/09.
(2) From Network Rail Regulatory Financial Statement y/e 2006.
(3) Includes CTRL grant, DfT no longer publish this separately.

Source: National rail trends 2008/09
Evaluating success:

A focus on outcomes
Significant train incidents per million train miles 1975 - 2004*

(^ 2004 is the nine-month period from 1 April 2004 to 31 December 2004)
… punctuality is improving

Source: ORR
… leading to higher passenger satisfaction

Source: ORR
... and fewer complaints

![Complaints rate per 100,000 passenger journeys](Image)

Source: ORR
Rail has the highest level of passenger demand since 1946

Chart 1.1b Passenger kilometres
Great Britain annual data 1947 to 2009 (billions)

Source: ORR
...and is also now carrying more freight

Source: ORR
Investment has increased

Total investment by private sector companies in the rail industry
(£ m at 2008-09 prices)
Great Britain annual data 1999-00 to 2008-09

Source: ORR
... but this has led to increased public support

**Total government support including PTE grants**

(£ m)

Source: ORR
…although infrastructure costs are being brought back under control

Source: ORR
Industry unit costs

Source: ORR
Has competition increased?

- Passenger market – competition largely ‘for the market’
- Passenger market – minimal open access
- Freight market – some entry but dominated by three operators
The role of Government

- Sets rail strategy, outputs to be delivered, and public funding available in medium term
- Lets franchises for train operations
- Monitors and enforces franchise obligations
- Fares regulation
- Delivery is left to the private sector
The role of economic regulation

• Establish expenditure and revenue required to deliver infrastructure obligations
• Establish access charge framework and other terms of access
• Ensure access is provided on a non-discriminatory basis
• Incentivise, monitor and enforce improvements in efficiency and performance
Regulator specifies, incentivises, and enforces improvements in…

- Performance – but only direct levers over infrastructure manager
- Passenger disruption – again direct levers over infrastructure manager
- Passenger information during disruption
- Capacity – but increases in service frequency specified by Government
- Journey times
- Safety
- Stations condition
- Infrastructure manager efficiency
Further reform is on the agenda

- Independent value for money study completed in 2011 recommended:
  “getting greater clarity on rail policy, objectives and strategies, stronger and more cohesive industry leadership, changes to structures and interfaces to improve the ways in which rail organisations and people work together, incentives that are more effective and better aligned, a review of fares policy and structures, and greater clarity as to what Government subsidy is buying”

- Up to a further 30% unit cost savings achievable by 2018
Barriers to efficiency

- The roles of Government and industry
- Fragmentation
- The ways in which the main players have operated
- Incentives which are ineffective or misaligned
- Deficiencies with the franchising framework
- Fares structures
- A lack of best practice in asset management etc.
- Weaknesses in HR/IR management
- Complex legal and contractual framework
Response to the study

• Industry led Rail Delivery Group established
• Changes to the franchise model
• Devolution and decentralisation within NR
• Closer alignment between NR and TOCs
• A move towards greater contestability of infrastructure delivery
• Consultation on the first move towards a single regulator
Some lessons

• Establish a framework with:
  • A clear longer-term strategy for the industry to work within
  • A reasonable degree of certainty on medium term funding and outputs
  • Appropriate use of private sector skills in service delivery, operating with clear and unambiguous objectives
  • Clear objectives, accountabilities and strong incentives on all parties to improve performance
  • Sufficiently disaggregated information
  • Transparency on costs and performance
  • Aligned incentives – important in a vertically separated industry
  • Clarity on the role of competition and how this will be facilitated
  • Clarity on issues such as charging principles and terms of access
Some lessons (2)

• Decide on the type and role of regulation
  • Dependent to a degree on institutional and structural decisions
  • Independent regulation important to ensure non-discriminatory access
  • Independent regulation can lead to a stable, credible environment to encourage private sector capital
  • Even in vertically integrated State-owned railways, independent regulation could play a role in assessing efficient costs and monitoring and reporting on performance
• One regulator to regulate the whole industry
Some observations on Paul Amos’ paper

- The paper addresses the right questions
- What objectives and success measures should the answers be guided by?
- What is the right dividing line between policy and service provider roles?
- Does ownership matter?
- Corporate form
- Pluralism and network access
- Focus on core business
- Freight and passenger as separate businesses and line of business structures
- Funding passenger services and infrastructure
- Issues affecting financial performance