



The Value of Rail: Route Map to 2004



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The SRA is assessing the value of, and making the case for, rail – a robust case for public and private expenditure and investment in Britain's railway.

Having acknowledged the current significant cost, performance and delivery pressures on the rail industry, Richard Bowker, SRA Chairman, has put together the programme of activities outlined in this document. They will enable the SRA to lead the industry over the next two years to make the case for rail as fully as possible in the 2004 Government spending review.

Before we make that case we will have:

- specified the outputs that we require from Network Rail which the Regulator will then price through his 2003 interim review;
- participated with the Department for Transport in a review of the 10 Year Plan; and
- published our second Strategic Plan in January 2003.

Ten separate but related steps have been identified and they are each summarised in this document. The pull out diagram shows the chronological order of the steps and the connections between them. We will keep the timetable under review.

We are working with the Department for Transport, Office of the Rail Regulator and Network Rail, and look forward to working with the PTEs, Transport *for* London, regional planning bodies, Scottish Executive, Welsh Assembly Government, and the passenger and freight Train Operating Companies to deliver this ambitious programme.

Why a Route Map to 2004?

The SRA firmly believes that rail industry costs need to be brought under control, performance for customers improved, and delivery of improvements accelerated.

If funds are to continue to flow into the rail industry, there must be a sea change in approach. Various actions are being taken to achieve that change, including the establishment of Network Rail with a broad membership base and a newly focused management team which recognises its public service role.

The steps outlined in this document will allow the industry **as a whole** to contribute to the rectification of these problems and will deliver an input into the Regulator's interim review and into the Government's next spending review in 2004. The spending review requires SRA submissions to the Department for Transport on the expected costs and outputs from the railway industry as a whole to establish the value of continued public sector support. It is likely to commence at the end of December 2003 and be completed during mid to late summer 2004.

The SRA needs a systematic plan to ensure that it can make high quality submissions in 2003 and 2004. We believe it would be useful for the wider industry and stakeholders to understand the timetable to which we are working. Hence the publication of this route map. We will keep the detailed timetable under review and ensure that we work closely with others and use the most up to date information.

1 Major Project Reviews

During Autumn 2002 we will review the status of all major projects outlined in the Strategic Plan to assess current programme, output, and cost considerations in the light of market capacity and policy importance.

The review will provide an update on the situation with, and state of development of, the various schemes. It will be used to update the Strategic Plan for publication in January 2003.

2 Capacity Utilisation

We will complete the consultation process which commenced in September 2002 and publish the Statement of Principles in December 2002 and the National Network Utilisation Strategy in January 2003.

We will hold workshops with affected stakeholders during October 2002 and reflect on the responses to the consultation.

The Route Utilisation Strategies will also be prioritised through the current consultation process and will be rolled out, following consultation with the relevant stakeholders (including, in particular, train operators and other funders) from mid-2003, starting with Great Western Main Line and one other major route. They will be used to inform our decisions on franchise specification and investment and will provide an input to the Regulator's consideration of track access agreements.

3 Value of Rail Studies

We will consider cost-output relationships for franchised operators by type of operator, the relationship between pricing, crowding, other service characteristics and passenger demand, and the factors which drive demand from outside the rail industry. We will use case studies to assist us with this.

We will assess the wider benefits of rail (passenger and freight), taking into account the broad spectrum of relevant policies on regeneration, regional economic development, environmental policy, and social exclusion. The work is expected to take place in the last quarter of 2002 and the first quarter of 2003, and we would, in particular, expect to work with regional government and other funders in this step.

4 Cost Reduction Initiatives

Working with the Regulator and the industry, we will take a practical approach to identifying options for cost reduction which could be used by the SRA together with Network Rail and train operators.

We will consider the application of standards in the industry and their effect on costs.

We will consider, as far as possible, options for different maintenance and renewal, management and service delivery approaches – drawing on best practice within the UK and from experience on other railways around the world. We will explore, with the Regulator and Network Rail, how changes in service specifications impact on costs.

The work will help us to develop our assumptions on engineering possession requirements which, in turn, should improve Route Utilisation Strategies and inform franchising policy. It is expected to take place in the last quarter of 2002 and the first half of 2003.

5 Route Based Analysis

This work will take a bottom-up approach, considering demand, Route Utilisation Strategies, local transport and multi-modal plans, enhancement commitments and operation, maintenance and renewal plans. Our objective will be to consider, together with relevant stakeholders (in particular other funders and planning organisations), the most appropriate mechanisms for achieving delivery.

The work will take place principally during the first quarter of 2003. It will be an important input into the SRA submissions to the Regulator on his interim review, both directly and indirectly, via the scenario tests.

6 Fares Policy

In July 2002 we initiated a consultation on fares policy. We will consider the responses to our consultation and the work on the relationship between pricing, crowding, other service characteristics and passenger demand undertaken in the value of rail studies to determine the appropriate policies for regulated and unregulated fares. We will consider the impact these policies could have on other areas of our work including franchising, capacity utilisation and enhancement.

We will publish our policies in 2003.

7 External Opportunities and Threats

Various factors affect the rail industry which are outside its direct control. These may be critical to the successful implementation of some of our plans. We will therefore consider the likely impact of factors such as economic growth, travel patterns, safety standards, and innovations in other industries and whether, as a result, overlays or adjustments are necessary to any assumptions used in the other steps.

This work will take place principally during the first half of 2003.

8 Scenario Tests

Taking all of the work from the other steps together, we will construct various scenarios to assess affordability and mechanisms for delivery against the targets set for rail in the 10 Year Plan. This work will be particularly important in considering different output/cost combinations and iterating these with the work being carried out by the Regulator in his Interim Review and in the SRA's franchising programme.

The work will take place during the summer of 2003 and the SRA intends to make a major statement on its views once the work is complete.

9 Funding and Risk Structure

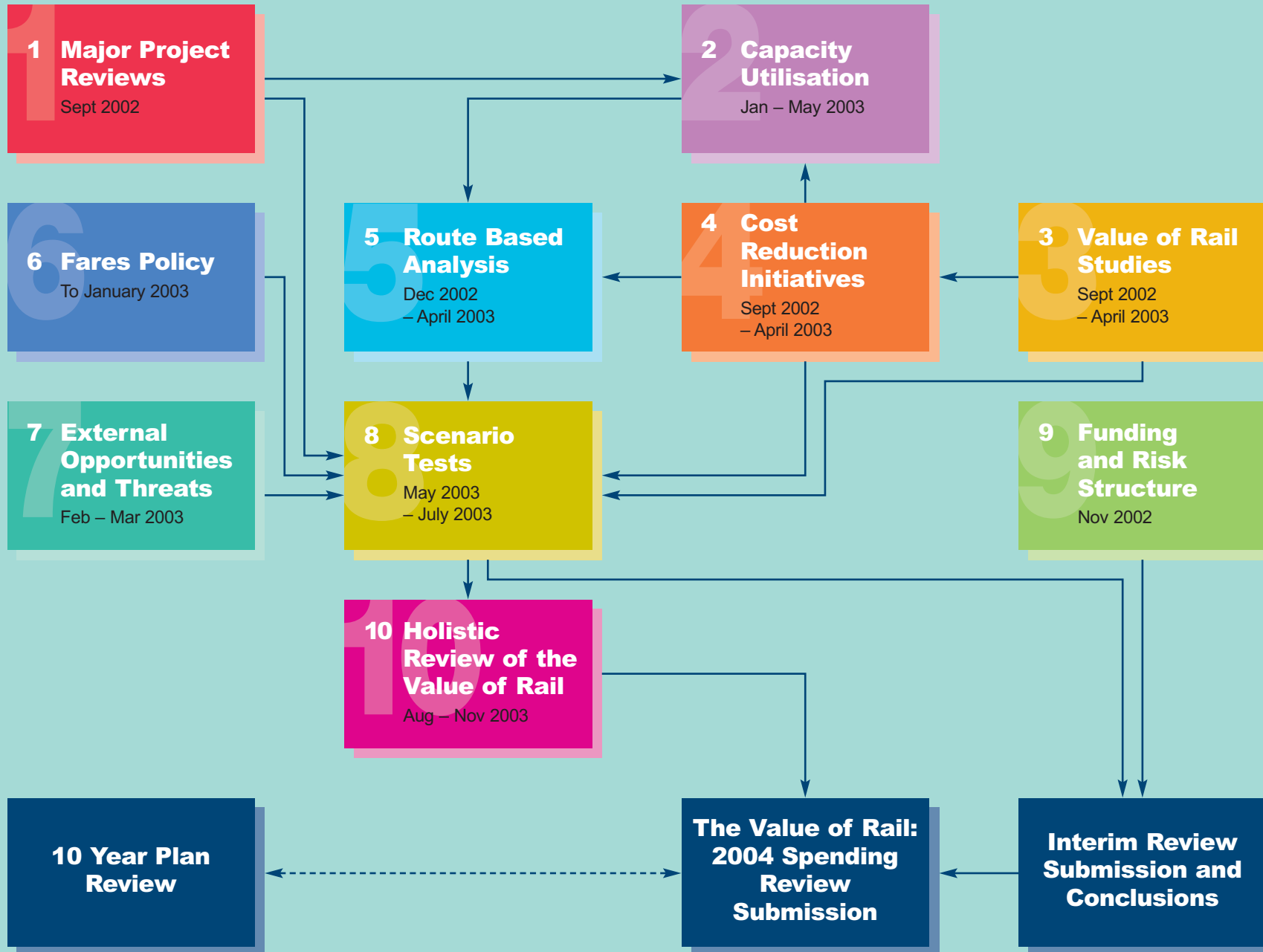
The industry funding arrangements and risk structure are clearly important in determining the costs of delivery of the baseline network as well as of enhancements and of services. The SRA is conducting a fundamental review of the franchise agreement and how it intends to approach re-franchising. This work will inform the SRA's submissions to the Regulator's interim review, particularly in relation to the performance and possessions regimes within track access agreements.

The enhancement facilitation agreement between the SRA and Network Rail will allow the use of Special Purpose Vehicles (as well as the standard contractual arrangements) for enhancement delivery. We are therefore developing our approach to SPV evaluation to ensure that the optimum contractual structure is selected for each project and expect to work with Network Rail and the programme management industry to ensure that the assumptions and approach are optimal for efficient, timely delivery.

10 Holistic Review of the Value of Rail

Once the scenario testing has been carried out, the SRA believes that an overall assessment will need to be made of the value of the baseline network, service levels, and enhancement options. The analysis will therefore take a holistic approach, pulling together the work from all the other steps and ensuring that base service levels, including quality and price and enhanced services and infrastructure, are considered.

This is the key piece of work for our input into the 2004 Spending Review discussions and into the Strategic Plan to be published at the beginning of 2004.



The role of the SRA

The SRA is a non-departmental public body with the following objectives:

- To promote the use of the railway network for the carriage of passengers and goods;
- To secure the development of the railway network; and
- To contribute to the development of an integrated system of transport of passengers and goods.

The SRA seeks to achieve these objectives, whilst considering value for money and affordability, through the use of its powers and discretions which are to:

- develop and publish strategies;
- award and then enforce franchises for passenger rail services;
- make grants, loans and provide other financial support.

The SRA uses these powers chiefly to:

- enter into franchises for delivery of passenger rail services across the UK;
- provide financial support to Network Rail and to passenger and freight Train Operating Companies; and
- provide grants for support of enhancement of the rail infrastructure.