



18 January 2019

Williams Rail Review Consultation
Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

TFSE@eastsussex.gov.uk

Dear Sirs

Response from Transport for the South East to Williams Rail Review Consultation

Transport for the South East welcomes the opportunity to respond to the Rail Review consultation.

Transport for the South East (TfSE) is an emerging sub-national transport body, which represents a number of south east local authorities. These are Brighton and Hove, East Sussex, Hampshire, Kent, Medway, Surrey, West Sussex, the Isle of Wight, Portsmouth and Southampton, and the six Berkshire unitary authorities. It also has representation from five Local Enterprise Partnerships.

The TfSE area includes two major airports, a string of ports including Dover, Portsmouth and Southampton, many of the country's vital motorways and trunk roads and crucial railway links to London, the rest of Britain and to mainland Europe.

We know good transport links are vital for continuing economic growth and the quality of people's lives. This is especially true in the South East of England which is a powerful motor for national prosperity, adding more than £200 billion to the UK economy – more, for example, than Scotland and Wales combined.

A copy of our draft response is attached. This is an officer response. The TfSE Shadow Partnership Board meets on 18 March 2019 to consider the draft response and a further iteration of the response may follow.

We look forward to working with the Department on the outcomes of the Rail Review.



Yours sincerely

Rupert Clubb
Director of Communities, Economy and Transport
On behalf of Transport for the South East



This document constitutes the response to the Williams Rail Review launched in September 2018. The aim of the review is to recommend the most appropriate organisational and commercial frameworks to deliver the government's vision of the UK having a world-class railway, working as part of the wider transport network and delivering new opportunities across the nation.

Transport for the South East (TfSE) is an emerging Sub-national Transport Body (STB) which is being established in line with provisions of the Local Transport Act 2008 (as amended). TfSE intends to apply for statutory status in 2019. As an STB, its principal role is to identify the strategic transport interventions required to facilitate economic growth through the development of its Transport Strategy.

TfSE provides a single voice across its geography on the transport interventions needed to support growth. The South East is crucial to the UK economy and is the nation's major international gateway for people and business. High-quality transport infrastructure is critical to making the South East more competitive, contributing to national prosperity and improving the lives of our residents.

Commercial Models

TfSE is aware that the current franchising model is very different from that proposed at privatisation in the early 1990's. Over recent franchise awards we have seen examples of Revenue and Concession models, with the former also varying between 'Cap and Collar' and GDP linked awards, which dictate the franchise payments made to the operator depending on economic performance, as well as increased revenue coming back to the Department if the operator exceeds anticipated revenue thresholds. The plethora of different franchising models has made the management of the franchises onerous and confusing.

TfSE is keen to see effective commercial models within the privatised rail network to attract private finance to improve punctuality, performance and service quality. Putting the passenger back at the heart of the franchise is also key; which is something that has been lost in the design of ever increasing complex franchising awards.

The current Govia Thameslink Railway contract provides an example of a franchise where there have been unintended consequences. This contract has been run as a management concession, reflecting the complexity and scale of the Thameslink Programme infrastructure works. The contract attempted to insure the operator from the risks of operating the franchise. Govia are paid a fee by the Government to operate the franchise, whilst all the fare revenue is passed to the Government. This means there has been limited direct financial incentive for Govia to improve performance through the franchise. Transport for the South East believes that there should be a financial incentive for all future franchises to ensure a continuous focus on increasing performance.

Competition

Further to the standard passenger operator franchising models, the potential for introducing further competition onto the rail network, as a means for the potential to reduce the cost of travel for passengers should be explored. There are currently two main competition models for the privatised UK rail system, 'for the market' which is competition between potential private operators to run individual rail franchises, and competition 'in the market' which is on-rail competition between different rail operators on similar routes.

The Competition and Markets Authority (CMA) has stated that potential for increased on-rail competition exists for intercity routes on the East Coast, West Coast and Great Western main lines. Research by the Campaign for Better Transport (CBT) has found that the case for on-rail competition is less compelling on shorter distance services. This is applicable on a network such as in the South East which is capacity constrained and where the best possible integration of services is required. The separate operation of the Gatwick Express is given as an example of where this led to passenger confusion and an inefficient allocation of capacity.

There is currently very limited 'on-rail' competition on the Brighton Main Line, and other routes in the TfSE area. The competition is purely 'for the market' at the point of the franchise bidding process, rather than 'in the market' competition during the franchise. A single operator achieves operational benefits through improved coordination, but the fact that there is no competition between operators restricts innovation and fare competition and service improvements for passengers. It is unclear whether potential reduction in efficiency and coordination through the introduction of additional operators will be outweighed by the potential service improvement and fare benefits of increased 'on-rail' competition. The flexibility of the turn-up-and-go nature of the railway and the need to reduce the complexities of fare structures are also important issues for service provision and should be key considerations.

TfSE is keen to see the most effective operation of services possible, with passengers put at the heart of decision making. Any proposals for changing the structure of the network around London and the South East should be well evidenced, and subject to consultation with passengers and key stakeholders in and outside the rail industry, to ensure that changes are in the best interests of passengers.

Franchise Bid Assessment

The Brown review (2013) recommended that 'The government should be clear about what it is seeking to buy' in a franchise and that bids should be 'explicitly scored' for their proposals to improve services for passengers. A number of issues have arisen with the franchise bid assessment process. One of these is overbidding which has recently resulted in one franchise having to be forfeited i.e. the East Coast Main Line franchise. In recent franchising awards the

franchise bid assessment appears to have been based predominantly on financial performance, and a financial proposition to government based on what the government wishes to buy. Research by the Campaign for Better Transport proposes that the central question needs to be changed to one about what the Government can afford, with bidders asked to define what they could provide within a given financial envelope, subject to specific operating requirements. This could give operators more licence to be innovative within a specific financial requirement and could get better value from private sector innovation.

TfSE is keen to see more emphasis placed on quality, as opposed to financial performance within the franchise bid assessment process to ensure that bids have a greater focus on meeting outcomes for passengers.

Industry Structures

TfSE strongly supports the principle of joint-working between the infrastructure provider and the franchised train operator. Where this model has been adopted, for example on the previous South West Trains franchise with Wessex Route and with Scotrail on the Scottish route, it has delivered varying degrees of success.

The experience of these two examples is that the more deep and extensive the joint-working is, the more sustainable the success of the joint-working partnership. There were limitations to the outcomes of the South West Trains experiment, which restricted the full benefits of a truly integrated railway from manifesting themselves.

In Scotland the experience has been notably more successful, with a genuine deep level of joint-working between both parties. The lesson here is that the overriding mind set is critical to success, and in Scotland that success has been driven by a philosophy of working collaboratively for the greater good of the railway rather than for the needs of either party.

This deep partnership working is exemplified in the article “Team Scotland Aims to Win” in the Focus on Scotland section of Modern Railways in November 2018 (pp52/53). In the words of Alex Hynes, the Scotrail Alliance MD:

“‘Team Scotland’: it’s a simple concept. It doesn’t matter which bit of the rail industry you work for, the point is we should all be pulling together for a better output for the customers.” Alex Hynes is not only managing the ScotRail train operating company but also overseeing Network Rail’s activities north of the border.

The railway industry also supports the local economy through employment and career opportunities. As Bill Reeves, Transport Scotland’s Director of Rail, says:

“The railway is a good employer; it creates opportunities for high quality jobs.” The industry employs about 12,500 people in Scotland, of which the ScotRail Alliance comprises 7,500.

The same principles should be adopted for the freight sector. While the relationship between a freight operator and Network Rail clearly differs from that in the passenger sector, the former

should be encouraged to enter joint-working agreements with the infrastructure provider wherever these are feasible. Although the same level of deep joint-working such as that now operating in Scotland would not be possible due to the obvious lack of common operating area between the parties, Network Rail could facilitate agreements through multi-route cooperation with cross-route freight operators.

The future success of joint-working partnerships needs to be supported by the Rail Delivery Group and the emerging transport authorities such as TfSE, to ensure that the rail industry as a whole delivers an enhanced quality of service for passenger and freight customers alike.

Long-term Cost pressures

TfSE supports the view that in order to maintain financial sustainability and address long term cost pressures the rail industry needs strong leadership and accountability, rather than further fragmentation or privatisation. There is also the recognition that the benefits of investing in a growing rail network must be sustained to ensure that the network can cope with the forecast growth in demand for both passenger and freight movement, requiring the provision of additional capacity.

Whilst TfSE has no direct responsibilities for managing train services and has no plans to take on such a role, we nevertheless recognise the importance of the rail network in providing good connectivity between Greater London and key urban centres in our area. The importance of key transport hubs such as Gatwick and Heathrow Airports, enabling access to employment opportunities in and around the area efficiently and reliably is also recognised. TfSE would also like to highlight the importance of rail connectivity to ports, to encourage increased use of rail freight across the South East particularly to alleviate congestion on the road network.

The railway industry needs a robust structure and ownership model to enable it to make financial decisions quickly at a local level and to engage proactively and positively with local stakeholders, such as TfSE.

The issues faced, on particular routes in the South East such as the Brighton Main Line and South West Main Line relate to a lack of capacity, which is already acting as a constraint on economic growth. The connectivity, condition and capacity of our rail network are critical to improving productivity. The work carried out by TfSE on our Economic Connectivity Review has clearly demonstrated that significant capital investment in the South East's infrastructure would represent excellent value for money. It would deliver the capacity that is required to meet growth in passenger and freight demand and improve connectivity and sustain our position as a nationally important global economic gateway.

TfSE also has a potential role in coordinating the implementation of smart and integrated ticketing arrangements, which will be key to providing good value fares for passengers. The rail industry needs to be structured to be able to fully participate in such schemes that have the potential to make journeys by public transport easier by facilitating seamless travel across all public transport modes. This can lead to increasing patronage and fare revenue for operators.

These integrated ticketing arrangements can only be delivered through a collaborative approach between operators, local transport authorities and central and local government and with the close involvement of the wider payment and retail industry. The fragmented way in which public transport services, both bus and rail are provided and operated in the South East outside London is a barrier to adoption.

In managing rail services through the current complex industry structure there is a lack of clarity about what overall role the railway is meant to perform. The role of the railway needs redefining and in undertaking this there needs to be a new dialogue about what outcomes are desired with the development of a vision that the DfT, its agents, transport operators and key stakeholders can all sign up to. The current stated vision of the government for railways is to have “a world-class railway, working as part of the wider transport network and delivering new opportunities across the nation”. The Williams rail review provides a unique opportunity to redefine the vision for a fully integrated railway that is fit for the 21st Century.

Industrial Relations

It is not for TfSE to comment on the causes and issues surrounding the industrial relations which have impacted rail services and commuters across the South East over the last few years. There can be little doubt that the disruption caused to rail users, and consequently to the economies of towns and cities that are heavily dependent on rail for importing workers and visitors, will have suffered greatly. Previous research by the University of Chichester estimated that the disruption being caused by strikes on Southern Rail in 2016 cost the economy of the south around at least £11m per day through people being unable to reach their places of work. This figure did not account for other short term impacts such as loss of sales, impact of travel delays, staff morale and motivational issues, or individual loss of income. All parts of the rail industry should be working together to find a common solution to the underlying issues, and enabling the South East economy to grow, which in turn benefits the industry, users and the wider UK economy.

Future-Proofing

It is the view of many of our constituent authorities that the rail industry needs to be more agile and respond to future challenges and opportunities such as the changing work styles and needs of passengers and businesses. When an improvement has been identified, the process required for funding approval and implementation of the improvement is often drawn out and can take many years. In a fast changing transport environment, the time taken to deliver is too long, and if modal shift to rail is to be achieved, the industry needs to become more agile to be able to capitalise on new journey opportunities and commuters changing needs. For example, the drop in the use of season tickets due to the changing nature of flexible working is an issue. Employees no longer need to work in one location for five days of the week and this changing need could be addressed through implementing an integrated ticketing scheme with maximum daily price caps, which could encourage rail use, higher revenue income and decrease travel costs for users.

The future role of STB's is also pertinent to the ongoing funding for the railway, especially as we are moving towards an infrastructure led approach to growing the economy. TfSE fully supports

the move to bring more private financing into the rail industry, whether through schemes identified through the Rail Network Enhancements Pipeline (RNEP), and the business development opportunities for third party investments. The process for securing funding, authorising and implementing schemes needs to be quicker if third party funding is not to be lost, and to keep inflationary costs down. The STB's could be considered as the vehicle that could commission and partially fund rail projects with a suitable grant mechanism in place. This could enable investment decisions to be made in a more agile and flexible manner. TfSE could expedite the delivery of rail schemes if it had the necessary powers.

TfSE considers it imperative that the industry is structured in a flexible way so that the timescales proposed for implementation of schemes are reduced and we would like to see tangible improvements to the network carried out more quickly than seems possible within the existing structure. The rail industry needs to be set up and managed in such a way to enable this to happen.

The rail industry needs to be smarter in the way it secures investment in infrastructure. The consultation last year on market led proposals provides an opportunity for the private sector companies to invest in the rail network and to come forward with new ideas such as the delivery of a new southern rail link to Heathrow Airport. Such an approach is key to addressing long term cost pressures, but will only work if the private sector is allowed to work free of the rail industries complex structure, whilst of course not compromising safety or the cohesion of the network as a whole.

With the development of the TfSE transport demand model, TfSE will be in a unique position to be able to identify priorities for investment across the South East, which could then be used to support funding decisions for improvements and/or enhancements that will unlock economic growth. We have opened a dialogue with Network Rail to share modelling data, and we would expect for consideration to be given as part of this review to formalise this in the white paper.

TfSE would expect to work closely with the Department for Transport as it develops the evidence base to support the delivery of the recommendations from the Williams Review.