

Report to the Transport for South Hampshire Joint Committee

Date: 29 May 2012

Report by: Geoff Hobbs, Senior Transport Planner, Hampshire County Council

tel: 01962 846811 **email:** geoff.hobbs@hants.gov.uk

Subject: Update on recent rail industry developments and rail capacity

Purpose of the Report

To provide an update on a number of rail issues, including:

- (i) the direction of travel set by the Department for Transport's (DfT) Rail Command Paper, "Reforming our Railways", published in March 2012;
- (ii) an overview of the recently announced 'deep alliance' for the Wessex area between South West Trains and Network Rail;
- (iii) a summary of the options available to address the forecast shortfall in rail capacity at peak times on outer-mainline train services into London Waterloo that serve the Transport for South Hampshire (TfSH) area; and
- (iv) an overview of the current DfT consultation on five options for Rail Decentralisation.

Recommendation

- 1 That the Transport for South Hampshire Joint Committee notes the contents of this report.**

Introduction

1. As part of the Government's drive to cut the UK's fiscal deficit, over the next seven years the rail industry is expected to focus on cutting costs to achieve annual savings of £3.5 billion by 2018/19. This will take sustained concerted effort, and greater collaboration between Network Rail and Train Operating Companies (TOCs). However, the Government recognises that alongside these efficiency savings, there is still a need for investment in rail transport infrastructure to help boost economic growth. The Government expects that over time it would pay less of a share of the cost of rail infrastructure upgrades and the

farebox will pay for an increasing proportion, as a result of TOCs being incentivised better to generate more rail travel – particularly off-peak.

2. Currently, during the “high AM peak”, several services leaving Southampton Airport Parkway into London Waterloo are operating at capacity. Network Rail forecasts suggest that there will continue to be strong growth in passenger demand on “outer mainline” routes into Waterloo, which serve the TfSH area. The London and South East Route Utilisation Strategy, published by Network Rail in July 2011 states that by 2031, for longer distance rail services into London Waterloo:

“a significant peak capacity gap may arise, with a forecast shortfall in capacity for some 7,000 passengers in the busiest peak hour; this figure includes capacity required on today’s already overcrowded trains, along with the 3,500 resulting from future growth. The gap could potentially be reduced slightly with additional lengthening of trains.”

3. Were this capacity shortfall on outer mainline services into Waterloo not to be met, it is estimated that this could result in up to £953,298,198 (in constant 2008 prices) in lost Gross Value Added (GVA) to London’s economy by 2031. This estimate has calculated using the forecast average productivity per employee in London in 2031 (Source: Experian, RPS 2012). It also makes a further assumption that people commuting longer distances are more likely to generate higher productivity than the average employee in London, so the average productivity of a Hampshire commuter has been uplifted to 25% above the London average. Therefore, to avoid this significant “opportunity cost” being incurred by the London economy, it is important that TfSH and other bodies seek to influence the Government and the rail industry’s decision-making processes to encourage timely investment in both additional rolling stock (enabling all trains to be lengthened to their maximum length), and in track infrastructure improvements to increase the number of trains per hour that can run. If this investment is delayed, this could lead to problems of lack of capacity, hindering economic growth in South Hampshire and further afield. South Hampshire needs to have good quality reliable road and rail links in order to remain an attractive location for businesses.

Reducing Rail Industry Costs

4. In May 2011, Sir Roy McNulty published *Realising the Potential of GB Rail*, which made a number of recommendations as to how Government and the rail industry might be incentivised to deliver better value for money for both taxpayers and farepayers, by reducing the cost of running, maintaining and improving the rail network. The main recommendation was that by reform of the structure of the rail industry, to encourage collaboration and reduce fragmentation, and a move

towards longer franchises and less prescription by DfT, it would be possible to achieve cost savings of between £2.5 billion and £3.5 billion per annum by 2018/19.

5. In March 2012, the DfT published its response to the McNulty report, in the form of a Command Paper, entitled *Reforming our Railways: Putting the Customer First*. This command paper accepted that cost savings in the order of £3.5 billion a year by 2018/19 were both necessary and achievable. It concluded that in essence, the whole rail industry – track, train, management and workforce needs to become more efficient, and the Government accepts it needs to help provide the right incentives to encourage collaboration, support the adoption of new ticketing technologies such as smartcards and making franchises more flexible, and longer – with 15-year franchises becoming the norm.

“Deep Alliance” in the Wessex area

6. The Command Paper states that the Government expects Network Rail to form closer alliances with TOCs where it makes sense to do so – where there is one main operator such as in the Wessex and Greater Anglia, to help improve integration between track and train and foster collaboration on achieving cost savings.
7. Within the Wessex area, covering all services originating from London Waterloo, including the outer mainline services that serve the TfSH area, Network Rail and South West Trains have a successful track record of working closely together. In 2004 the Waterloo Integrated Control Centre was formed – which saw Network Rail and TOC staff work side by side in managing operations of train services. In June 2011, Network Rail set up the Wessex Region Devolved Business Unit (DBU), which saw responsibility for management of infrastructure costs devolved to Richard O’Brien, the new Route Managing Director. The aim of this devolution to the route level was to improve the accountability of Network Rail to local stakeholders.
8. Network Rail and South West Trains have been working with the DfT over a number of months to establish a new “deep alliance” as a national pilot and a first for the UK rail industry. The alliance officially went live on 29 April, and has been approved by the DfT and the Office of Rail Regulation. The alliance is planned to run until 4 February 2017, the expiry date of the South West Trains franchise agreement. A single senior joint management team has been formed led by Managing Director, Tim Shoveller, who will be supported by eight directors. The “deep alliance” now has responsibility for both trains and track on the route operating out of London Waterloo, and a total of 6,000 staff. A governance board, with equal representation from both organisations, will oversee the operation of the alliance and take major business decisions. Arrangements are in place to ensure the interests of other passenger rail companies and freight operators are protected. Both companies retain their own identities and staff. There are no changes

to terms and conditions of employment or collective bargaining agreements with recognised trade unions.

9. The alliance has its own profit and loss account and a baseline budget, and it is anticipated that considerable efficiency savings can be achieved. It is aiming to cut delays for passengers, provide better customer service, deliver more effective management of disruption, and improve the efficiency of the railway through more collaborative working and better decision-making. The alliance will be responsible for track access within the Wessex area, with other operators such as Southern, Cross Country, Freightliner and DB Schenker.
10. The main anticipated benefits of the alliance include:
 - (i) better station management through a single management team for London Waterloo;
 - (ii) better planning of track maintenance work leading to a more reliable and punctual train service;
 - (iii) improved response to disruption through creation of a single team dealing with operational incidents on the network;
 - (iv) a more joined up approach towards maintenance of stations through joint responsibility for work at stations;
 - (v) aligned objectives and incentives with employees from both organisations working towards common goals with incentives to improve performance;
 - (vi) building staff skills by cross-functional development opportunities for employees;
 - (vii) pooled resources through sharing facilities and providing a more efficient response to train service disruption; and
 - (viii) operational efficiencies through joint training, communications and occupational health processes.

Options for addressing capacity shortfall on main line into Waterloo

11. The Rail Command Paper suggests that TOCs will need to improve the way they manage the demand for rail travel by providing commuters with financial incentives to travel in the shoulder peak (the periods just before and just after the high peak) rather than the high peak – as often investment in extra track and signal capacity and longer trains in the high peak represents poor value for money. This does not mean increasing high peak fares, but offering discounts on such fares in the shoulder peak. Such pricing tools would help reduce, but not remove, the need to provide additional peak capacity on services into London.
12. In summer 2012, the Government is expected to respond to the Initial Industry Plan – the rail industry’s proposed priorities for investment for the five-year period 2014-2019, known as Control Period 5 (CP5). During CP5, the rail industry are not proposing any significant investment that would improve capacity for outer mainline services into London Waterloo, so any enhancements are not likely until 2019-2024.

During CP5, it is proposed to make further investment in the Strategic Freight Network, including the Southampton to West Midlands corridor.

13. The London and South East Route Utilisation Strategy (RUS) published in July 2011 looked at a number of options for meeting a forecast capacity shortfall of 6,100 passengers by 2031 on outer-mainline routes into Waterloo. This level of shortfall assumes that by then all mainline trains will be operating at maximum length (either 12-car 20 metre long trains or 10-car 23 metre long trains). Options such as double decker trains or longer than 12-car trains were not recommended for further work due to high cost and not providing sufficient additional capacity.
14. A proposal for 16-car trains was looked at by Network Rail through the RUS. The only platforms at Waterloo that could accommodate trains of this length would be the former Waterloo International platforms. These platforms cannot currently be used for domestic train services, as the International station would require extensive rebuilding to make them suitable. As well as this rebuilding work, a new flyover would be needed at Clapham Junction to allow mainline trains to cross over the Windsor/Reading lines without reducing capacity. Platform lengths would need to be extended at Woking and Basingstoke, and pairs of 8-car trains would need to be coupled together and detached at these stations. However, the biggest problems with longer trains is that they would have slower acceleration and would require extensive changes to signalling and track – which would be very expensive. The current maximum platform lengths at Southampton Airport Parkway and Southampton Central are 12-car trains with 20 metre carriages or 10-car trains with 23 metre carriages.
15. Within the RUS, two options were recommended for further development that would fully address the capacity shortfall. The first includes measures to address bottlenecks including grade separation at Woking Junction and provision of a fifth mainline track between Surbiton and Clapham Junction using available land, then remodelling of the approaches to London Waterloo. The second involves extending the Crossrail 2 proposed route (between Hackney and Chelsea) to Wimbledon, enabling suburban trains to be routed into Crossrail 2, freeing up more platforms at Waterloo for use by mainline services. Both options would be very costly, and a case would need to be made for investment as part of Control Period 6 (2019-2024) or the following Control Period.
16. Network Rail has previously identified the need to extend suburban Platforms 1 to 4 at Waterloo from 8-car to 10-car length, ahead of improvements to mainline capacity. Originally it was intended to complete this by 2014. However, extending these platforms would require extensive remodelling of the approaches to Waterloo and cause too much disruption. It will only be possible to do this in

conjunction with the integration of the international platforms back into Waterloo.

17. In April 2012, Network Rail confirmed that they are currently in the early stages of developing a comprehensive set of proposals that will look to address the long-term train capacity issues on both suburban and mainline routes into Waterloo, whilst seeking to minimise disruption to services. In the meantime, the only scope that exists to increase the number of seats on outer mainline services before then is to extend trains to their maximum current length, the key constraint being platform lengths at Waterloo, which would be harder to extend than at other stations.

Rail Industry 'Long Term Planning Process'

18. In March 2012, Network Rail wrote to Local Transport Authorities (LTAs) to advise them of their proposed approach to maintaining and rolling forward RUS's. They are proposing to do this through a new 'Long Term Planning Process' (LTPP). The LTPP will seek to inform Government spending decisions relating to the future development of the network to meet projected demand for passenger and freight services. The LTPP will be taken forward in three parts:
 - (i) **Market Studies**, which will forecast future rail demand for the three sectors of Long Distance, London and South-East, and Regional Urban, and develop "conditional outputs" for future rail services, based on stakeholders' views of how rail services can support delivery of their strategic goals;
 - (ii) **Route Studies**, which will develop options for future services and for development of the rail network, based on the conditional outputs and demand forecasts from the market studies, and assess those options against funders' appraisal criteria in each of Network Rail's devolved Routes; and
 - (iii) **Cross-boundary analysis**, which will consider options for services that run across multiple routes, and ensure that Route Studies make consistent assumptions in respect of these services.
19. Once developed, the proposals to address capacity constraints at London Waterloo will need to be considered by the rail industry alongside other suggested investment priorities for CP6, via the new LTPP. If the LTPP deems this scheme a sufficiently high priority, it will be recommended to the DfT for consideration. The TfSH authorities will need to consider what the priorities are for rail investment that need to be fed into the LTPP. It is likely that only those schemes that best address the most pressing capacity issues across the London and South East sector as a whole would have a strong case for future investment.

DfT Consultation on Rail Decentralisation

20. For a number of years, a number of Passenger Transport Executives (PTEs) covering urban conurbations such as Manchester, the West Midlands and South Yorkshire have expressed an interest in taking the lead in specifying, funding and managing a wide network of rail services for their areas. Supporters of micro-franchising include Devon County Council and Cornwall Council. Within these LTAs, there are a number of branch line train services, and infrastructure improvements already part-funded by the LTA – and there is an appetite to take on greater responsibility for managing train service levels on these routes.
21. The Command Paper sees a key role for decentralisation of decision-making on rail away from the DfT, enabling Integrated Transport Authorities and Local Transport Authorities (LTAs) to become co-signatories on future franchises, where they wish to offer increments above a DfT base specification for rail services. Therefore, alongside the Command Paper, the DfT has launched a consultation on five options for decentralising local rail services. The five options are:
- (i) allowing LTAs to be co-signatories of rail franchises;
 - (ii) allowing LTAs to buy enhancements to the DfT's base specification or reduce services or increase fares and retain the funding;
 - (iii) let franchises to one operator, but allow LTAs to take responsibility for specific service groups;
 - (iv) let one principal franchise, but with one or more micro-franchises; and
 - (v) devolve full responsibility for specifying, managing and funding an entire franchise to a consortium of LTAs.

Were the fifth option applied to the TfSH area, this would see a role for the Solent Local Enterprise Partnership (LEP) and the proposed South Hampshire Local Transport Body.

22. However, the main driving force behind the DfT's appetite for decentralisation is to achieve an overall cost saving for central Government. The scope for cost savings are highest within regional rail services, which currently have a higher subsidy per passenger than commuter franchises centred on London. Importantly, as part of devolution of powers and responsibilities for rail to LTAs, the DfT expects LTAs or consortia such as Local Transport Bodies to bear the financial risk of the devolved network. Whilst decentralisation in itself is a good thing, the consultation document makes it clear that if there is an appetite for decentralisation, the Government fully intends to devolve funding for rail in a manner that assumes the savings set out in the McNulty report will be made. If these savings subsequently fail to appear, LTAs or Local Transport bodies (comprising LTAs and LEPs) that have taken on decentralised responsibilities could be left with inadequate funds to maintain an acceptable level of service. This is

likely to act as a significant deterrent to local authorities in taking on franchising responsibilities, in particular if it is combined with long-term franchises devoid of break-points.

23. Given the complex operational nature of the South West Trains franchise, and its role as a London-centred commuter railway, it is not as well suited to decentralisation than more 'regional' franchises. Of the five options, one option may be of interest to TfSH, namely that of enabling micro-franchises for self-contained routes.
24. The County Council, on behalf of TfSH is commissioning consultants to carry out a GRIP 3 study to look at whether there is a viable business case for re-instatement of passenger rail services on the Waterside freight only line. Were this study to show that there is a favourable business case, and if funding were secured to deliver the necessary infrastructure improvements to enable passenger services to operate, then the train services on the line could be delivered by a micro-franchise, as it could be run as a largely self-contained branch line. TfSH would need to be confident that any financial risks of a micro-franchising approach would be acceptable and manageable. This requires the DfT to prove fully transparent information on all the costs associated with train service operation and infrastructure maintenance and operational costs. This information is not currently available, but the Command Paper makes a commitment to improve transparency of information about rail industry costs.

Section 100 D - Local Government Act 1972 - background papers

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. Published works.
2. Documents which disclose exempt or confidential information as defined in the Act.

TITLE

LOCATION

None