The McNulty Report
A GB train operator view

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What is ATOC?

- Our mission is to work for passenger rail operators in serving customers and supporting a prosperous railway.
- Set up under GB rail privatisation, bringing together train companies (TOCs) to preserve & enhance national network benefits for passengers:
  - a central clearing house for TOCs, allowing passengers to buy tickets to travel on any part of the rail network
  - information services directly and indirectly to customers through National Rail Enquiries
  - commercial services for and on behalf of TOCs, such as management of discounted and promotional Railcards
  - a national voice for GB TOCs and policy/technical solutions aimed at delivering an improved railway
- Net budget of over £46 million & c 150 staff (2011/12)
Background - GB rail at forefront of EU liberalisation

- Full separation (RU/IM) and independent regulator (ORR) introduced 1994

- Actively-contested market for passenger franchises (similar to PSO but NB many pay premia to Government) + open access operators + freight

- Liberalised GB rail market has been an evolutionary process - eg changes in:
  - IM from Railtrack to not-for-profit Network Rail (2002)
  - franchise map and players
  - franchising authority (OPRAF → SRA → DfT)
Many positives in GB rail – growth, safety, performance, customer satisfaction, high revenue per pass-km, train operating costs per train-km

Whole system passenger rail unit costs *falling* since 2004/05 – but only back to 1996/97 level

Misaligned incentives, roles of government & industry, industry culture, etc → cost inefficiency (20-40%)

GB rail must evolve eg:
- Government to focus on policy, not detail
- greater role for independent regulator
- new bodies to provide leadership and whole industry solutions
- franchise and Network Rail (IM) reform
## Size of the prize

<table>
<thead>
<tr>
<th>Area</th>
<th>Low case (£m)</th>
<th>High case (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry objectives, strategy and outputs</td>
<td>90</td>
<td>110</td>
</tr>
<tr>
<td>Leadership, structures, interfaces and incentives</td>
<td>40</td>
<td>130</td>
</tr>
<tr>
<td>Revenue</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Asset management and supply chain management</td>
<td>230</td>
<td>580</td>
</tr>
<tr>
<td>Programme management</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Safety, standards and innovation</td>
<td>190</td>
<td>190</td>
</tr>
<tr>
<td>People</td>
<td>260</td>
<td>260</td>
</tr>
<tr>
<td><strong>Less - Double counts</strong></td>
<td>200</td>
<td>410</td>
</tr>
<tr>
<td><strong>Net funding savings</strong></td>
<td>740</td>
<td>1,050</td>
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</tbody>
</table>

Target 30% industry-wide efficiency by 2018/19 = £3.5 billion pa

- Network Rail assumed already due to deliver £1.8 billion
- £1 billion to come from seven areas (see table)
- £0.7 billion from better train utilisation
GB rail ready to rise to the challenge

- Assessment of key issues broadly supported and strong recognition of need to become more affordable

- Many welcome aspects in Review - eg rebalancing of Government & industry roles, smarter franchises, Network Rail devolution

- Much work to be done by industry to flesh out and refine Review findings – already started eg through industry-led RDG, Government-led RWG and others

- Government has key role in unlocking full industry potential through forthcoming decisions
Rail Delivery Group (RDG) up and running

• Set up May 2011

• Industry-led – senior figures from passenger and freight owning groups, Network Rail and Sir Roy McNulty

• Initial priorities:
  - contractual and regulatory framework
  - asset, programme and supply chain management
  - technology, innovation & working practices
  - train utilisation
  - potential Rail Systems Agency

• New priorities for 2012 – to include next industry five-year investment plan (IIP → SBP), rolling stock and cross-industry groups
Network Rail (IM) reforms under way

• More decision-making devolved to ten route MDs (2011) - eg accountability for ops/maintenance & asset plans

• Co-location of remaining central activities in new HQ

• Six alliances (NR routes + train operators) being developed - announced on 23rd Jan 2012:
  ➢ individual agreements → integrated working → better service/lower cost
  ➢ one “deep” alliance – may lead to single senior joint management team

• Each alliance different, but key common principles eg:
  ➢ NR and operator will remain separate entities
  ➢ each company still accountable for own areas of responsibility
  ➢ interests of FOCs & other TOCs to be protected
Jointly-prepared proposals for 2014-19 to enable government funders to decide balance between investment, fares and subsidy:

• Industry to cut costs by £1.3 billion pa

• Enhancement schemes worth in total up to £10.5 billion with return of 4.5:1

• Key outcomes:
  ➢ capacity – 180,000 extra peak-time seats
  ➢ performance – extra focus on neediest service areas
  ➢ connectivity – selected journey time improvements

• Governments to decide outputs & funding (July 2012) → Strategic Business Plan (Jan 2013)
Franchise reform vital – welcome recognition of need for new “horses for courses” approach:

• Longer franchises (15+yrs) improves TOC case to invest, tackle challenges & build strong supplier relationships

• More flexible specification → better tailoring of services to demand & more innovation to deliver VfM

• Better risk sharing improves incentives to grow revenue

• Nine franchises to be re-let by July 2014 (c.70% of market)
  ➢ a major opportunity - if Governments are prepared to take it
...... and through other decisions to come

- Government statement of overall policy (Command Paper) due shortly
- Fares and ticketing review due to be launched alongside Command Paper
- Future regulatory framework for Network Rail (PR13)
- Current consultation on future roles of independent regulator (ORR) and Department of Transport
- Better regulation agenda (across all Government and including rail)
Conclusion

• Liberalised GB rail era has evolved from the start and is on the threshold of a new phase of evolution

• McNulty has set the challenge which the GB industry recognises it must pick up

• Future success lies in pragmatic improvement of existing framework, not dogmatic pursuit of theory

• Key messages from McNulty Review for EU policy should be better alignment – and “one size does not fit all”

• Industry and government in GB are getting on with it – but there is much still to do