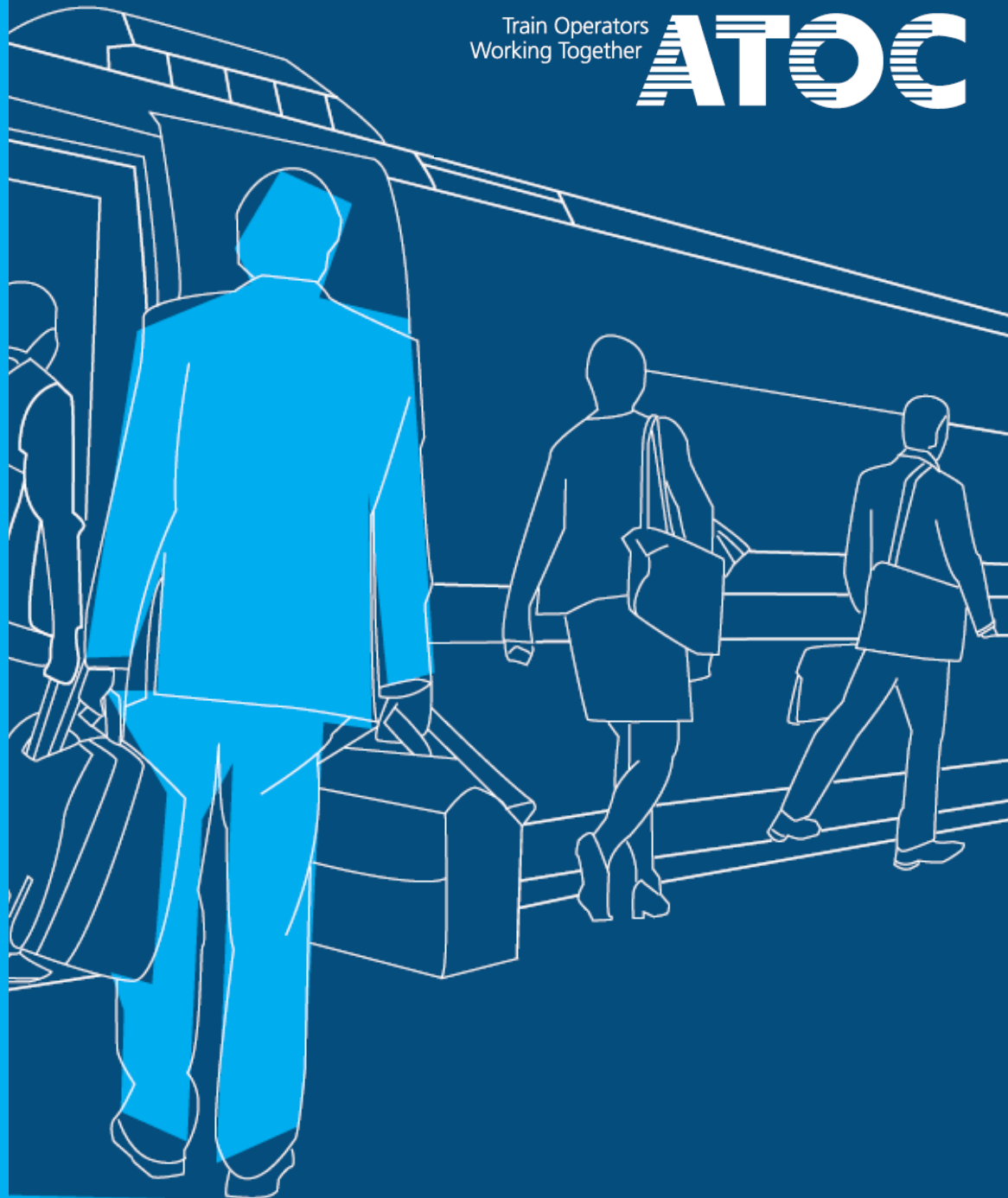


Train Operators  
Working Together

**ATOC**



# The McNulty Report

A GB train operator  
view

**Michael Roberts**  
ATOC Chief Executive

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Brussels

## 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)

## McNulty in a nutshell

- 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

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

**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

P33, McNulty Report

## 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 23<sup>rd</sup> 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



# Initial Industry Plan (IIP) presented to Government

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)

## Government decisions key through franchise reform.....

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