

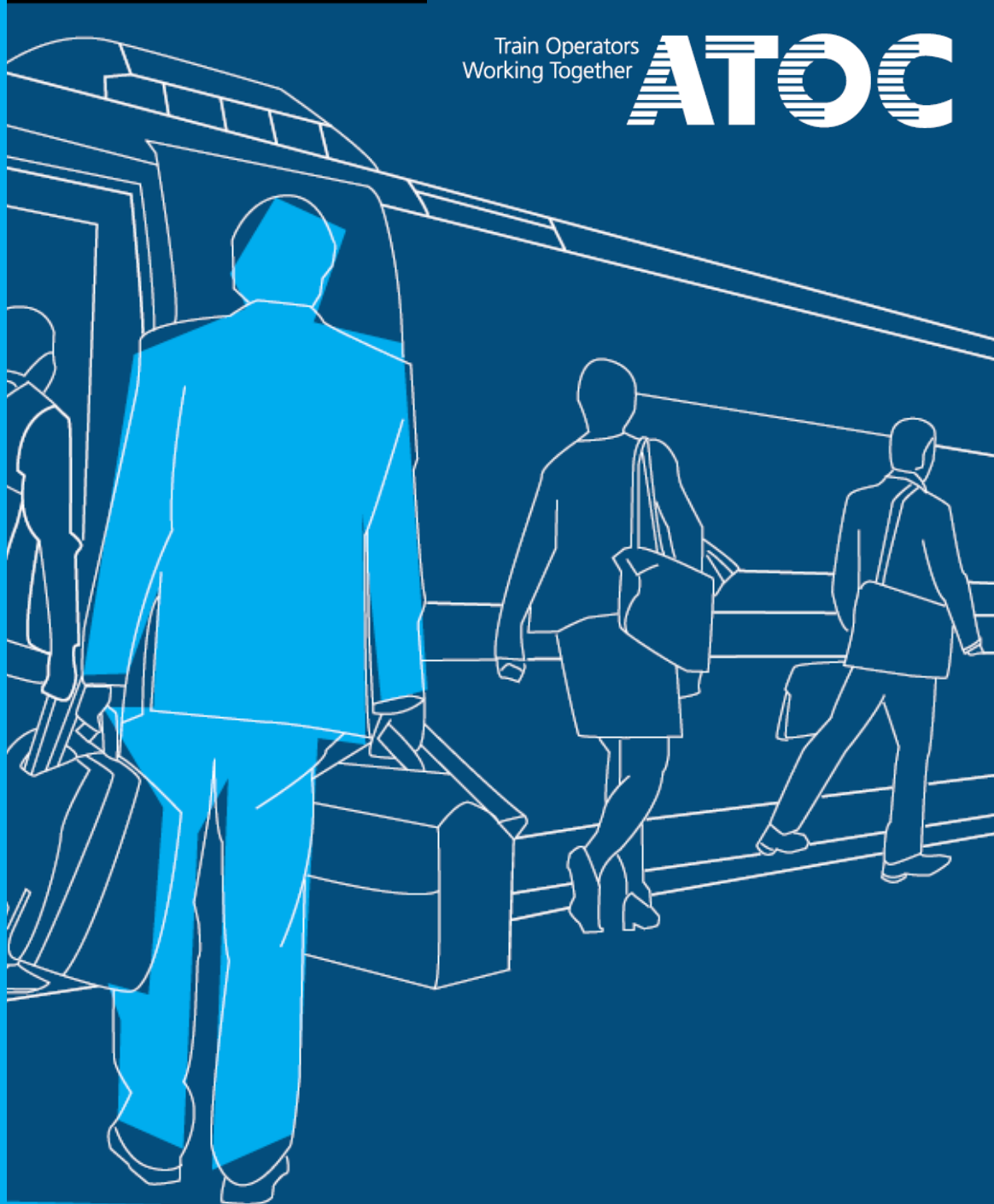
Train Operators
Working Together

ATOOC

Michael Roberts
ATOOC Chief Executive

**The role of TOCs in
delivering better value for
money**

Railway Strategies
Birmingham, 21st June 2012



Presentation overview

- ATOC's role and vision
- The rail industry value for money challenge
- Overall TOC contribution to VfM and key enablers
- ATOC proposals for improved VfM in rolling stock
- Conclusion

ATOC role

- Mission

championing the interests of passenger rail operators in serving customers and supporting a prosperous railway

- Vision

rail as a thriving business sector which makes an increasingly positive contribution to national life

- Action

- policy & technical solutions
- retail systems & products (eg RSP, Railcards)
- information to customers & stakeholders (eg NRE)



Our joint industry vision for the next 25 years

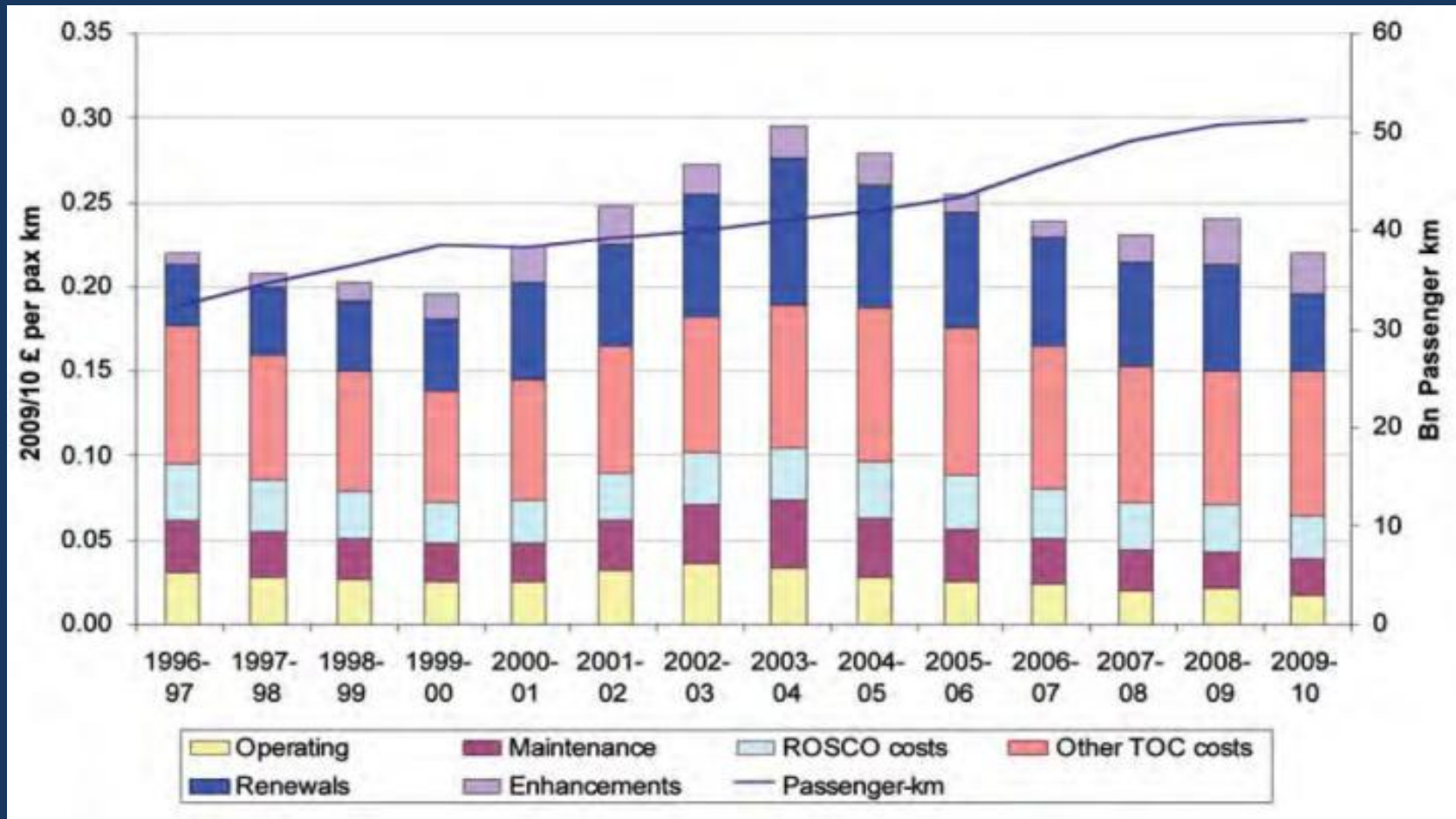
Building on recent successes to:

- achieve at least 90% passenger satisfaction
- carry twice as many passengers as today
- **create more sustainable financial footing for rail**
- offer services among most reliable and safe in Europe
- move towards longer-term 50% cut in CO₂ emissions



Rail and the value for money challenge

Industry expenditure per passenger kilometre



Source: Rail Value for Money Study

Size of the prize (McNulty VfM review)

	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
Net funding savings	740	1,050

Low & high end estimates of efficiency potential

Target: 30% industry-wide improvement 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

Source: Rail Value for Money Study

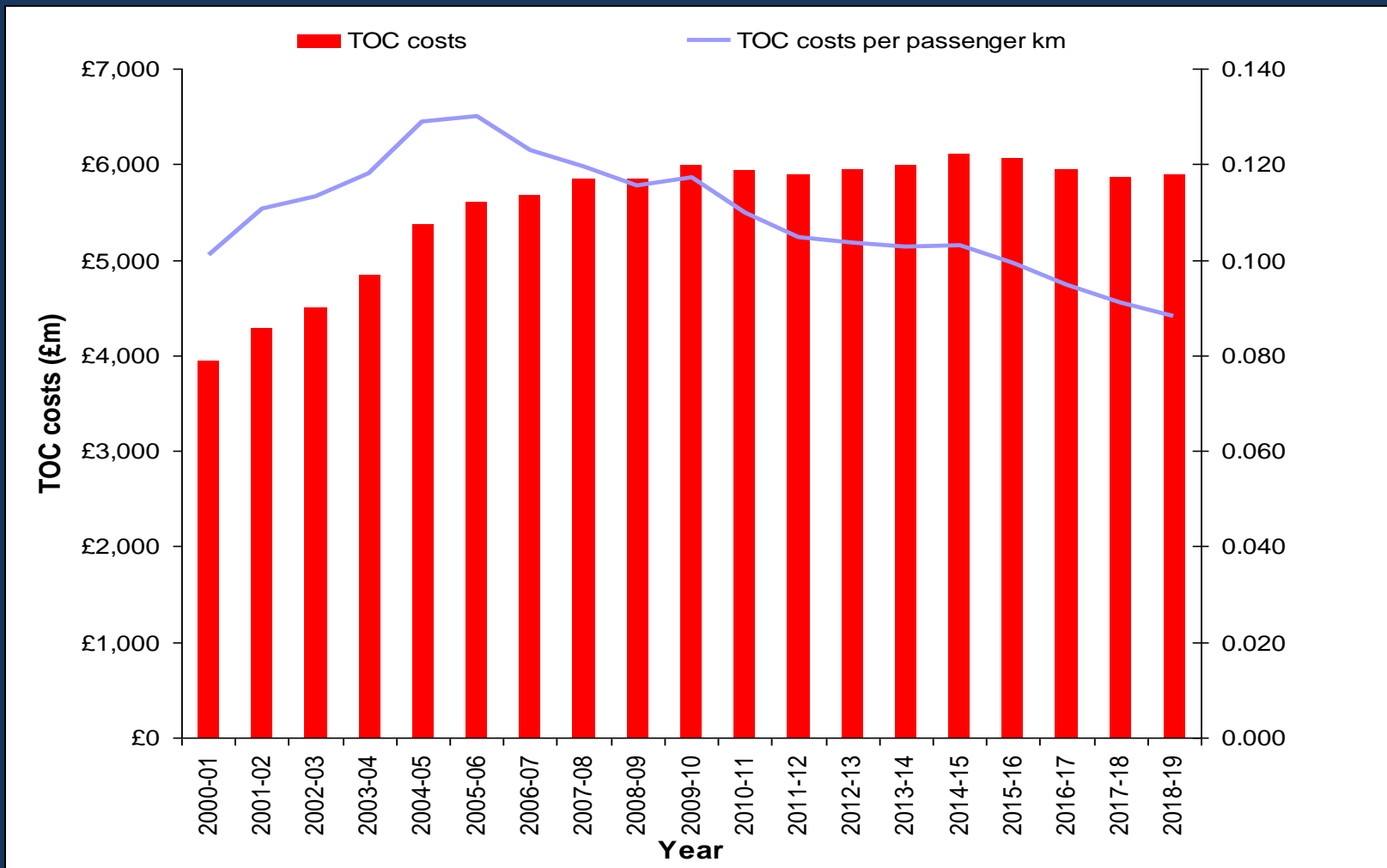
Industry VfM proposals (from Initial Industry Plan)

£1.3 billion saving in industry costs over CP5:

- consistent with low-end McNulty
 - assumed NR CP5 efficiency + low-case extra industry effort
- NR contribution eg devolved decision-making + better asset management
- TOC contribution (heavily contingent on enablers):
 - staff efficiencies
 - rolling stock improvements (design & procurement)
 - revenue generation

Commitment (eg through RDG) to look at scope for further savings

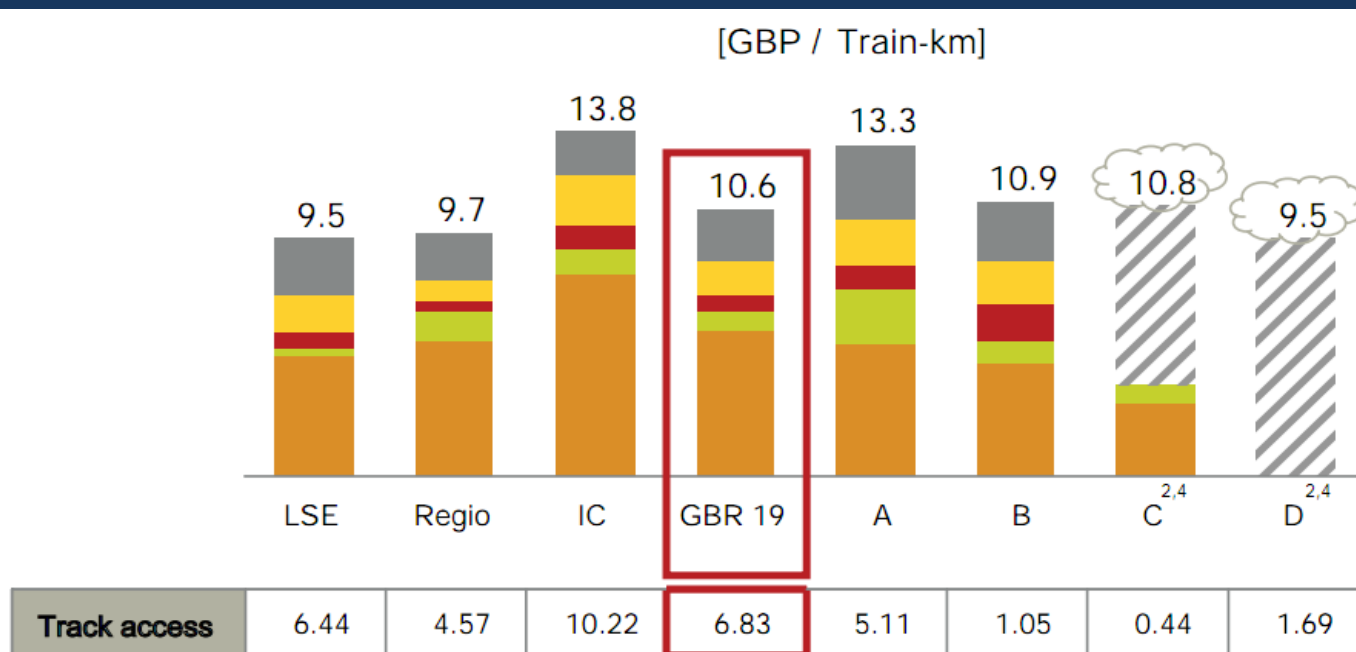
TOC unit costs already falling



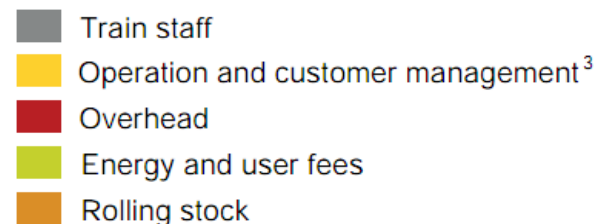
Source: Initial Industry Plan

GB TOCs compare favourably with McNulty comparators

Total train operation costs (2009, excluding track access)



- 1) Train operating and rolling stock costs have been normalised for differences in local network characteristics such as travel speeds
- 2) Cost allocation of the shaded block not known
- 3) Operation management costs include a proportion of rolling stock maintenance costs
- 4) Figures in clouds are uncertain



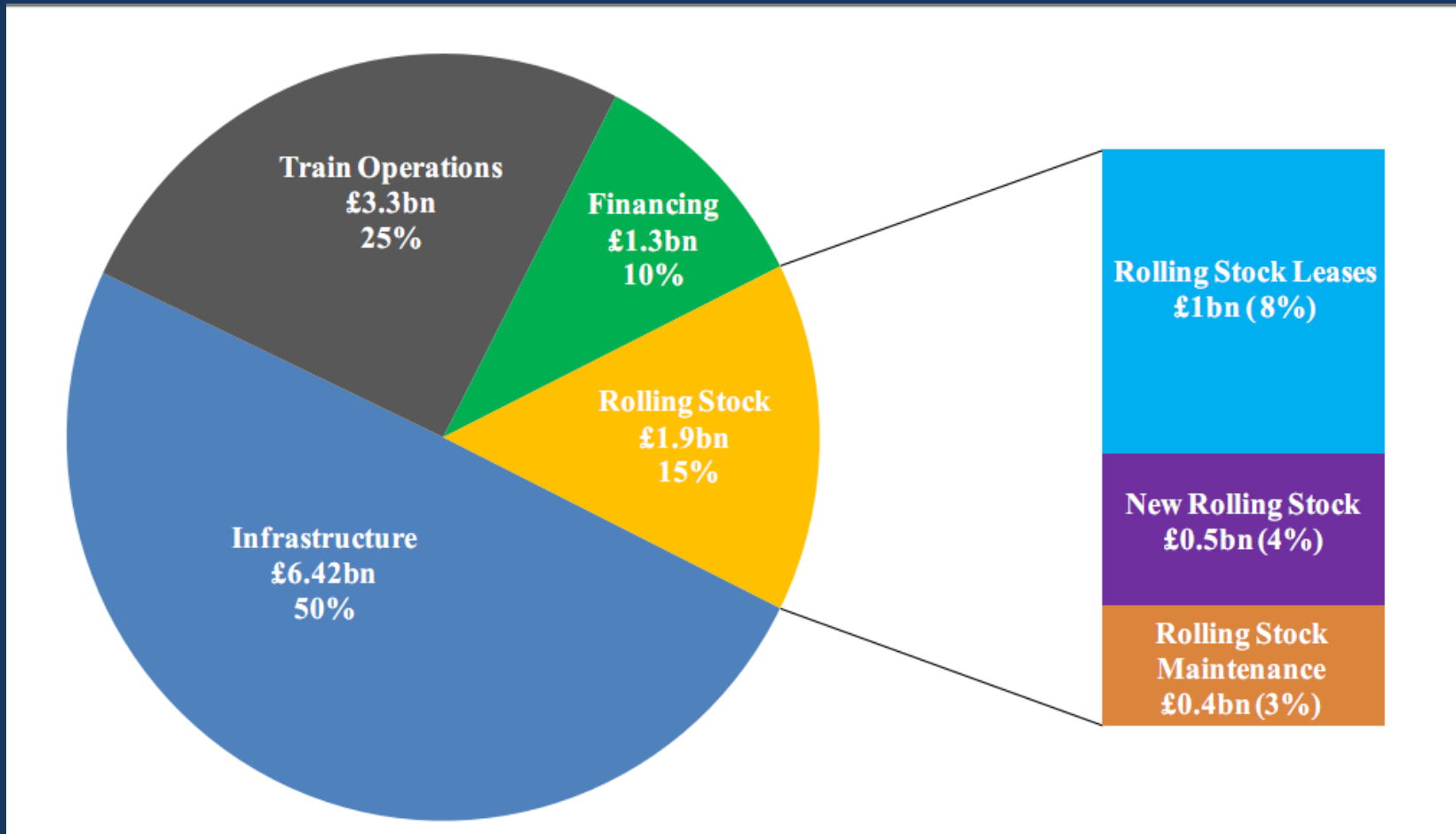
Source: Civity, International Cost Benchmarking for Rail Value for Money Study

Key enablers for TOC delivery of VfM

- Franchise reform
 - longer
 - more flexible
 - better risk-sharing
- Structural reform – eg NR/TOC alliances
- Fares/ticketing and retail regulatory reform
 - smart tickets
 - new fares products
 - range of retail channels
- Supportive regulatory framework – in general and on specifics (eg NR/TOC benefit sharing)

VfM spotlight: rolling stock

Total GB rail cost breakdown (2009/10)



Source: Arup for Rail Value for Money Study

ATOC views on rolling stock VfM

- Published as discussion document (December 2011)
- Savings possible but less than McNulty
 - impact of recent Government decisions (eg IEP, Thameslink)
 - focus needs to be on post-BR fleet
- We estimate possible savings of c £50m by 2018/19 through
 - more competition during re-leasing
 - reducing cost of new build
 - better VfM in maintenance

Key ATOC principles to unlock rolling stock VfM

- Empowering TOCs to look at wider range of rolling stock solutions:
 - greater role through longer, more flexible franchises
 - continued range of maintenance options
- Strengthening TOCs ability to negotiate attractive terms:
 - better information re existing lease terms
 - greater scope for bidders to consider short term leases
 - maintain use of Section 54 as an option
- More whole industry approach
 - develop high-level industry rolling stock strategy
 - better NR/TOC alignment
 - working with suppliers eg component inter-changeability

ATOC & rolling stock: latest position

- ATOC approach endorsed by Government (Command Paper, March 2012)
- Significant engagement with ROSCOs since December re information & short term leases
- Publication of 2014-19 rolling stock requirements (May 2012)
 - input from DfT, NR, ROSOCs, RIA, manufacturers
 - potential 11-18% growth in fleet over CP5 (NB only indicative)
- Next steps
 - further engagement with DfT etc
 - develop CP5 forecasts into longer term/broader strategy

Conclusion

- Industry as a whole (including TOCs) committed to delivering better VfM
- Big role for TOCs – more about innovation and challenge to others, not just improving own efficiency
- Enablers are key to realising full TOC potential
- Franchise reform = most significant enabler but progress as yet limited
- Need to guard against perverse consequences of potential regulatory reform
- Stakes are high – better VfM key to industry’s “licence to grow”