

## Scottish Association for Public Transport

### Rail Track and User Charging:

#### A Critique of the Second ORR Consultation on Rail Track Access Charges

Position Paper 1/2003

March 2003

*This Position Paper follows on from the Discussion Paper issued by SAPT in August 2002 on **Transport Track and User Charges**. This was itself a response to the initial ORR (Office of Rail Regulation) Consultation on Rail Track Access Charges and the parallel SRA Consultation on Rail Fare Levels and Structures. The present Position Paper again draws attention to the lack of responses to the key issues raised in the August Discussion Paper and is a further response to the second ORR consultation on Rail Track Access Charges. Final decisions by the ORR are expected by the end of this year. Copies of this response have also been sent to the DfT, SRA, the Scottish Executive, the House of Commons Transport Committee, the Transport and Environment Committee of the Scottish Parliament and other interested parties.*

### Response of ORR to Initial Consultation

The gist of the ORR response is the need to gain control of rail track costs while devising better incentives to improve performance in relation to track maintenance and availability. The ORR has also asked if price-capping should be altered in dealing with a company (**Network Rail**) which, unlike the former **Railtrack**, does not have equity shareholders. The question is also raised as to the appropriate level of financial incentives to meet stewardship obligations and accommodate volume growth on the network.

The underlying implication, also found in the SRA's Strategic Review of January 2003, is that – subject to proof that track costs have been brought under control – an increase in rail track access charges may be acceptable from 2004 with rail train operators being allowed to raise fares and other direct user charges- e.g. for freight trains – to make the major contribution to the extra income required and avoid added pressure on the Treasury or other public bodies such as the SRA & Scottish Executive having to increase support from public funds in order to allow operators to pay higher track access charges. There have also been suggestions that, even where fares are set at levels to maximise income, lines with a substantial shortfall on income relative to track and signalling costs might be considered for closure – echoing the approach adopted in the **Beeching Report** on Rail Reshaping now exactly 40 years old.

### Critique of the ORR Approach

While accepting that better control of track costs is a very important issue, SAPT is concerned that the ORR approach fails to reflect government objectives for integrated, sustainable and inclusive transport. Rather than asking what pricing policies are appropriate to meet these objectives, the ORR seems more concerned with cutting the financial costs of rail exclusive of the economic and social benefits which may arise from rail operations. Above all, the ORR fails to highlight the

features that, even allowing for the ‘nervous breakdown’ of management after Hatfield which stalled strong rail growth since 1995:-

- a) railways now have a larger share of passenger and freight movement than in 1995 (including an increase in Scotland, an area traditionally seen as less suited to rail due to lower population density)
- b) rail’s operational performance- i.e. exclusive of track and signalling costs- has shown a significant improvement and reduction in financial support
- c) premiums i.e. taxes – received by government from the best performing passenger routes have risen.

As argued in the SAPT Discussion Paper of August 2002, this situation does not suggest that the aims of integrated, sustainable and inclusive transport will be promoted by across the board increases in the real level of fares and charges when no similar approach is being adopted for the road and air networks. SAPT regrets that this fundamental issue has not been addressed in the ORR response to the first consultation on rail track access charges and calls on government to give clear indications of a commitment to a fundamental review of transport charging and fiscal systems to ensure full support for the key objectives of efficient integration, sustainable development, social inclusion and absolute reductions in congestion and related unreliability (on the rail and air networks as well as on the road system)

## **The Alternative Approach**

This was outlined in the SAPT paper of August 2002 and includes:-

- 1) **Rail Track Access Charges** should be set at levels equivalent to **Road User Charges** except on routes or services where rail:-
  - a) offers a clear premium over road in terms of quality or travel times
  - b) experiences congestion and overcrowding due to demand exceeding available rolling stock or track capacity
- 2) **Maximum fares are reduced to road user charge equivalents** with nationwide family or group travel discounts as a standard component of all franchises subject to premiums where higher Rail Track Access Charges are permitted under (1)
- 3) In cases of overcrowding or rail route congestion, **fare premiums should only be allowed as part of integrated corridor or area packages enhancing rail rolling stock and track capacity in specified timeframes**
- 4) Where track access charge income falls below present rail track access income, any shortfall should be charged to **general taxation** or to a **supplement on road fuel tax** (with possible rebates for ‘deep rural’ areas)

These principles should be incorporated in all rail franchise specifications (and in renegotiation of present franchises) along with requirements for multi-modal fares and through ticketing. This would encourage bidders to focus on improved services (including increased capacity and higher frequency/better connections).

To a substantial degree, apart from a few major schemes involving carefully constructed public/private partnerships, the proposed system would transfer supervision and payments for track maintenance, renewal and enhancement costs to the SRA, Network Rail and regional public bodies with interests in the integration of transport pricing and policy decisions (including land use strategies). In addition, there could be some funding from the private sector through planning agreements and contributions to particular projects. The present counter-productive money-go-round (which also obscures the actual operational performance of rail) between government, the SRA as an indirect supporter of rail track access charges via the payments to passenger franchise holders), passenger franchise holders and Network Rail would be eliminated.

In turn, this would have the benefit of a sharper focus on the causes of the recent escalation of rail infrastructure maintenance and enhancement costs, prospects for reduction and closer integration with the review of road and airport charging and fiscal structures. It is recommended that the ORR, as part of final decisions on changes in rail track access charges and likely levels of expenditure over a rolling Ten Year Transport Plan period to 2013, should publish a full analysis of the causes of rail infrastructure cost escalation and likely future needs.

SAPT considers that the following factors have contributed to cost escalation above that for comparable road schemes:-

- poor project management and specification
- lack of supplier competition within an unstable framework for rail growth
- labour and skill shortages
- reliance on upgrades of heavily-used existing routes rather than development of alternatives routes (partly on existing under-used track and partly as new lines e.g high-speed routes for passenger only and premium freight operation; light rail routes with options for shared running on heavy rail where spare capacity is available)
- poor control by government, HSE and EU over the specification of standards and timeframes for delivery e.g revised standards have raised serious risks of costs rising much more rapidly than on the road network despite the latter having a much less satisfactory safety record. This has meant a diversion of limited funds, and a potentially larger diversion of funds, to schemes with negative outcomes (including some reduction in capacity) compared to the stimulus to overall transport safety, modal shift and social inclusion of alternative options for spending on rail delivery).

SAPT's present view is that the first and last factors listed above have had the greatest bearing on cost escalation yet also offer prospects for substantial improvement. Nevertheless, to meet desirable and realistic targets for growth in rail modal share, there is clearly a need to increase rail infrastructure spending above present levels while ensuring improved outcomes, including reduced congestion at airports and on the road network as well as on the railways. Government has claimed that rail infrastructure spending is running at record levels yet the picture is distorted by very high levels of investment in West Coast Main Line modernisation and in the high-speed Channel Tunnel link through from the Tunnel to London St Pancras and by poor outturns from present spending in terms of better services. Investment in rail infrastructure enhancement has been minimal for much of the rest of the country

despite growing problems of road congestion and reliability around and between cities. At the same time, airport congestion (on runways as well as on approach roads) has been worsened by ‘no frills’ airline expansion and by price-cap policies lowering landing charges at busy airports, both contributing to unsustainable demand growth.

In a stable framework, the alternative approach advocated by SAPT would allow extra and justified rail track costs to be met, to some extent, from increased fares and charges on congested and other premium routes (with potential for substantial private sector involvement) but with a higher proportion of rail infrastructure and regional enhancement costs met from part of the considerable income which could arise from wider use of road user charging and congestion charging at airports (with a lesser part of such income going towards some road improvements, airport works and environmental enhancement).

Additionally, government is also urged to consider the advantages of further fiscal reforms to ensure better alignment of tax policies and structures with the objectives of integrated transport, social inclusion and sustainable development. The need for such reform has added urgency due to the aim in the Energy White Paper to cut greenhouse gas emissions (of which transport –including air travel- remains the leading source of increase) by 60% by 2050. Present reforms in company taxation and car licensing are welcomed but should be supplemented by:-

- an aviation fuel tax aimed to recover the full external costs of air travel
- congestion charging at overcrowded airports (aimed to reduce the need for expanded terminal capacity and extra runways and also to assist in the financing of a domestic high-speed - 200 mph – rail network, also providing more slots for freight and intermediate passenger services on existing trunk rail routes)
- levies on airport parking (utilised to assist financing of improvements in surface access by public transport)
- a nationwide system of road user charging for conurbations and congested inter-city links before 2010 and including priority for supplementary permits for the use of congested roads at peak periods by 2006 (this being easier to introduce than full electronic charging while also being essential to avoid increases in existing road congestion and unreliability)
- a revenue neutral shift from present car licences towards increases in Fuel Duty (with appropriate adjustments in lorry licences and possible rebates of Fuel Duty in ‘deep rural’ areas) (this change would raise perceptions of the real costs of travel closer to the point of use)

Government, the SRA, CAA and ORR need to be seen to be addressing all of these issues as part of credible policies for the delivery of integrated, sustainable and inclusive transport. It is therefore essential that these issues are taken fully on board in any final decisions on rail track access charges and on the level and structure of fares and other direct charges for rail use.

Alastair Reid, Secretary  
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