
Meeting:	Transport for the North Board
Subject:	Rail Business Planning
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Sponsor:	Martin Tugwell, Chief Executive
Meeting Date:	25 January 2022

1. Purpose of the Report:

- 1.1 To provide the Board with an overview of the work the Rail North Committee is undertaking on business planning for train operators Northern and TransPennine Express (TPE) and set out the main issues arising.

2. Recommendations:

- 2.1 It is recommended that the Board:
- Welcomes the strong recovery in rail passenger numbers in the North, noting that this is significantly higher than the national average;
 - Supports the argument that the strength of the North's rail market should be a key consideration for Government when considering the allocation of future funding to support growth in rail patronage; and
 - Welcomes the work of the Rail North Committee in supporting the Rail North Partnership through the business planning process as a means of enabling the North's priorities to be taken into account.

3. Main Issues:

Background

- 3.1 With the move from rail franchises to the current situation where revenue risk is taken by Government, determining priorities for delivery by train operators has moved to an annual business planning process. Operators set their priorities based on a funding envelope provided by the Treasury to the Department for Transport (DfT).
- 3.2 Transport for the North has the ability to shape the business plans for Northern and TPE through its joint role in the Rail North Partnership (RNP). Transport for the North's input to the business planning process is being overseen by the Rail North Committee with support from their relevant lead officers. Rail North Committee has had detailed briefings on the funding position and initial responses from the train operators.
- 3.3 The current business planning process is being carried out in the context of the ongoing and long-lasting impacts of the pandemic. The impact of Covid on our railways has been significant including:
- A significant reduction in demand during the worst of the pandemic – sometimes as low as 5% of pre-covid levels based on Government guidelines and restrictions;
 - Increased funding from Government to keep the railway operating and staff employed – in 2020-21 government funding was £16.9 billion (national total) , an annual increase of £10.4 billion largely due to the use of emergency

measures for train operators. The net subsidy to Northern and TPE in 2020-21 was £1.1bn;

- Impact on staff availability due to sickness and self-isolation, particularly prevalent under the current Omicron wave; and
- A transfer of revenue risk from the private sector operators to the public sector (in this respect Northern was already being operated by the government's Operator of Last Resort following the termination of the previous Arriva franchise).

- 3.4 Despite the challenges, the railway in the North has continued operating and the industry has made agile changes to the timetables to reflect need (including supporting key workers), staff availability and demand. The December 2021 timetable saw Northern operating 87% of pre-covid services and TPE operating 85% of services.
- 3.5 Transport for the North has played an important role throughout the pandemic, establishing the North of England Contingency Group to provide the link between the rail industry and local authorities as they dealt with the impacts of the pandemic in their local areas. This has helped ensure that despite the need to implement a number of special timetables, services have been able to meet local needs and passenger demand at each stage of the pandemic. Transport for the North was also able to secure input from all train companies operating in the North of England to ensure a joined-up 'one railway' approach.
- 3.6 Evidence shows that the North has been at the leading edge of the rail recovery and was regularly 10% ahead of the sector average for (compared to pre-Covid).
- 3.7 Prior to the recent impact of the Omicron variant, Northern had been seeing revenue at 95% of pre-Covid levels and demand, for some periods, at 85%. TPE said its leisure services had been operating at 89% of pre-Covid levels. It is the business and commuter figures that have proved more sluggish in terms of the return to rail dragging the overall averages down.
- 3.8 The strength of the recovery in rail services in the North is in marked contrast to the picture elsewhere in the country. It reflects the key role that our railways play in supporting our economy and communities. What it has also done is serve to demonstrate the capacity limitations of the North's historic rail infrastructure further emphasising the importance of a step-change in capacity.
- 3.9 As the Government understandably looks to place the finances of the rail sector on a more sustainable footing it is essential that the changes in the rail market shape the future allocation of funding in support of the growth of rail services. The potential for a long-term and sustained shift in working practices in the service-based economy of the London and South-East region are likely to change traditional commuter patterns. In contrast the strength of the rail recovery in the North is indicative of the extent to which rail continues to be central the North's economy.

Funding Position

- 3.10 The industry now faces significant financial challenges as part of the overall financial situation facing the UK in the post pandemic world. The Comprehensive Spending Review provided indicative funding allocations for each train operator for the next 3 years (commencing in 2022/23).
- 3.11 The Government, through Treasury, is requiring each operator to make substantial savings to their costs. These savings are reflective of discussions taking place through industry representatives at a national level including matters such as workforce modernisation options. The Treasury will continue to take the revenue risk due to post-pandemic uncertainty. In these circumstances it is

important to ensure that the rail operators remain incentivised to grow their revenues. In this regard the strength of the rail recovery in the North should be welcomed by the Government as a significant opportunity, one that our operators should be encouraged to pursue.

- 3.12 Although in real terms the total amount available to fund rail services has increased, the impact of underlying cost movements and inflationary pressures as well as various pre-existing obligations, mean that the initial target budgets assigned are significantly less in real terms than the budget bids submitted across each of the three years. The initial funding gap differs over the years for both operators with years two and three looking particularly challenging.
- 3.13 Rail North Committee has sought and received assurances that TPE and Northern are not being asked to take an unequal share of the required savings. In fact, Northern in particular is more protected than the average for train operators although given the size of their overall budget this does not mean that the challenge is not significant.
- 3.14 Rail North Committee has highlighted that given the strength in the recovery of the rail market in the North of England, coupled with the levelling up agenda, there is a strong argument for a level of funding that supports continued growth in rail serving the North of England. Such an approach is ultimately the best way of making the railway more financially sustainable, as well as delivering a railway that actively supports the delivery of key policy outcomes relating to economic growth, reducing the environmental footprint of transport, and improving social mobility.
- 3.15 Recent analysis undertaken for Northern identifying the total benefits of government funding provided to the operator showed that for a net cost to government of £500m, the total benefits to the UK economy was a minimum of £1.25bn – equivalent to a return of £2.50 for every £1 of net funding. This includes supporting employment through over 6,600 direct roles and a direct economic GVA contribution of £360m p.a. The analysis also identified non-user benefits (such as reduced road congestion and improved air quality) of £75m per year.
- 3.16 Northern's assessment is consistent with previous analysis by the Urban Transport Group (2014) which identified economic benefits of rail services in the North of England of £1.6 billion per year and wider benefits of £3.1 billion per year across the UK. The Urban Transport Group (UTG) assessment found the return to funding from all northern rail services to be £4.30 per £1 of funding, increasing to £6 when looking beyond the North. Transport for the North supplied technical support and data for the Northern study and we are exploring options for updating the UTG assessment using the Northern methodology and the Transport for the North Analytical Framework.

Transport for the North's Input to Business Planning

- 3.17 Transport for the North, through its role in the Rail North Partnership (jointly managing the Northern and TPE train operators with DfT) has a unique (amongst English sub-national transport bodies) involvement in the business planning process. This allows Transport for the North to have visibility of the business plans and help shape priorities based on the funding available. This is a practical example of the added value that comes from the devolution of transport powers to Transport for the North in a joint working arrangement with the Department for Transport. It is a key building block on which Transport for the North looks to build upon as part of its working relationship with Great British Railways (as endorsed by the Board on 24th November 2021). The Board's agreed approach advocates the development of a profit and loss account for the North of England.

In taking forward this proposal it will be essential that the prioritisation of the available short-term funding properly takes into account the social and economic benefits of investing in rail in the North.

- 3.18 Transport for the North's input to the process is overseen by the Rail North Committee which has adopted a 3-stage process for interacting with the business planning process:
1. Setting general priorities at the start of the process;
 2. Shaping specific guidance and requirements for the train operators; and
 3. Reviewing and prioritising proposals received from the operators.
- 3.19 Rail North Committee provided guidance at stages 1 and 2 and has recently received a briefing on the initial business plans received from the two train operators.
- 3.20 Given the overall funding position, Committee members have set a clear priority around protecting services and passenger-facing facilities with an overarching objective:
- To protect the function of the rail network in the North to ensure it continues to serve passengers and communities as efficiently and effectively as possible.*
- 3.21 Within the overall objective Rail North Committee has resolved to:
- Work collaboratively with the Rail North Partnership and industry to inform plans for future services in the longer-term, including through development of agreed service priorities;
 - Continue to work collaboratively with industry and members to improve station accessibility, safety, and the passenger experience, including through joint investment and securing greater local control and influence;
 - Continue to work with members and the industry to realise integrated and joined-up local transport networks that are easy to use with seamless ticketing and information;
 - Continue to strongly advocate for decarbonisation of the industry, including through promotion of the benefits of electrification; and
 - Continue to champion the benefits of investment in the North's railway, to defend against a return to the 'second-best' approach. This must include an ambitious approach to replacement of the significant number of ageing trains.
- 3.22 The assessment of the initial business plans (for 2022/23) is ongoing and Rail North Committee (through their lead officers) have been involved in the initial assessment – following the objective and approach set out above. In particular there is an ongoing iterative approach to finalising the business plans and seeking to meet the allocated budget and/or identify bases for arguing for betterment. Business Plans have a wide range of passenger-facing and back-office/policy initiatives and there is always the opportunity to prioritise the outputs required in a given year. Transport for the North's access to the process and collaborative working with the Rail North Partnership is helping to ensure that the focus is right for the North and where savings need to be made these are directed to areas which will not have a significant passenger impact in the short-term.
- 3.23 There is still some substantial work to be done to finalise the business plans and Transport for the North officers are continuing to support the RNP in their work and provide regular reports on progress to Rail North Committee.

Passenger Outcomes

- 3.24 Notwithstanding that the work is still ongoing, a picture is emerging of the likely passenger outcomes through the business planning process.

- 3.25 Rail North Committee previously raised concerns that the national approach to timetable development was likely to be to adopt the December 2021 timetable as the new baseline going forwards. The concern with this approach was that the December 2021 timetable was only 85-87% of the pre-covid timetable as services have been restored incrementally as demand increases. The Committee has been very clear that a new reduced baseline timetable would not be acceptable to the North.
- 3.26 In fact, both operators have included some incremental service enhancements in their business plans for May 2022 based on the previous assessment of demand recovery. This is to be welcomed and is further demonstration of the inherent strength of the rail market in the North. For example, Northern has included the restoration of the half-hourly service between Hull and Bridlington from May 2022 reflecting the strong demand for leisure journeys seen on that route in Summer 2021. TPE are planning to extend their Redcar to Manchester Airport service through to Saltburn and are currently consulting on plans to run a Hull-Liverpool direct services and re-route Scarborough services to Manchester Piccadilly. Operators have also included the changes consulted on for December 2022 as part of the Manchester Recovery Task Force (the operators have recently completed their consultation on these changes).
- 3.27 To protect the service elements, there will need to be savings elsewhere in the business plans. For example, it is likely that marketing budgets may have to be reduced. Whilst these budgets are inherently scalable, reducing funding would likely impact on the speed of the recovery of demand and revenue. Transport for the North has (in the current financial year) been able to support and amplify the operators' marketing activities, but it cannot and should not be a replacement for the scale of work operators are best placed to undertake. The context is that the overall rail market in the North was (pre-covid) only about 1% of the overall travel market. This highlights the significant potential for attracting and retaining new markets such as tourism to destinations in the North.
- 3.28 RNP is also seeking to agree some changes to the way internal payments work which would provide a positive benefit to operators in the North and reduce the risk of having to make savings that impact on passenger outcomes.
- 3.29 At this stage the budget position for years 2 and 3 means that it isn't clear that there will be sufficient funding to continue to support all services included in next year's plan or to continue to growth back of services to pre-covid levels. The precise implications will only be known after the 2022/23 position has been finalised and there would need to be further discussions with Rail North Committee about prioritisation within the budgets unless other ways were found to bridge the gap.

Summary and Next Steps

- 3.30 In summary:
- The North has been at the leading edge of the Covid recovery with demand growth 10% higher than other parts of the country;
 - To build on this growth back and ultimately make the railway more sustainable will required sustained investment in both services and infrastructure. This approach would also ensure that the full return from previous investment in rolling stock and infrastructure is realised;
 - Rail North Committee is overseeing Transport for the North's input to the business planning process and there is still significant work taking place to finalise the position for the 2022/23 financial year;
 - Through the Rail North Committee and the work of RNP operators have built in some growth in services next financial year (subject to successful resolution of

remaining issues) as a result of prioritising these over other potential outputs;
and

- The position for years 2 and 3 is less positive and without further intervention, hard choices may have to be made to prioritise outputs including services.

3.31 Rail North Committee will continue to receive detailed updates on the business planning process and will continue to scrutinise proposals to ensure they protect the interests of the passenger in line with the aspiration for a strong role for the North under the proposed new industry structure under Great British Railways.

4. Corporate Considerations

Financial Implications

4.1 There are no direct finance implications as a result of this report. The cost of services is met by the Department for Transport with the revenue risk being taken by the Treasury.

Resource Implications

4.2 There are no direct resourcing implications for Transport for the North as a result of this report.

Legal Implications

4.3 There are no apparent immediate legal implications for Transport for the North as a result of this report.

Risk Management and Key Issues

4.4 This paper does not require a specific risk assessment. It does highlight the risk to services and passenger outputs if there is insufficient funding for available to train operators. Detailed risks relating to the operator 2022/23 business plans are being identified, managed, and monitored through the Rail North Partnership.

Environmental Implications

4.5 This report does not constitute or influence a plan or programme which sets the framework for future development consents of projects listed in the EIA Directive and therefore does stimulate the need for SEA or EIA.

4.6 Passenger rail has an essential part to play in achieving our decarbonisation objectives within Transport for the North's Decarbonisation Strategy, particularly around reducing private car vehicle mileage.

Equality and Diversity

4.7 An impact assessment is not required as the report provides an update on the work of the Rail North Partnership and the train operators. Maintaining and improving access to public transport, including rail, is key to addressing existing Transport Related Social Exclusion in the North. Rail remains an essential service for many who experience TRSE.

Consultations

4.8 Train operators are responsible for consulting on the details of timetable changes, including any increments or decrements as a result of the business planning process.

5. Background Papers

5.1 There are no background papers

6. Appendices

6.1 There are no Appendices.

Glossary of terms, abbreviations and acronyms used (if applicable)

Please include any technical abbreviations and acronyms used in the report in this section. (Please see examples below.) This will provide an easy reference point for the reader for any abbreviations and acronyms that are used in the report.

- a) *TPE* *TransPennine Express*
- b) *DfT* *Department for Transport*
- c) *RNP* *Rail North Partnership*
- d) *UTG* *Urban Transport Group*