

Value for Money and its Application in U.K. Rail

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- What is “Value for Money” (VfM)?
- VfM in the UK Public Sector
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Value for Money – a concept familiar to everyone



Challenge for transportation agencies: optimize quality within budget constraint

Policy choices

- More for same vs same for less
- Short-term affordability vs whole-life cost
- Farepayers vs taxpayers

VfM approaches

- Service trade-offs:
 - Network coverage
 - Service frequency
 - Reliability
 - Comfort
 - Safety?
- Process improvement
- Negotiation, contracting out

VfM in the U.K. public sector:

1. VfM assessment of PPP solutions

PPP vs Public Sector Comparator



- Compare life-cycle costs
- Adjust for bias
- Account for risks

VfM definition (U.K. Treasury):

"The optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement"

VfM in the U.K. public sector:

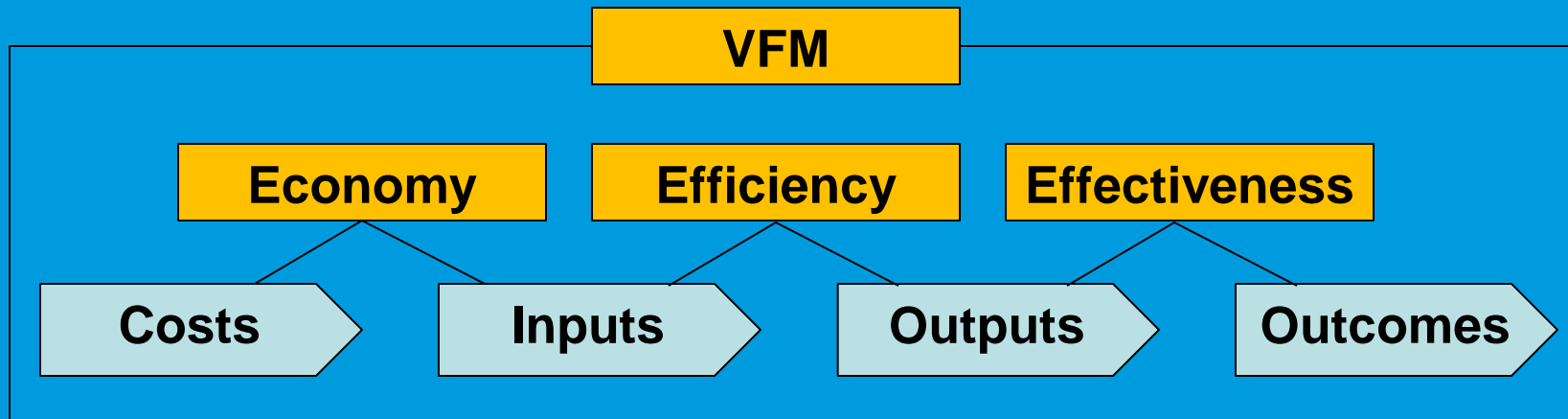
2. VfM reviews of government spending

Example: NAO - around 60 reviews/year of central government

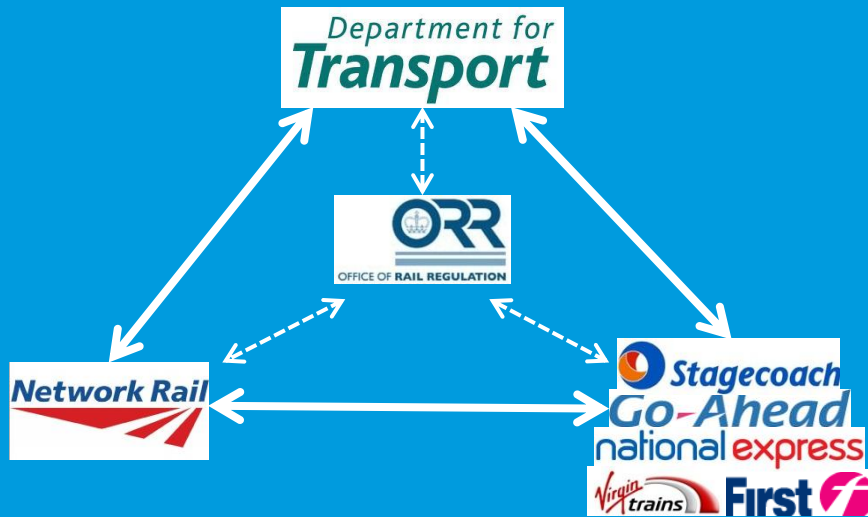


- Services meet government objectives?
- Money well spent?
- Opportunities to improve VfM?

Analytical framework:



Great Britain's Rail VfM Study (2010-11)



- Jointly sponsored by regulator and government department
- Independently chaired
- England, Wales and Scotland

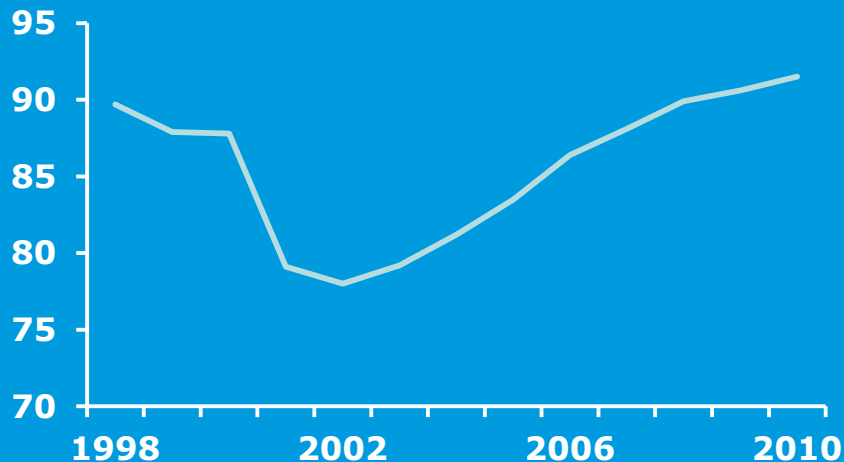
Terms of Reference:

- Identify VfM improvements for taxpayers **and** passengers while:
- Adding network capacity as required
- Continuing to drive up passenger satisfaction



Since privatization (1994-97), many indicators had improved

% of Trains on Time



- Passenger numbers up 57%
- Freight volumes up 26%
- Passenger train-km up 28%
- Punctuality recovered, >90%
- Safety at all-time high
- Passenger satisfaction 83%

Growth prospects strong (passenger and freight)

However, costs remained stubbornly high

Government Support (£ Billion)



- Cost per passenger km static
- Unit costs 40% over European comparators
- Paid for through higher fares...
- ...and Government support
 - Grants to Network Rail and local authorities
 - Net payments to train operators

Conclusion: "should cost" 30% less

Barriers to efficiency

Industry
fragmented

Incentives ineffective
or misaligned

Franchises short,
too prescriptive

Fares too complex,
fail to manage peak

Complex legal/
contractual framework

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Operators' short-term outlook

Fares too complex, fail to manage peak

Infrastructure heavily centralized

Weak HR/IR management

Lack of best practice

Silo management

Barriers to efficiency

Industry fragmented

Lack of industry leadership

Poor industry culture

Infrastructure heavily centralized

Incentives ineffective or misaligned

Lack of best practice

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Study recommendations

Enabling Environment

- Clearer industry roles
- Clearer Government policy
- Devolved decision-making
- Decentralized infrastructure & alignment with operators
- Improved incentives & regulation

Examples of Specific Efficiencies

- Improved partnering through the supply chain
- Whole-system, whole-life approaches
- Visible, less volatile plans
- Standardized rolling stock
- Differentiated approaches to lightly-used networks

Cost variation across the network

Costs and revenues per passenger mile (£)

	Long distance	London & South East	Regional franchises	Total network
Infrastructure cost*	0.13	0.10	0.23	0.14
Train operator cost**	0.16	0.16	0.28	0.18
Total cost	0.29	0.26	0.51	0.32
Less: passenger revenue	(0.22)	(0.21)	(0.20)	(0.21)
Net cost	0.07	0.05	0.31	0.11

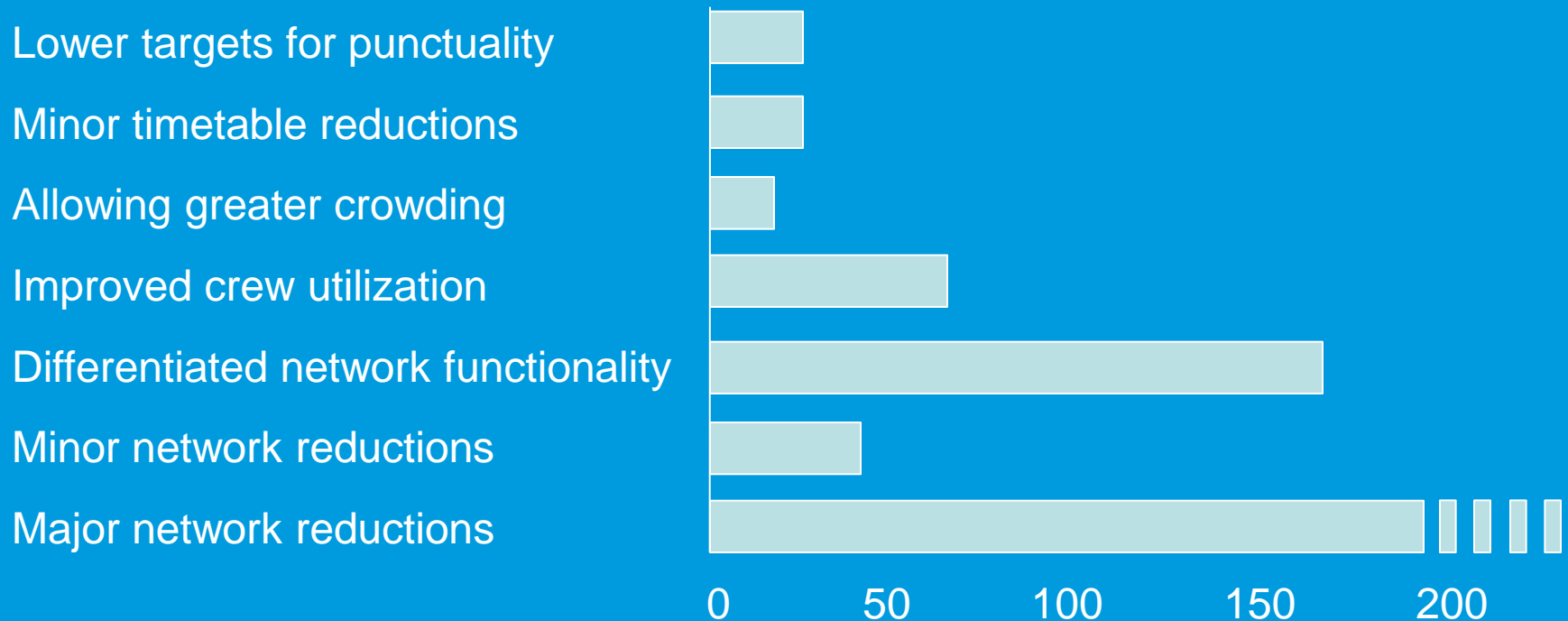
* Excludes network improvements

** Excludes payments to infrastructure manager

Source: LeighFisher approximate allocation of costs and revenues

Savings achievable from decrements to railway outputs

Potential savings per year (£ million)



Source: LeighFisher

VfM – applications to U.S. transportation

Review institutional frameworks (national/state/municipal)

**Review mature
services
(rail, transit)**

- Economy/efficiency/effectiveness
- Cost structure & use of subsidy



**Reassess
priorities**

**Plan new
services
(e.g. high speed)**

- Design in high VfM
- Track and control VfM

Thank you!

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