

Enterprise, Innovation and Networks Committee

EIN(2) 06-06(p.6)

Date: 20 September 2006

Venue: Committee Room 2, Senedd, Cardiff Bay

Title: The Railways (Closure Guidance) (England and Wales) Order 2006

Purpose

1. To provide the Committee with an opportunity to scrutinise the draft Order and make available the Explanatory Memorandum. The Committee has asked for the opportunity to scrutinise the regulations.

Recommendation

2. That the Committee should consider the purpose and content of the draft Order.

Purpose of draft Order

3. The purpose of the draft Order is to bring the rail closure guidance into effect.

Summary of what the Order does

4. The England and Wales Order provides guidance on the procedure for discontinuing train services or closing parts of the railway network in England and Wales.

This can be summarised as follows:-

Proposals to discontinue any services in Wales only or in England only (The National Assembly for Wales would only scrutinise the former)

Proposals to discontinue any cross border service or services between England and Wales.

Proposals to discontinue any Wales only service or services

Proposals to discontinue the use or operation of any station or part of a station that is wholly in Wales

5. The Order provides consistent guidance for evaluating any future proposals to discontinue rail services or close parts of the railway network. The Welsh Assembly Government has no current plans to discontinue train services or to recommend closure of parts of the railway network.

The guidance is relevant to situations where the introduction of

fundamentally new railway infrastructure or train services requires the closure of the outgoing infrastructure or services.

The Welsh Assembly Government is committed to enhancing the railway assets within Wales, and the Order will provide consistent guidance to the Assembly Government in situations where closure is necessary in order to facilitate a modern replacement or enhancements to the asset base.

6. It should also be noted that the Railways Act 2005 Act provides for the abolition of the Strategic Rail Authority (SRA). The intention is that the Secretary of State for Transport will begin the statutory process for winding up the Authority, when the closures order is brought into force. The SRA has been a "shell" organisation since March and closures under the 1993 Act regime is the only formal function that it now has.

Consultation on the Guidance

7. A draft of the joint closures guidance between the Secretary of State and the National Assembly for Wales was subject to consultation in accordance with section 42(7) of the Railways Act 2005 between 26 January and 21 April 2006.
8. The consultation covers the guidance, which the Secretary of State is required to issue on circumstances in which rail closures should be allowed. It also covers situations / scenarios when more minor modifications should be allowed, and will replace existing guidance that becomes obsolete when the SRA is formally wound-up.
9. The guidance will ensure that safeguards and standard practices are applied to any proposals for changes on the rail network. For the first time, statutory guidance will be put in place on rail closures, making procedures clearer and more transparent.
The draft guidance requires that:
 - All alternatives are considered
 - A full consultation takes place and that this includes passenger groups
 - The current and future impact on passengers are considered as well as the safety, economic and environmental costs or benefits
 - In contrast with current procedures, where the Secretary of State determines closure proposals, the independent Office of Rail Regulation must be satisfied that a robust economic analysis has been performed.

Consultation

10. The Department for Transport conducted the consultation exercise between 26 January – 21 April 2006.

Timetable for progressing draft Order

11. Subject to the Assembly's approval process and the process of Westminster Parliament, the Order will come into force on 1st December 2006

Financial Implications

12. There are no financial implications associated with the making of the draft Order. The costs arising from the preparation of the Order have been met from existing Welsh Assembly Government running costs.

Action for Subject Committee

13. To consider and scrutinise the purpose and effect of the draft Order. A copy of the draft Order, Explanatory Memorandum and the guidance can be seen at Annexes A, B and C. Any comments made by the Committee will be incorporated into the draft Explanatory Memorandum which is due to be with the Assembly Business Unit on 20 September.

Andrew Davies
Minister for Enterprise, Innovation and Networks

STATUTORY INSTRUMENTS

2006 No. 000

TRANSPORT

RAILWAYS

**The Closures Guidance (Railway Services in England and
Wales) Order 2006**

<i>Made</i> - - - -	2006
<i>Laid before Parliament</i>	2006
<i>Coming into force</i> - -	2006

The Secretary of State for Transport makes the following Order in exercise of the powers conferred by section 43(3) (a) and section 56(5) of the Railways Act 2005⁽¹⁾.

In accordance with section 43(4) of that Act, the National Assembly for Wales has consented to the making of this Order in relation to the proposals referred to in regulation 2(1).

In accordance with section 42(7) of that Act

- (a) the Secretary of State; and
 - (b) the National Assembly for Wales (in relation to the proposals referred to in regulation 2(1));
- have consulted with such persons operating railway passenger services, networks and stations that are affected by the closures guidance and with such other persons as they think appropriate.

In accordance with section 43(1) of that Act, the Secretary of State has laid a copy of the closures guidance before each House of Parliament.

⁽¹⁾ 2005 c.14.

Citation, commencement and interpretation

1.—(1) This Order may be cited as Closures Guidance (Railway Services in England and Wales) Order 2006 and shall come into force on [] 2006.

(2) In this Order, “the Act” means the Railways Act 2005.

Closures guidance

2. The closures guidance dated [] and laid before Parliament on [] 2006 is to have effect in relation to—

- (1) the proposals referred to in section 42(3) of the Act; and
- (2) the proposals referred to in section 42(4) of the Act.

Signed by authority of the
Secretary of State for Transport

2006

Name
Parliamentary Under Secretary of State
Department

EXPLANATORY NOTE

(This note is not part of the Order)

This Order gives effect to the closures guidance which is required to be published by the Secretary of State and by the Secretary of State jointly with the National Assembly for Wales.

The closures guidance relates to the following proposals:

- (a) proposals to discontinue any service or services in England only or in Wales only;
- (b) proposals to discontinue any service or services part of which are in England and part of which are in Wales;
- (c) proposals to discontinue a network or part of a network that is wholly in England or wholly in Wales;
- (d) proposals to discontinue a network or part of a network part of which is in England and part of which is in Wales; and
- (e) proposals to discontinue the use or operation of any station or part of a station in England or Wales.

A copy of the closures guidance may be obtained from The Stationery Office Limited (mail, telephone, fax and e-mail orders only) PO Box 29, Norwich NR3 1GN (telephone orders 0870 600 5522, fax orders 0870 600 5533, e-mail book.orders@tso.co.uk, textphone 0870 240 3701, internet <http://www.tso.co.uk/bookshop>) and from The Stationery Office bookshops or can be downloaded free of charge from the Department for Transport website at: www.dft.gov.uk.

A regulatory impact assessment has not been produced for this instrument as it has no impact on the costs of business, charities, voluntary bodies or the private sector.

DRAFT

To: Business Committee

From: Andrew Davies AM
Minister for Enterprise, Innovation and Networks

EXPLANATORY MEMORANDUM

RAILWAYS, ENGLAND AND WALES

THE CLOSURES GUIDANCE (RAILWAY SERVICES IN ENGLAND AND WALES) ORDER 2006

Summary

The purpose of the draft Order is to bring into force closures guidance published jointly by the Secretary of State for Transport and the National Assembly for Wales in fulfilment of their duties under section 42(3) of the Railways Act 2005 (the 2005 Act). Under section 43(1) of the 2005 Act the Secretary of State must publish and lay the guidance before each House of Parliament. Under section 43(4) of the 2005 Act, an Order to bring the guidance into effect may be made only with the consent of the National Assembly for Wales.

1. This Memorandum is submitted to the Assembly's Business Committee in relation to The Closures Guidance (Railway Services in England and Wales) Order 2006, in accordance with Standing Order 26.
2. A copy of the Instrument is submitted with this Memorandum.

Enabling Power

3. The powers enabling this Instrument to be made are contained in section 43(3) of the 2005 Act. The closures regime is contained in Part 4 of the 2005 Act (sections 22 to 45). Part 4 of the 2005 Act will replace the current closures regime contained in sections 37 to 50 of the Railways Act 1993. The National Assembly for Wales' agreement is required before this Instrument can be made.

4. The powers in the 2005 Act have been conferred on the National Assembly for Wales. Responsibility for issues relating to the contents of this Order has been delegated to my portfolio as Minister for Enterprise, Innovation and Networks. Under the post-2007 arrangements, we foresee that this legislation would follow the **Negative** procedure.

Effect

5. The intended effect of this Instrument is to bring into force closures guidance published jointly by the Secretary of State for Transport and the National Assembly for Wales in fulfilment of their duties under section 42(3) of the 2005 Act.

6. Section 42 of the 2005 Act sets out the duty on the Secretary of State for Transport and the National Assembly for Wales to publish closures guidance. The closures guidance sets out the criteria against which proposals to discontinue passenger railway services, networks or facilities will be considered. A single set of closures guidance has been agreed for all proposed closures.

7. Section 43(3) of the 2005 Act requires that the Secretary of State for Transport must make an order to give effect to such guidance. Where the closures guidance relates to proposals to discontinue any Welsh service or services or where the proposals relate to discontinuing the operation of any network or station in Wales, the order must be made with the consent of the National Assembly for Wales under section 43(4) of the 2005 Act.

8. The Closures Guidance (Railway Services in England and Wales) Order 2006 will bring the guidance into effect and enable implementation of the closures regime provided for in Part 4 of the 2005 Act.

9. Once in place, the Closures Guidance (Railway Services in England and Wales) Order 2006 will enable the repeal of the existing 1993 Act closures regime and enable the Secretary of State for Transport to begin the statutory process for winding up the Strategic Rail Authority.

10. The closures guidance to which the Order would give effect relates to any future proposals as follows:

- (f) proposals to discontinue any cross border railway passenger service or services between England and Wales;
- (g) proposals to discontinue any Wales-only railway passenger service or services;
- (h) proposals to discontinue a network or part of a network that is wholly in Wales; and
- (i) proposals to discontinue the use or operation of any station or part of a station that is wholly in Wales.

11. **It is important to note that closures are not on the Welsh Assembly Government's agenda** but, none-the-less, effective guidance needs to be published so that if there were any future proposals for closures these would be tested against clear and consistent criteria. Publication of the guidance is a statutory requirement under section 42(4) of the 2005 Act.

Background

12. The Order gives effect to guidance on the criteria which must be taken into account before railway closures can be considered. Under the 2005 Act, a closure can be proposed by a Rail Funding Authority (RFA) or a train or network operating company. The RFAs specified in the 2005 Act are the Secretary of State, Scottish Ministers, the National Assembly for Wales, the English Passenger Transport Authorities and the Mayor of London. Where a train or network operating company proposes a closure, a view on whether it should be brought into effect must be taken by the RFA. Whether the

proposal is made by the operator or the RFAs, the Office of Rail Regulation (ORR) must determine whether it satisfies the criteria set out in the guidance.

Target Implementation

13. It is intended that this Instrument will proceed to Plenary on 10 October 2006 for the Assembly to confirm, approve or give its consent to the Order. The Department for Transport will then lay the Order before Parliament with a coming-into-force date of 1 December.

14. There are no legal or other implications for the Assembly should the intended target date for making not be achieved.

Financial Implications

15. There are no direct costs to the Assembly in respect of this Order. A Regulatory Appraisal has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies. The closures guidance impacts on public sector rail funding authorities, primarily the Secretary of State for Transport. There are, however, no immediate impacts. Closures are not on the Welsh Assembly Government's agenda.

16. The closures guidance establishes criteria for determining value for money when considering railways closure proposals.

Consultation

With Stakeholders

17. Between 26 January and 21 April 2006, a joint consultation exercise was undertaken by the Department of Transport. The Assembly Government was involved in developing the consultation draft. Sixty-seven responses were received from across the transport industry, national, regional and local public sector bodies, lobby groups, Community Rail Partnerships, trade unions and some individuals.

18. The key issues to arise from the consultation were concerns about transparency and the proposed role of the ORR in the closures process. The proposals envisaged the ORR ratifying proposals for closures submitted to them by Rail Funding Authorities, with their ratification limited to an assessment of whether the requirements of the closures guidance – primarily the consultation exercise and the economic appraisal of the closures – had been properly carried out. 80% of respondents wanted a more extensive role for the ORR. Of these some wanted the ORR to carry out their own assessment of the closure, while others were concerned that the ORR would focus only on the narrow quantifiable benefits which are taken into account in the benefit/cost ratio calculation.

With the Subject Committee

19. The draft Order was scrutinised by the Enterprise, Innovation and Networks Committee on 20 September and.....

Recommended Procedure

20. Subject to the views of the Business Committee, I recommend that the Order proceed to Plenary under Standing Order 26 on a motion that the Assembly confirm, approve or give its consent.

Compliance

21. The proposed legislation will (as far as is applicable):

- have due regard to the principle of equality of opportunity for all people (Government of Wales Act 1998 section 120);
- be compatible with the Assembly's scheme for sustainable development (section 121);
- be compatible with Community law (section 106);
- be compatible with the Assembly's human rights legislation (section 107);
- be compatible with any international obligations binding the UK Government and the Assembly (section 108).

22. The information in this Memorandum has been cleared with the Legal Services Department.

23. Approving lawyer: Lynsey Edwards Ext: 5450

24. Head of Division: Tony Parker Ext: 6252

25. Drafting Policy Official: Russell Dewey Ext: 6455

**ANDREW DAVIES
MINISTER FOR ENTERPRISE, INNOVATION AND NETWORKS**

SEPTEMBER 2006



An agency of  SCOTTISH EXECUTIVE

Department for
Transport



Cynulliad National
Cenedlaethol Assembly for
Cymru Wales

Railways Closures Guidance

[date]

Railways Closures Guidance

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Railways Closures Guidance

1. Introduction

1.1 The Railways Act 2005 (the 2005 Act) sets out statutory procedures concerning proposals to close parts of the passenger railway. The 2005 Act places a duty on Scottish Ministers and the Secretary of State to publish closures guidance. This document, including the attachments and associated references, constitutes that guidance.

1.2 The railway network is not static. Just as new lines and facilities are added to the network to meet increased demand, so, from time to time, closures and network modifications need to be considered in the light of changing operational needs and passenger travel patterns.

1.3 Under the 2005 Act, closures can be proposed by a rail funding authority (RFA) or a train or network operating company. The RFAs specified in the 2005 Act are the Secretary of State for Transport, Scottish Ministers, the National Assembly for Wales, the English Passenger Transport Authorities and the Mayor of London. Where a train or network operating company proposes a closure, a view on whether it should be brought into effect must be taken by the relevant National Authority (Scottish Ministers or the Secretary of State). Proposals by operators and RFAs require ratification by the Office of Rail Regulation (ORR).

1.4 RFAs and operators will take into account a wide range of matters in their considerations. Some of these will be capable of being expressed in quantifiable value for money (vfm) assessments. Others will not. This guidance is not a comprehensive statement of all the factors that funding authorities and operators may take into account in considering closures. But it does set out an objective test which *must* be satisfied if closure is to be permitted.

1.5 This test uses the same benefit:cost ratio (BCR) methodology as is used in assessing investment proposals and is discussed in detail in the following sections. In brief, the test ensures that a closure cannot be pursued in Scotland, England or Wales if the BCR of retaining the service, station or network is 1.5 or over. The converse is not the case and it will be for RFAs and operators additionally to take fully into account the non-monetised benefits of not proposing closure.

2. Assessment

2.1 As noted, the decision to consider a rail service for closure rests with the relevant RFA or operator. Prior to considering closure, the RFA or operator will want to satisfy itself that all options for re-invigorating services have been considered. However, once a RFA or operator has decided to consider a rail service for closure, then it must carry out an appraisal of the closure. This appraisal must follow this guidance. Where the closure proposal comes from a train or network operating company in relation to a station or network, the operator must carry out an appraisal in accordance with this guidance before submitting it to the National Authority. The National Authority will then evaluate the appraisal as part of its consideration of the proposal.

2.2 ORR will review these appraisals to issue a ratification or non-ratification notice. This guidance details the tests that will apply in determining whether to grant a ratification notice. The annexes to this guidance provide further information on the application of this approach to appraisal of closures. This guidance and annexes include values, methodological information and source references to other related material. These are subject to updating from time to time in line with best practice and will be made publicly available.

Tests

2.3 The relevant RFA or operator must be of the view that the closure proposal satisfies the following criteria:

the appraisal is consistent with the closures guidance and any subsequent changes made to it; and

retention of the rail service, station or network proposed for closure does not represent good value for money compared with the option of closure.

2.4 Cost savings arising from the closure must be robust. RFAs and operators should follow the advice of Network Rail, and RFAs should also follow the advice of the train operating companies involved (including freight operators), as regards costs, or explain why they have not done so. Direct or indirect impacts of the closure on current or potential rail passengers and fare box revenue must also be robust. Again, RFAs should follow the advice of the train operating companies involved (including freight operators) or explain why they have not done so.

2.5 If the ORR concludes that the proposal fails to satisfy the above criteria, or that there has been a failure or other defect in carrying out the consultation that makes it inappropriate to make a determination, then the ORR will issue a closure non-ratification notice. In other cases it will issue a closure ratification notice.

Consistency with the New Approach to Appraisal

2.6 An approach to transport appraisal based on the New Approach to Appraisal (NATA, see below) is the basis of the assessment of closure proposals required by the 2005 Act, and so covers the five criteria specified in NATA. However, there are certain special considerations arising from closure proposals, which are discussed below. In particular, a number of methodological shortcuts and simplifications are made for quantification and monetisation of costs and benefits to ensure that application of the NATA methodology to appraisal of closures will be fit for purpose and not unduly onerous.

2.7 The Green Book, *Appraisal and Evaluation in Central Government*, provides guidance on appraisal and evaluation in Government. All central departments and executive

agencies use this guide². The New Approach to Appraisal (NATA), introduced in the Government's White Paper *A New Deal for Transport: Better for Everyone*³, sets out how transport investment proposals should be appraised and prioritised. Guidance on NATA is published by the Department for Transport (DfT)⁴ for considering proposals in England and Wales and by Transport Scotland⁵ for considering proposals in Scotland. The Welsh transport planning and appraisal guidance is currently subject to consultation⁶. Additional guidance on rail specific issues is provided in the *SRA Appraisal Criteria*⁷.

2.8 Throughout the NATA process the Government's five objectives for transport as outlined in the White Paper are central:

Environmental impact involves assessing the direct and indirect impacts of transport facilities on the environment of both users and non-users. There are ten sub-objectives including noise, atmospheric pollution of differing kinds, impacts on countryside, wildlife, ancient monuments and historic buildings. See *The Environment Objective* (TAG Unit 3.3 or STAG Chapter 6).

² The latest version was released on 17 January 2003.

³ Department for the Environment, Transport and the Regions, 1998

⁴ The New Approach to Appraisal is outlined at www.webtag.org.uk in *The Overall Approach: The Steps in the Process* (TAG Unit 2.1) and *The Appraisal Process* (TAG Unit 2.5). This is commonly referred to as Webtag guidance. Further detail is provided in *Appraisal* (TAG unit 3.2).

⁵ An outline of the appraisal process can be found in *Scottish Transport Appraisal Guidance* (STAG) at www.scot-tag.org.uk, both in the Executive Summary and Chapter 1 of the main document, with further detail also in Chapter 5.1.

⁶ The adoption of WelTag as the main guidance in Wales will be commended by the Welsh Assembly Government for all future transport proposals considered by local authorities, planners and developers.

⁷ Strategic Rail Authority, April 2003, available from www.webtag.org.uk.

Safety is concerned with reducing the loss of life, injuries and damage to property resulting from transport incidents and crime. The two sub-objectives are to reduce accidents and improve security. See *The Safety Objective* (TAG Unit 3.4 or STAG Chapter 7).

Economy is concerned with improving the economic efficiency of transport. The five sub-objectives are to improve economic efficiency for consumers and for business users and providers of transport, to improve reliability and the wider economic impacts, and to get good value for money in relation to impacts on public accounts. See *The Economy Objective* (TAG Unit 3.5 or STAG Chapter 8).

Accessibility is concerned with the ability with which people can reach different locations and facilities by different modes. See *The Accessibility Objective* (TAG Unit 3.6 or STAG Chapter 10).

Integration aims to ensure that all decisions are taken in the context of the Government's integrated transport policy. See *The Integration Objective* (TAG Unit 3.7 or STAG Chapter 9).

Environment

2.9 The closure of a rail operation will result in certain environmental impacts which, where significant, should be included in the overall assessment of the case for closure. This includes environmental impacts of rail users switching to road after the closure. In addition, there may also be some savings in rail externalities arising from the closure - for example, pollution from trains, in terms of contribution to climate change. A simplified approach suitable for assessing the environmental impacts of most closures is discussed in Annex A.

Safety

2.10 Modal shift from rail to road may result in safety costs as more vehicle movements increase accident risk for other road users. Estimates of these costs are discussed in Annex A.

Economy

2.11 The economy objective will be relevant to all closure proposals. The following effects should be considered and, when significant, should be quantified using the methodology outlined in the Webtag, STAG (where appropriate) and the SRA Appraisal Criteria:

- impacts on the generalised journey costs of rail passengers directly affected by the closure proposal;

- effects on other rail passengers, including changes in journey time for other rail users, changes in journey quality for other users (for example, increase in crowding resulting from redistribution of rail journeys affected), improvement in performance and reliability, and reduction in contributory revenue;

- effects on other transport users, including costs to the existing road users if the roads attracting the additional traffic are congested;

- effects on rail operators' revenues;

- effects on rail operators' costs; and

- regeneration effects, including possible reduction in local employment, and/or release of sites for redevelopment which could provide new economic opportunities.

2.12 A simplified approach suitable for assessing the above impacts for most closures is discussed in Annex A.

Accessibility

2.13 Accessibility is concerned with severance, access to the transport system and option values. Severance is unlikely to be relevant to closure proposals and need not be included in the assessment unless it is. Access to the transport system should be measured through an assessment of the number of non car owning households living within 800 metres (two kilometres in rural areas) of the station proposed for closure and without alternative public transport provision. Option values are associated with non-users ascribing a benefit to the option of using the railway service and with existing users gaining a benefit from trains. The current level of empirical knowledge about the option values is very limited and the available estimates of option values are not considered to be robust. In view of this, a qualitative assessment is recommended to assess the significance of option values for the closure.

Integration

2.14 In the NATA framework, the integration objective consists of three sub-objectives:

interchange;

land use policies and proposals; and

wider Government policy (for example, environmental sustainability, health, rural policy).

2.15 Appraisal of closure proposals should include an assessment of the extent to which the closure proposal assists or hinders the above objectives, using the methodology outlined in Webtag or STAG. Further guidance on applying this approach to closures is provided in Annex A.

Cost savings

2.16 Cost savings from closures should be assessed on an avoidable cost basis, that is those costs no longer incurred from operating the passenger train service, station or part of the passenger network. Cost savings should also include the value of alternative uses of capital assets.

2.17 It is important that cost savings are robust. Infrastructure cost savings should be as advised by Network Rail. If not, the RFA or operator should justify why it has not used Network Rail figures. Similarly, operating cost savings quoted by a RFA should be agreed with the relevant train operating companies, including freight operators where appropriate. If not, the RFA should justify why it has not used agreed figures.

Residual Liabilities

2.18 Appraisal should also take into account residual liabilities generated by the proposed closure, for example costs of mothballing or demolition, including the costs of maintaining abandoned structures.

Demand impacts

2.19 Closure of a railway operation will result in a loss of fare revenue for directly affected services, as well as others - for example, rail travellers may decide against using rail for any part of their journey. All changes of fare revenue should be included as part of the costs of closure. Guidance on how these should be assessed is provided in Annex A. There are also costs associated with providing any new bus services, which should be included in the assessment.

Value for money

2.20 Value for money is a central criterion in determining whether a proposal should go ahead. Closure of a rail service, station or network is permissible only if that represents good for value for money compared with retention.

2.21 The criteria for assessing value for money may vary by jurisdiction but similar principles will apply. In England and Wales, unless the non-monetised net benefits are sufficiently large to shift the outcome of appraisal, retention of a rail service will have:

poor value for money if its BCR is less than 1;

low value for money if its BCR is between 1 and 1.5;

medium value for money if its BCR is between 1.5 and 2; and

high value for money if its BCR is over 2.

2.22 In Scotland, vfm will be assessed according to STAG principles. The BCR should be calculated in line with STAG guidance and presented alongside all information on the Government's five objectives, including non-monetised benefits. Determination of whether a closure should proceed will be considered on this basis.

2.23 The effect of this guidance is that a closure cannot be pursued in Scotland, England or Wales if the BCR of retaining the service, station or network is 1.5 or over. If it falls below that, the additional benefits or disbenefits that are not quantifiable in monetary terms must also be assessed and taken into consideration.

2.24 Information available from the NATA appraisal, or STAG where appropriate, should be used to form a judgement about the significance of the non-monetised benefits and costs. Further guidance on application of this approach is provided in Annex A.

Examples

2.25 Examples of applying the assessment procedure above can be found on the DfT website, www.dft.gov.uk or at www.scot-tag.org.uk. Hard copies are available on request from Rail Group, Department for Transport, Great Minster House, London SW1P 4DR. These examples are for illustrative purposes only.

3. Consultation on closure proposals

Requirements in the Railways Act 2005

3.1 Schedule 7 to the 2005 Act sets out the requirements for how a consultation about a closure proposal must be initiated. It also states that the consultation should be carried out in line with the closures guidance. This chapter sets out the requirements for consultation in the 2005 Act and other details of how the consultation should be conducted.

3.2 When initiating a consultation, the 2005 Act requires:

that a notice be published with details of the proposal in two successive weeks in a local newspaper circulating in the area affected by the closure and two national newspapers;

that the notice sets out the date when it is proposed that the services in question be withdrawn or the network or station closed, other details of the proposal and an address where the initial assessment following the closures guidance and a summary of the results of the assessment can be obtained, as well as the fees payable, if any, for a copy of the assessment and summary;

that views on the proposal should be sent to the organisation carrying out the consultation by a date at least 12 weeks after the date of the second notice published in local and national newspapers;

that copies of the notice must also be published at stations affected by the proposal;

that the following organisations must be sent a copy of the notice and a summary of the results of the initial assessment:

the relevant operator, for operator initiated proposals

the relevant National Authority, where the National Authority is not carrying out the consultation;

the National Assembly for Wales, if the proposal affects Wales;

the Mayor of London, if the proposal affects Greater London;

every Passenger Transport Executive whose area is affected;

every local authority in whose area people might be affected;

the Rail Passengers' Council (also known as Passenger Focus);

the London Transport Users' Committee (also known as London TravelWatch), if the proposals affect its area;

all RFAs party to financial arrangements that may be affected by the proposal;

all bodies providing railway services that are affected;

all bodies providing station services affected by the proposal; and

any organisation designated by the Secretary of State as representing the interests of passengers.

3.3 The body carrying out the proposal may also consult any other organisation they think fit, although these are not specified in the 2005 Act. The other organisations that should be considered for consultation include the following:

disabled representative groups;

regional bodies, such as Regional Development Agencies;

local rail user groups;

trade unions;

rail freight customers;

representative bodies for the rail freight industry; and

statutory rural and environmental bodies.

3.4 The scale and nature of the proposal should be taken into account when deciding which other organisations to consult. While local rail user groups will be appropriate in almost all cases, it may be that the other groups mentioned above are not appropriate in every case, if for example effects are very local or only involve a very small number of passengers. There may be other organisations that it would also be appropriate to consult in these particular circumstances.

Consultation document

3.5 A document suitable for a wide-ranging public consultation should be prepared for the consultation required by the 2005 Act. This should set out:

a clear summary of the results of the assessment of the proposal in accordance with the closures guidance, including a clear explanation of how decisions have been reached;

a summary of the options considered as part of the initial review and the reasons why these were not followed;

a description of the likely effects on passengers currently using the services, networks or stations to be closed; and

a description of the existing public transport provision in the area.

3.6 The consultation document should also:

provide such detail as may reasonably be required so that those responding can do so in a meaningful way;

be made available in appropriate formats to give those being consulted the opportunity to respond, particularly for any disabled representative groups; and

be written in plain language and accessible to a wide audience including members of the public.

Other issues

3.7 Public hearings or meetings are not a statutory requirement of the consultation. The organisation conducting the consultation will want to consider the most appropriate method for obtaining representative views from communities affected by the proposal.

3.8 The RFA or National Authority carrying out the consultation should consider all responses received, and then amend the closure proposal and its assessment to take account of them as it thinks appropriate.

3.9 The RFA or National Authority should prepare a summary of the responses received to the consultation document. The summary should be made publicly available. It should confirm that all responses have been considered; set out whether the proposals as submitted to ORR were amended as a result and the reasons for doing so; or, if the proposals were not amended, the reasons for not doing so.

4. References to ORR

4.1 This guidance provides background information about references of closure proposals to ORR. ORR's role is to provide an independent review of whether closure proposals satisfy the requirements of the guidance. However, ORR does not have any responsibility for dealing with the consequences of the failure to close a railway service, such as congestion problems elsewhere in a RFA's area that would go unsolved because funding would not be available for re-allocation. It would not be appropriate therefore for ORR to become involved in second-guessing the RFA or operator or substituting its judgement for theirs. ORR will separately be publishing its own procedures for dealing with closure proposal references.

4.2 The 2005 Act sets out the information that should accompany a reference made to ORR. This includes:

details of the services, networks and stations in question and the date that the closure is expected to take effect;

a report summarising the outcome of the consultation;

a statement of whether any changes have been made to the proposal as a result of the consultation and what those changes are; and

the full assessment of whether the proposal satisfies the criteria in the closures guidance.

4.3 The body making the reference must also provide ORR with the information it needs to carry out its functions under the Act.

4.4 ORR will then consider whether the consultation was properly carried out in accordance with the 2005 Act, including the closures guidance. The report of the consultation that must accompany any reference and be made publicly available should list all those consulted and provide a summary of their responses. ORR will review this report and have regard to any further representations it receives that are relevant to how the consultation and the assessment have been carried out. Unless ORR is satisfied that there has been a failure or other defect in carrying out the consultation that makes it inappropriate for it to do so, it then has to assess whether the proposal satisfies the criteria in the closures guidance.

4.5 ORR will review the assessment that has been carried out by the body making the reference. ORR will check that the assessment contains all the elements, and has followed the assessment methodology, required by the closures guidance in respect of the costs and benefits of the proposal and the treatment of the five Government objectives of environment, safety, economy, accessibility and integration. If ORR concludes that the proposal fails to satisfy the criteria then it must issue a closure non-ratification notice. In other cases, it issues a closure ratification notice. Only if a closure ratification notice has been issued can the closure proposal be implemented.

Closure requirements

4.6 When issuing a closure ratification notice, ORR has powers under the 2005 Act to attach closure requirements to it. Closure requirements can be imposed on RFAs or operators. The closure requirements have to be relevant to the proposal, that is relating to a matter which fell to be taken into account when the assessment of the proposal was being made. The reference to ORR should include any RFA or operator proposals for associated closure requirements, for example the provision of substitute road transport services for a specified period or the protection of railway land from disposal. It is however for ORR alone to determine whether closure requirements should be endorsed or otherwise and what the contents of the requirements should be.

Annexes

Annex A: Appraisal

1. This annex provides further guidance on the approach that should be followed by operators or RFAs when carrying out the assessment of closure proposals required by the 2005 Act, and forms part of the closures guidance. Where appropriate, references are given to where more detailed guidance on assessment or appraisal can be found, either in the other annexes to this document or elsewhere.
2. This annex is structured as follows:
 - an initial review of options and the closure proposal;
 - assessment against Government objectives:
 - the approach to assessing environmental effects;
 - the approach to assessing safety;
 - the approach to assessing effects on the economy, including passengers and operators;
 - the approach to assessing accessibility;
 - the approach to assessing integration;
 - other aspects of the approach to assessment;
 - the overall assessment of value for money; and
 - sources of further guidance.
3. A NATA based approach to transport appraisal is the basis of the assessment of closure proposals required by the 2005 Act.
4. Where possible, costs and benefits should be valued in monetary terms and included in the calculations of the net present value of net benefits. However, there will often be impacts that cannot be quantified or valued in money terms, for example some environmental impacts. These should be presented in the Appraisal Summary Table available in Webtag guidance (see TAG Unit 2.7.1 or STAG Tables 5.1 and 5.2 for more details).
5. Further analysis should be summarised in other assessment templates also available in Webtag (see TAG Unit 3.5.1 and 3.5.2 plus, in Scotland, STAG Tables 8.1 and 8.3). Where an entry is not relevant to rail closure proposals, it should be left blank. Finally, where appropriate, technical appendices should also be provided for demand and revenue forecasts, cost projections and technical and operational feasibility.

Initial review of options and the closure proposal

Initial review of options

6. At present, closure proposals are identified in a number of ways, for example through Route Utilisation Strategies or as part of major rail investment projects. It is envisaged that this will continue to be the case under the new procedures in the 2005 Act. It will be for RFAs or operators to identify and take forward closure proposals.
7. Before the statutory closure procedures can be initiated, the operator or RFA must have carried out a wide-ranging initial review of options to address issues identified with

current provision of passenger rail services, networks or stations.

8. The initial review must identify and consider all other reasonable rail-based options as an alternative to closure. All options, including the closure proposal, should take account of Regional Planning Assessments and should be consistent with Route Utilisation Strategies. The options are likely to include steps to increase passenger numbers and revenues or reduce costs, where these are the significant issues. Where appropriate, consideration should be given to encouraging the establishment of a Community Rail Partnership and seeking designation of the line or service under the Community Rail Development Strategy. All options should be assessed on a comparable basis, using the approach set out below.

9. Only if the result of this review is to demonstrate that the current arrangements for providing the service, networks or stations is not the most effective way of doing so should the formal statutory closure procedures be commenced. The options considered and the reasons why they were not taken forward must be included in the consultation material.

The closure proposal or package

10. Once an option involving a closure has been identified as the appropriate way forward, the closure proposal itself must be assessed using the approach below, and the rest of the statutory closure procedures followed. This assessment is only concerned with the closure proposal identified from the initial review, not the other options.

11. In order to establish the options available to rail passengers in the event of closure, the assessment should include details of existing public transport provision and how these might be modified if the rail service were to be withdrawn. 'Public transport' in this context can include buses, coaches, light rail, tram, taxis or ferries. Where long distance travel might be affected by a closure proposal, domestic air services may also be a relevant alternative.

12. Where appropriate, the assessment should also consider the extent to which changes to the existing level and pattern of public transport services could mitigate the effects of the proposed closure on rail passengers. This could include variations to existing services or provision of new services. This work will need to take account of the different ways in which public transport is provided in different parts of the country and the likely long-term availability of these services. This will be relevant to considering how changes to existing services or provision of new ones might be delivered.

13. In Passenger Transport Authority areas in England, the 2005 Act gives new powers for quality contracts to be used for the provision of bus services in the event of the withdrawal or closure of rail services. The introduction of a quality contract for these purposes is subject to the agreement of the Secretary of State for Transport. Further details of these arrangements are in Annex C.

14. The 2005 Act also provides powers for the Secretary of State or Scottish Ministers to secure substitute road services in the event of temporary or permanent discontinuance of rail services.

15. If changes to public transport provision are an integral part of the closure proposal, for example to mitigate the effects on passengers, or as part of wider changes to public transport provision in a Passenger Transport Authority area, they should be included in the assessment as part of a closure package. It may be appropriate to include the provision of alternative public transport as possible closure requirements when making a reference to ORR, although the decision on what if any closure requirements to endorse or impose rests with ORR.

16. Some closure proposals will be closely linked to other rail investment projects, for example the provision of a new station nearby, or part of a larger rail investment programme. In these cases, the closure proposal should be assessed as part of the wider rail investment project, as well as on its own terms. It may be appropriate, in making a reference to ORR, to propose closure requirements, for example that the station would only be closed once

alternative facilities had been provided.

17. In formulating closure packages, it may also be appropriate in some circumstances to consider options for mothballing parts of the network or stations considered for closure. For example, should there be a reasonable prospect that passenger demand for services that are to be withdrawn might increase in future years to an extent that would reverse the results of the closure assessment, it may be worth including retention of the station or other infrastructure as part of the closure package. Also, in some circumstances a closure package could include retaining the track bed and associated structures for a given number of years in case there should be significant future changes in demand. Any costs to operators or other parties of mothballing should be included in the assessment.

Defining the comparator

18. Any appraisal requires a comparator against which the proposal can be compared. The case for going ahead with any proposal rests on the costs and benefits that emerge over and above this base case.

19. Assessment of closures involves a comparison of retaining the existing rail services, networks or stations with the option of withdrawing all services or closing the network or station. For comparability with investment in other rail schemes and in other modes, the closure package, including where appropriate alternative transport services to be provided or other rail investment, should be taken as the comparator, to be compared with existing provision of services, networks and stations, called 'retention'.

20. This approach in no way suggests that the closure proposal is expected to be implemented. It is purely for technical purposes to do with the vfm assessment, in particular interpreting the results of the benefit:cost ratio.

Assessment against Government objectives

Environment

21. The closure of a rail operation will result in certain environmental impacts which, where significant, should be included in the overall assessment of the case for closure. In theory these impacts can be assessed using a transport model which shows the predicted increase in highway traffic, changes in traffic speeds and the consequential changes in emissions and noise. The approach suitable for most closures is to use estimates of environmental costs and apply these values to the proportion of current rail users assumed to switch to road after the closure (see paragraph 30). Recommended values are set out on Webtag, in TAG Unit 3.13: Guidance on Rail Appraisal.

22. The values are derived from DfT's National Transport Model⁸ and include congestion costs for an additional vehicle under different conditions on the road network as well as the associated effects on accidents, local air quality, noise and climate change. Further details of the derivation of these values are given in Annex B of the *Feasibility Study of Road Pricing in the UK*⁹. For an appropriate alternative source of information that may be more relevant to Scotland, see www.scot-tag.org.uk.

23. In addition, there may also be some savings in rail externalities arising from the closure - for example, pollution from trains, in terms of contribution to climate change. In principle, using estimates of fuel consumption provided by the train operating company, these could be quantified and monetised.

24. Other environmental impacts are most likely to be a consequence of new

⁸ www.dft.gov.uk/stellent/groups/dft_econappr/documents/divisionhomepage/030708.hcsp

⁹ www.dft.gov.uk/stellent/groups/dft_roads/documents/divisionhomepage/029798.hcsp

infrastructure. It may not be likely that a closure will directly result in the construction of new roads and hence environmental impacts such as land and water pollution, landscape and townscape, biodiversity and heritage are unlikely to be relevant. However, where they are relevant, an assessment should be undertaken.

Safety

25. Modal shift from rail to road may result in safety costs as more vehicle movements increase accident risks for road users. Estimates of these costs are set out on Webtag, in TAG Unit 3.13: Guidance on Rail Appraisal.

26. In addition to the above, appraisal of closures should also consider the impact of the proposed closure on the safety of the network - for example, the safety of level crossings being removed.

Economy

27. The economy objective will be relevant to all closures. The following effects are considered under this heading:

- impacts on rail passengers directly affected by the closure proposal;
- effects on other rail passengers;
- effects on other transport users;
- effects on rail operators' revenues;
- effects on rail operators' costs; and
- regeneration impacts.

Impacts on rail passengers directly affected by the closure proposal

28. Rail travellers, in addition to paying a fare, spend time travelling by train, accessing stations and waiting at stations. There are well established ways of putting money values on time spent in travelling and these are set out on WebTop in TAG Unit 3.5. The value of the time spent on the trip, plus the fare paid, is defined as the generalised cost of the trip and provides the basis for analysing changes in demand to travel. More relevant for closure proposals is the consideration that the difference between the generalised cost of making a trip by rail and of making the trip by the best currently available alternative for that traveller provides a measure of the loss of benefit or costs to rail users of withdrawing that rail service.

29. Closure can be expected to result in an increase in generalised costs for former rail users, for if there was an option which some travellers could have used at a lower cost they would not have chosen rail. Therefore those users who continue to make the same trips experience disbenefit equal to the difference in generalised cost between the preferred mode (rail) and the alternative. Some passengers will no longer make the same journey. For them the decision to travel was more finely balanced and they would rather not make that particular trip than bear the new, higher cost. Their loss of benefit is less than the full difference between the generalised costs of rail and the alternative. A well established method, used widely in transport appraisal, puts the loss of benefit at half of the change in generalised cost (see WebTop, TAG Unit 3.5.3). This method should be used in assessing the loss of benefits to those who no longer make the trip.

30. For assessing passengers' possible responses to a closure proposal, a survey of passengers should be carried out to identify ways in which existing passengers would change

their travel patterns in the event of a closure. The travel alternatives specified in the survey should be taxi, existing bus or other public transport, any rail replacement bus included as part of the closure package, other train services, car or not to travel. Alternatively, if conducting such a survey is impracticable or inappropriate, standard diversion factors could be used (see Transport Research Laboratory Report TRL593, 2004, *The Demand for Public Transport: A Practical Guide*).

31. As mentioned above, closure will be defined as the comparator, with the new pattern of demand taken from the survey or based on diversion factors. Where the trip is provided by a combination of taxi/bus and rail (for example, taxi to the closest remaining station served by a train going to the same destination) then the cost of the two modes should be combined to provide the estimate of generalised cost of the best available alternative. Allowance will have to be made for any additional interchange using the values given on WebTop in TAG Unit 3.5 (referred to above).

32. It may be argued that generalised costs do not capture some aspects of journey quality and therefore the difference in the generalised costs of alternative modes may underestimate people's preference for rail. For the purposes of appraising rail closures a methodology is recommended in Annex B to reflect some of the advantages that rail is sometimes perceived to offer over other modes that are not captured by the measure of generalised cost.

33. The assessment is to be carried out looking ahead a number of years so projections of future demand for rail are required. These projections depend on factors such as local growth rates in income, car ownership, the availability of other public transport options and population; and also on policy led planning assumptions. In order to assess the impacts of these factors on patronage, the RFA should consult the relevant train operating company. Where the future profiles of these factors are not expected to deviate significantly from their past trends, demand could be forecast using trends for the relevant route over the past five years. Long term forecasts beyond ten years, if required, should be based on DfT forecasts of rail travel using the National Transport Model, as set out in *The Future of Transport: Modelling and Analysis*¹⁰, or on appropriate alternative sources of information which may be more relevant, for example, to Scotland (see STAG Appendices A and B at www.scot-tag.org.uk).

Effects on other rail passengers

34. The closure proposal may have various impacts on the rest of the rail network, which should be incorporated into the assessment. These may include:

changes in journey time for other rail users;

changes in journey quality for other users - for example, increase in crowding resulting from redistribution of rail journeys affected;

improvement in performance and reliability - for example, reduction in delays at level crossings; and

reduction in contributory revenue.

35. Reduction in journey time - for example, from closure of a station on a route allowing other trains to travel more quickly - could have implications in terms of patronage, revenue and costs. Where significant, such impacts should be assessed and quantified using demand forecasting methodology. For more information see the Strategic Rail Authority *Demand Forecasting Manual*¹¹.

36. Alternatively, when a rail service, network or station is closed some former rail

¹⁰ www.dft.gov.uk/stellent/groups/dft_about/documents/downloadable/dft_about_036814.pdf

¹¹ Available from www.dft.gov.uk.

travellers might travel to the same destination from a different station or using a different rail service, while some will travel to a different destination. This redistribution could result in an increase in crowding on rail services affected, depending in part on the number of passengers involved.

37. In some cases a rail closure proposal, by reducing the level of demand on the network and generating some slack, could improve the performance and reliability of other services. If such benefits are significant they should be captured in the assessment.

38. Crowding and performance impacts of rail closures on the rest of the network, when significant, should be assessed and monetised using the standard methodology and values detailed in *Guidance on Rail Appraisal* (addendum to the SRA Appraisal Criteria). Such impacts may also have knock-on impacts on the level of patronage and revenue. The RFA should consult the relevant train operating company to quantify these impacts.

39. In cases where a closure proposal is in a dense, urban part of the network or is part of a wider rail investment scheme, more complex modelling may be required. In such cases sponsors are advised to consult with the appropriate National Authority to agree a modelling approach.

Effects on road transport users

40. Where some rail travellers are expected to divert into cars as a result of a closure proposal there will be costs to the existing road users if the roads attracting the additional traffic are congested. Information on the proportion of rail users likely to transfer to road should be derived from the survey results. Calculating this impact involves taking the estimates for rail users diverting to car, assigning the resulting increase in car trips to the road network and then applying the relevant values. These values are set out in on WebTop, in TAG Unit 3.13: Guidance on Rail Appraisal.

Effects on rail operators' revenues

41. Closure of a railway operation will result in a loss of fare revenue for directly affected services, as well as others - for example, rail travellers may decide against using rail for any part of their journey. All changes of fare revenue should be agreed with the train operating companies affected and included as part of the costs of closure.

Effects on rail operators' costs

42. Cost savings from closures should be assessed on an avoidable cost basis. Avoidable costs are those costs no longer incurred from operating the passenger train service, station or part of the passenger network.

43. Cost savings should include common costs, that is the cost of facilities that are shared with other rail users that can be reduced to some extent if a service, station or part of the passenger network is withdrawn. Examples of common costs are terminal costs at stations shared with other services where it may be possible to reduce staffing levels following the closure of a service. Many costs of shared services are common costs rather than joint costs, which cannot be reduced following a closure.

44. Cost savings should also include the value of alternative uses of capital assets. For example, land occupied by a rail route or station may have a value. This would be calculated as the rental or sale value for alternative use less any necessary conversion costs. Rolling stock may have alternative uses although lease obligations may still apply.

45. Cost savings from closures are likely in two areas:

infrastructure costs - savings in the cost of operating, maintaining and renewing the passenger network; and

operating costs - savings in the cost of operating passenger services.

46. Infrastructure cost savings should be robust. (RFAs and operators should follow the advice of Network Rail, and RFAs should also follow the advice of the train operating companies involved, including freight operators, as regards costs, or explain why they have not done so.) Cost savings should be broken down by component and area (operation, maintenance, renewal, enhancement, revenue from rental or sale of capital assets). Scheme development, management, contingency and risk allowances should be separately identified. Sunk costs - costs that have already been incurred, such as the costs already incurred in the development of the closure proposal - should not be included in cost estimates. Infrastructure cost savings should be benchmarked against similar schemes. Similarly, operating cost savings quoted by RFAs should follow the advice of the relevant train operating companies, with any deviation fully explained and justified. The basis of the cost estimates should be clearly set out in the assessment.

Regeneration impacts

47. There are cases of new transport infrastructure creating jobs in areas of policy priority. Guidance on how to identify and quantify these effects is given on WebTop in TAG Unit 3.5.8 or STAG Sections 8.7-8.13. There may be cases where rail closures can be shown as likely to result in a reduction in local employment, following the same method of analysis as is used to demonstrate the positive impact of new infrastructure on regeneration.

48. Assessments of rail closure proposals should consider regeneration costs and benefits where significant. Where regeneration costs/benefits are considered likely to be large enough to change the outcome of the appraisal, they should be quantified using the methodology outlined in the WebTop, particularly when closure is in an area of policy priority.

49. In Scotland, regeneration impacts should be captured in a more comprehensive Economic Activity and Location Impact (EALI) Analysis. EALI analysis is intended to identify how and under what circumstances transport projects might have impacts on the economic performance of different areas, and capture those economic impacts which the standard Transport Economic Efficiency approach may, in certain circumstances, fail to capture (see STAG Section 8.7).

Accessibility

50. Accessibility is concerned with severance, access to the transport system and option values.

51. In general, severance of community by new infrastructure is unlikely to be relevant to closure proposals and need not be included in the assessment unless it is significant and relevant. Some closure proposals may reduce severance.

52. Access to the transport system should be measured through an assessment of the number of non car owning households living within 800 metres (two kilometres in rural areas) of the station proposed for closure and without alternative public transport provision. The key objective is to identify the change in the level of accessibility provided by rail when compared to the existing, and where appropriate replacement, bus services.

53. Option values are associated with non-users ascribing a benefit to the option of using the railway service and with existing users gaining a benefit from trains, such as early or late ones, which they have never used, and unexpected use of the transport facility that would otherwise not appear in the appraisal as a benefit. For example, an individual who does not

use a rail service may value having the option to use the service if they choose. In addition, those who do not intend to use the service on a regular basis may also have an option value, over and above the value of their intended use of the service, since they too may value the options offered for rail travel over those already taken account of in their individual plans and expectations. Therefore, appraisal of closure proposals should include an assessment of option value, particularly if the withdrawal is irreversible.

54. The current level of empirical knowledge about the option values is very limited and the available estimates of option values are not considered to be robust. In particular, very little is known about how option values vary by location, by service type and by individual tastes. In view of this, a qualitative assessment should be carried out to establish, with reasonable justification, whether option values for the closure are likely to be high, medium, low or not relevant (WebTop, TAG Unit 3.6.1).

Integration

55. A key element of Government transport policy concerns the integration of transport policy, both with other central government policies and with the local government planning framework. The assessment should consider the extent to which proposals for rail closure are consistent with Government policy in other areas such as health, education and regeneration, environmental and rural policy. The business case should identify these relationships where they are material.

56. In the NATA framework, the integration objective consists of three sub-objectives:

interchange;

land use policies (including ORR land disposal rules) and proposals; and

wider Government policy - for example, environmental sustainability, health and rural policy.

57. There should be a qualitative assessment of the extent to which the closure proposal assists or hinders the above objectives, using the methodology outlined on WebTop in TAG Unit 3.7 or STAG Chapter 9.

58. Of the above, changes to transport interchange, passenger as well as freight, would be particularly relevant to assessment of rail closures. Assuming all benefits relating to travel time changes and the interchange penalty have been valued and included in the cost-benefit analysis of the economic efficiency of the transport system, this leaves a series of additional factors that can be assessed using a qualitative approach, as detailed on WebTop in TAG Unit 3.7.1 and STAG Chapter 9.

59. When a closure is likely to have a significant impact on the mobility impaired and/or socially disadvantaged, the RFA or operator would need to consider, in consultation with those likely to be affected or their representatives and relevant authorities, how best to offset these adverse impacts.

Other aspects of the approach to assessment

Discount rate and price base

60. Whenever these benefits and costs are monetised over a number of years, they should be included in the assessment in terms of their net present value. In order to derive present values, cash flows to be received at different years of the project are discounted using a discount rate to reflect that £1 tomorrow is less valuable than £1 today¹². This technique ensures that the cashflows that a proposal generates at different times can be

¹² See Chapter 5 of the Green Book for further advice on discounting.

easily compared by discounting them to equivalent value in the base year.

61. The appropriate discount rates are those suggested by the Green Book, as shown below:

Time period	Discount rate
0 - 30 years	3.5%
31-75 years	3.0%

62. The base year is the year to which all the benefits and costs should be discounted. This helps compare on a like-for-like basis projects in different modes and different years. Appraisers should check on WebTop in TAG Unit 3.5.4 in order to determine the correct base year to use.

63. Any monetised values across the appraisal period should be calculated in real terms, that is netting out the impact of inflation. Values should be adjusted to base year prices using the Retail Price Index where necessary. They should all be in the same price base. The price base is usually the same as the base year. Only those elements in an appraisal where prices are thought likely to increase faster or slower than general inflation should be adjusted to reflect changes in their value over time.

64. Cost and revenue changes should be presented in market prices to ensure consistency with scheme benefits. For example, Network Rail will generally provide factor costs, that is excluding Value Added Tax. To convert from factor prices to market prices, costs and revenues need to be multiplied by the indirect taxation correction factor. Conversion factors are available on WebTop, in TAG Unit 3.13: Guidance on Rail Appraisal.

Appraisal period

65. The incremental costs and benefits of a closure proposal normally accrue over a number of years. The number of years for which benefits and costs are considered in an appraisal is called the appraisal period. The appropriate appraisal period is dependent on the longevity and nature of the assets. In principle, the appraisal should cover the period over which any liabilities, actual or contingent, fall on the public sector's budget.

66. Detailed guidance on the appraisal period is provided in TAG Unit 3.5.4. This distinguishes between projects for which determining an exact life is difficult (projects with indefinite lives) and projects with finite lives. For the former, the appraisal period should be set at 60 years and no residual value should be used beyond year 60. For projects with finite lives, the assessment should justify why a shorter appraisal period is appropriate (for example, asset lives). In these cases, if required, residual values should be included to reflect any benefits or costs beyond the selected appraisal period, if appropriate.

67. In the case of rail closures, appraisal should be carried out on the basis of operating costs and benefits, with the appraisal period defined as the period until the next piece of infrastructure will need to be renewed. This is because if the rail service cannot justify staying open before infrastructure renewal is necessary, it is very unlikely to be able to justify major expenditure. If the project can justify staying open until renewal is necessary then a further appraisal will be necessary at the time this renewal is considered. This should be carried out on a 60 year basis including all costs (infrastructure and operations) and benefits.

68. However, a longer appraisal period may be necessary for appraisal of rail closures when options considered include investment in facilities with a longer asset life, as all options should be appraised over the same period.

Risks and uncertainty

69. Risks and uncertainties should be addressed through Quantitative Risk Analysis (QRA) and sensitivity tests. In the case of closures, particular attention should be paid to risks and uncertainties associated with the level and pattern of future demand. Where appropriate, in addition to a quantified risk adjustment, allowance must also be made for optimism bias. Sensitivity analysis could also be undertaken to address uncertainties which cannot be captured through QRA. Detailed guidance on risks, uncertainties and optimism bias are given in the Appraisal Criteria, TAG Unit 1.4, in TAG Unit 3.13: Guidance on Rail Appraisal, and in Scotland in STAG Chapter 12.

Freight

70. Where significant amounts of freight traffic are expected to be diverted from rail to road as a result of a closure proposal, further advice about how these impacts are to be assessed should be sought from the appropriate National Authority. The expectation would be that the proposer, in consultation with the freight industry, would establish estimates of how much freight traffic would be diverted to road and how freight flows might change in the event of closure of a line currently used by freight. The principles used to assess the external effects of other road movements would then be applied to road freight movements. The proposer should also establish reasonable forecasts of future demand for rail freight elsewhere on the network affected by the closure proposal.

71. The external benefits of transferring specific freight flows from road to rail are determined by forecasts of highway diversion. Such forecasts are used to calculate the reduction in sensitive lorry miles (SLM)¹³ to which are applied a range of appraisal parameters representing forecast and measurable outcomes such as highway decongestion effects and environmental impacts. The SLM approach is applicable to small projects, which involve small changes in lorry miles. It is generally inappropriate to use a complex model in these situations. The criteria for passenger schemes should also be applied to the forecasting methodology of larger-scale freight projects. The decision on whether to use an assignment model or otherwise should be based upon discussion with the railway industry and ORR.

72. The SLM values used in assessing the external benefit of transferring freight from road to rail are available from the DfT website. For the purpose of consistency, these should be applied to the assessment of proposals involving rail closures.

73. This approach requires separate estimation of:

volumes of diverted traffic by origin and destination;

justification of the diversion factors used, especially if all constituent HGV movements are assumed to divert;

the level of congestion along the route along which the diverted traffic is assumed to travel; and

volumes and trip lengths of traffic induced at freight termini arising from access and egress movements.

Level of analysis

74. The level of appraisal and analysis should always be appropriate to the scale of the proposed closure.

¹³ Sensitive Lorry Miles, Strategic Rail Authority, May 2003

The overall assessment of value for money

75. It is essential that the likely net cost of a proposal from the public sector's point of view is identified within the appraisal. This enables a comparison with the total benefits of the project in order to assess the overall vfm of the proposal. Vfm is a central criterion in determining whether a proposal should go ahead.

76. For projects in England and Wales, the assessment should:

set out the estimated BCR;

assess whether there are any significant benefits or costs which cannot be put in money terms ('non-monetised impacts'); and

on the basis of this analysis, describe the project as poor, low, medium or high value for money.

77. Unless the non-monetised net benefits are sufficiently large to shift the vfm categorisation (see below), the vfm assessment is as follows:

poor value for money if its BCR is less than 1;

low value for money if its BCR is between 1 and 1.5;

medium value for money if its BCR is between 1.5 and 2;

high value for money if its BCR is over 2.

78. Where the vfm assessment is 'medium' or 'high' the closure proposal fails this criterion and closure will not be permitted. Where it is 'low' or 'poor', the non-monetised costs and benefits must be considered in the closure proposal.

79. For projects in Scotland, the approach is slightly different, in line with the principles in STAG:

set out the BCR but without applying the vfm categorisation;

assess whether there are any significant benefits or costs which cannot be put in money terms ("non-monetised impacts");

present all the information together on the Government's five objectives, including the BCR and the various non-monetised costs and benefits; and

recommend whether the project should proceed on the basis of the full range of information provided.

80. The effect of this guidance is that a closure cannot be pursued in Scotland, England or Wales if the BCR of retaining the service, station or network is 1.5 or more.

Sources of further guidance

81. The main source of values used in rail appraisals (whenever more specific evidence is not available) is the Transport Economics Note 2004, published by DfT, which is available on WebTop in TAG Unit 3.5.6. It contains suggested values of time and other general appraisal parameters.

82. The second most important source of information is the *Passenger Demand*

Forecasting Handbook. This document summarises a comprehensive body of railway demand research. Although primarily intended to be a forecasting tool, it provides values which are useful for appraisal. This document is owned by the Passenger Demand Forecasting Council and it is distributed amongst its members.

83. Thirdly, the Strategic Rail Authority *Demand Forecasting Manual* provides a useful guide to carrying out rail demand forecasting studies. Such studies lie at the heart of rail planning and help determine the effects of different courses of action and inform decisions.

84. Finally, further guidance on some rail-specific issues is provided on WebTop, in the *SRA Appraisal Criteria* and in TAG Unit 3.13: Guidance on Rail Appraisal, and in the STAG appendices.

Annex B: Technical assessment issues

1. The generalised cost of travel is made up of a number of components including time costs, out of pocket costs, reliability costs, convenience costs, comfort costs, safety risk costs and so on. Often only time costs and out of pocket costs (including vehicle operating costs) are included in the generalised cost equations that explain travellers' choice of mode. In a multi-modal demand model the other aspects of generalised cost are often aggregated into what is termed a mode specific constant. The mode specific constant represents the otherwise unexplained advantage that one mode has over another. For any individual or group of individuals we expect that they will choose the travel option that maximises their utility (or minimises the generalised cost of travel). Thus for people who are currently rail travellers within a given area we know that:

Generalised cost of travel by rail \leq perceived generalised cost of travel by car or bus

where

Generalised cost = time costs + out of pocket costs + mode specific costs

2. We therefore know that for every existing rail traveller that loses the opportunity to travel by rail they will experience an increase in generalised cost (or a disbenefit) so long as the generalised costs by the alternatives remain unchanged.

3. In practice the mode specific constant can have a significant impact on an individual's (or a group of individuals') generalised cost relative to other modes. For example, it is perfectly possible to envisage a situation within an area where travel times by car are faster than by rail and costs incurred by car users are similar to if not less than the fares paid by train users. In such a situation generalised cost based purely on the time and out of pocket costs would imply that car generalised costs are lower than train generalised costs, and that every individual would choose the car mode. However, in reality some people choose the train, thus for these people the mode specific constant for rail above car must be at least equal to or greater than the difference in the time and out of pocket costs of the different modes.

4. Often we have no information about the size of mode specific constants. However, the above discussion allows us to define the following set of guidelines to calculate user disbenefits associated with the loss of the rail network:

For those who continue to travel but travel by a different mode, disbenefit is set equal to the difference in generalised cost between the modes, subject to the constraint that existing train travellers cannot gain benefit by being forced to switch modes. If time and out of pocket cost differences indicate that such a benefit may occur a minimum estimate of the mode specific constant is made that resets the benefit to zero. In welfare economic terms this constraint implies that travellers are neutral to a change in mode - that is, they value travelling by rail and the alternative mode exactly the same.

For those who no longer travel, as we cannot calculate their disbenefit, we might set it equal to zero. This is a conservative assumption, and in welfare economic terms this is equivalent to saying that non-travellers attach no additional value to travelling to the activity they currently undertake compared to the activity they will undertake in the absence of the rail network (that is, they are neutral to change in activity). Alternatively, one could assume that non-travellers value their trip at the cost of the fare plus their time costs. This almost certainly would over-estimate the value. As a rule of thumb, we have assumed that non-travellers experience a disbenefit equal to half of their fare plus their time costs.

5. Where reliable information is not available about the value of the modal constant, the above approach could be used to capture the impact of mode specific constants. In applying this approach care should be taken to avoid double counting, to ensure factors included in the

Economic Efficiency of Transport table are not captured again.

6. It may be argued that the above approach underestimates the rail modal constant (people's preference for rail) because generalised costs do not capture some aspects of journey quality, such as convenience, comfort and safety. To address this concern, for the purpose of rail closures (for this purpose only and until evidence becomes available) we recommend inclusion of a sensitivity test which inflates the value of rail travel time saving in the Economic Efficiency of Transport System appraisal table (see TAG Unit 3.5.2) by 20%, to improve further the case for rail relative to other modes.

Annex C: Quality contracts schemes

1. The concept of a quality contracts scheme was introduced by the Transport Act 2000. Such a scheme suspends the deregulated market in bus services, and allows the local transport authority to specify routes, frequencies, timings and fares of services in the area covered by the scheme. The authority must invite tenders for the contracts to provide these services and the successful tenderer is then protected from competition for the duration of the contract. Essentially, no other local bus services can be operated in the area of the scheme, though it is possible to make an exception for specified services or classes of service. These schemes need to be approved by the Secretary of State, who must be satisfied that they meet the statutory criteria and are in the public interest.

2. The Transport Act 2000 requires a quality contracts scheme to be the only practicable way for the local transport authority to implement the policies in the bus strategy it is required to produce under that Act (see section 124(1)). Section 39 of the 2005 Act, which is applicable only to English Passenger Transport Authorities, disapplies that provision in the specific case of bus substitutions for rail services, but instead the scheme must satisfy the alternative criteria inserted as section 124(1A). It must:

be an appropriate way of continuing to meet the transport needs of the potential users of the rail service in question;

contribute in an appropriate way to meeting the transport needs of other people living, working or studying in the localities served by that service;

be compatible with the authority's local transport plan; and

meet the needs mentioned above in a way that is economic, efficient and effective.

3. The effect of the above wording is that the bus services provided under a quality contracts scheme need not correspond precisely to the rail service or services they are replacing, provided they serve the same transport needs. The existing rail service may not provide a particularly direct route for those passengers to their destination, and its stations may not be particularly close to the communities they serve. The RFA or operator should analyse the origins and destinations of the regular users of the service before deciding how best to serve their needs through bus services.

4. A quality contracts scheme is defined by area (which may be of any size) and applies to all local bus services within that area unless a particular service or class of service is excluded from it. Passenger Transport Authorities will need to consider carefully whether there are any existing bus services in the area which need to be excluded, bearing in mind that if they are not excluded they would have to be provided as part of the quality contract scheme, or not at all. This is one matter that needs to be considered under the second criterion of contributing to meeting the transport needs of the localities served by the discontinued service.
5. It should be noted that the provisions in section 39 apply to bus substitution where rail services are reduced (in frequency, number of stops etc) as well as where they are discontinued altogether.
6. DfT has published guidance to local transport authorities in England on the procedure to be followed in applying for a quality contracts scheme, the supporting evidence required and the matters the Secretary of State may take into account in deciding whether to approve an application, including appraisal of the public interest. This guidance is being revised to take into account the new criteria applying to bus substitution schemes promoted by the English Passenger Transport Authorities.
7. Before applying to the Secretary of State for approval, the Passenger Transport Authority must consult operators likely to be affected, representatives of bus users, other relevant local authorities and anyone else they consider appropriate. It is suggested that this consultation should take place concurrently with consultation on the closure proposal.
8. It should be borne in mind that each scheme application must be treated on its merits, that the appraisal may take some time, and that approval may not be granted. Moreover, at least a further six months must elapse between the making of the scheme by the authority, following its approval, and its coming into effect. Sufficient time must be allowed and alternative contingency plans may be needed to ensure that there is no gap in the provision of services between the closure of the rail facility and the start date of bus services under quality contracts.