Reviving Rail

What Strategy for Success?

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On Track...?
Politeia Debates
THE AUTHOR

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Preface

Transport and energy have rarely been of such importance to the policy debate as they are today. While central to a successful economy, they have also become important to voters because of their impact on daily life: travel today is unreliable – often with delays in the most routine journeys - and expensive; fuel costs are rising and uncertain; and there is growing sensitivity to the impact on the environment of too much of the wrong energy consumption.

In transport there are fears that things will get worse: the Government’s ill-thought-out schemes for mass housing development and the influx of new people are adding to the strains on an already overburdened transport system – air, rail and road. What should UK policy be? Though the issues are complex, the fundamental questions of policy are clear. What course should be followed? What role should the government have? How should it set the rules? Who should bear the cost?

The transport debate is an old one, and Politeia’s new series, On Track…?, opens by focusing on rail. UK railways were initially nationalised by Attlee’s Labour Government in the late 1940s along with coal, iron and steel, the Bank of England and Cable and Wireless. Not only was nationalisation ideologically attractive to Labour but then, and subsequently, claims were made for change on grounds that it would prove more efficient, more effective with the workforce and bring much needed investment. Nationalisation lasted half a century (1947-97). Rail as a form of transport appeared to decline in comparison with the growing popularity of air and road. Rail lines were cut or closed; public spending on rail was governed by the political priorities of the day; rail also suffered from the rigid industrial laws then governing Britain and was ill-equipped to counter them. In 1993 the railways were privatised by the Conservative Government: a single authority, Railtrack, would, from 1997 provide and run the track for a number of train operating companies. In 2003 the Labour Government ended that system, replacing Railtrack with Network Rail.

These changes have reinvigorated the more fundamental debate about structure, funding and cost and provide the background to On Track…? In it, a number of distinguished rail specialists introduce, analyse and debate the important and often complicated issues behind the debate. The aim is to encourage the detailed analysis on which policy for efficient and reliable rail travel depends. Chris Green opens the series. Few people are better placed to illuminate the complexities. His Reviving Rail: What Strategy for Success? brings an unrivalled knowledge and experience - gained from 40 years of responsibility for this country’s rail networks through the decades of change, to the system today with Network Rail, which he serves as a Non-Executive Director.

Sheila Lawlor,
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The demand for transport in Britain has soared to record levels in the last decade. Over a billion rail journeys are now made annually, compared to just 700,000 twenty years ago. Rail today serves a comparatively small number of people, which explains its market share of about 7 per cent of total UK journeys. But it caters for about 80 per cent of coal transport, 78 per cent of journeys into London and 30 per cent of all intercity travel; without rail, London and other great cities would grind to a halt. Railways have high fixed costs and they operate most efficiently on high volume routes where roads are at their most congested.

Increasing demand has put the rail network under growing pressure. Rail travel in Britain today is booming on a scale that has not been seen since the Second World War. Rail passenger travel has risen by 40 per cent in the last decade and freight tonnages by 50 per cent. This represents a sea change in rail’s fortunes, and is all the more remarkable for following half a century of steady decline. However, rail has been attempting to deal with this growth within the existing infrastructure, and the resulting challenge to the system’s capacity is best illustrated by the number of trains that are being squeezed onto an unchanged network. The 15,000 trains that British Rail ran in a day in 1996 had risen to 20,000 by 2007 under Network Rail. Demand is rising so fast that it will soon outstrip supply on the key mainlines and commuter routes.

New demand is hitting a rail network that is still recovering from an inheritance of ageing infrastructure and severely reduced capacity. Some of the problems built up over half a century during the period of nationalisation, with railways suffering a lack of investment in the immediate post-war years and again in the Beeching era. Even in the last year of nationalisation in 1996, the system still faced a backlog of renewals and upgrades.

Fourteen years later, there remains unease amongst passenger groups as to how far the rail industry can meet demand for a reliable and efficient service over the country as a whole. Overall punctuality rose from 78 per cent in 2003 to 89 per cent in 2007, and will soon pass the magic 90 per cent barrier. Overall customer satisfaction is now at 81 per cent and climbing, with Gatwick Express at 94 per cent. But critics point to individual routes which are well below these figures, to fare increases well above inflation and to operational failures such as the recent New Year engineering over-runs.

Some critics feel that the rail industry still suffers from structural weaknesses, and express concern about both the accountability of Network Rail and the
Chart 1. Passenger Journeys in the UK 1950-2005 (millions)*

Chris Green

fragmentation of the numerous train companies. Critics and passengers alike are right to push for better service, but this paper will argue that the higher performance which is needed will be best achieved by the evolution of the existing organisational structure whose introduction brought the industry ten painful years – and not by risking everything in yet another structural upheaval. The paper also looks beyond operational performance and reviews the opportunities and implications for a greater role for rail in the next half century.
From Past to Present

An Unbalanced Transport System

Britain took a very different view to its neighbours – a distinct ‘Anglo-Saxon’ view - about the future of its railways in the 1960s. Virtually every other major industrial country apart from the USA chose to invest in a balanced transport system in which new motorway networks were built to meet the dramatic growth in car ownership and new high speed rail networks were created to provide more trains at competitive speeds.

Britain almost uniquely in the 1960s decided that rail demand was doomed to decline and sought to limit its investment in increased transport capacity to the motorway programme. This was the ‘Beeching period’ in which a third of rail mileage was closed and only the West Coast mainline saw significant investment. Not surprisingly, demand for rail steadily fell from 1955 to 1982, almost as a self-fulfilling prophecy. The number of passengers using rail fell from over 1,000 million in 1955 to just 700,000 in 1982. Freight tonnages suffered an even bigger collapse.

Governments of both parties managed this steady decline by severely limiting funding and demanding ever greater cost reductions. When the period of nationalisation ended in 1996*, the picture was of a network stuck in its shrunken 1970s straitjacket, bereft of the new high speed lines or new urban ‘CrossRail’ networks of other countries. 35 per cent of the rail lines had been removed, and whilst this provided for some necessary rationalisation it also removed the alternative routes that allow our continental neighbours to renew their tracks without the weekend disruptions that the UK now experiences.

No other country allowed its transport system to get into such an unbalanced situation. The French famously invested in a network of high speed lines for their 186 m.p.h. TGV trains with the first line opening in 1981 and the fourth in 2007. They also built new express urban lines in Paris (the RER network) – the equivalent of four CrossRalls. The Japanese, Germans, Italians and Spanish have followed suit in similar ways with the famous Shinkansen bullet trains appearing in Japan in the 1960s. The European high speed rail network now covers almost 3,000 miles – but Britain has contributed just 70 miles of this between St Pancras and the Channel Tunnel.

* The railways were nationalised under the 1947 Transport Act and de-nationalised under the 1963 Railways Act.
British Governments have, until very recently, been famously reluctant to provide real long-term infrastructure development for any industry and the railways were perhaps an extreme example of this short-term thinking. Railway investment is by definition long-term with assets lasting several generations. The upshot is that the UK today has almost 2,000 miles of new motorways, but has a rail capacity frozen at 1970 levels with none of the high speed advantages enjoyed abroad. The explosion of demand for rail in the last decade has reversed all previous calculations and assumptions and the time has come to rebalance the system.

**Rail Privatisation**

*The First Stage.* The crucial mechanism for change was intended to be rail privatisation. Privatisation had been achieved with considerable success in other nationalised industries in the 1980s and early 1990s from water to gas, electricity, telecommunications, the British Airports Authority and British Airways. These privatisations were successful in attracting major infrastructure investment and brought fresh thinking into the companies, whilst distancing them from government interference. The railways had been left on one side as ‘a privatisation too far’ in the 1980s, largely because every railway in the world needs significant levels of subsidy and there was an understandable fear of creating a private monopoly supported by state subsidies. John Major’s Government aimed to avoid the private monopoly risk by breaking the railway up into over a hundred private companies which would, it was hoped, compete for business over one single private infrastructure system run by a 100 Footsie company, Railtrack. On this basis the Government proceeded to privatise the railways.

There was fierce debate both within Parliament and within the railway industry, over the best way to privatise this complex public industry. At the time most railwaymen expected privatisation to create a single company on the British Airways model. This would have brought huge benefits in continuity and experience, but the Treasury was concerned that such monoliths were becoming private monopolies. Most railwaymen felt strongly about keeping ‘track and trains’ together physically (EU legislation required separate accountancy) for the obvious reason that they formed a single production unit on which safety, costs and performance all depended. This opened up two sub-options. The first was to privatise the five Business Sectors (InterCity, Network SouthEast, Regional Railways, Freight Trainload and Freight Wagonload), each of which had its own assets and profit and loss account. The second was to restore the Big Four private companies which had operated the railways between the two World Wars with a fifth unit for Scotland (West Coast, East Coast, Great Western, Southern and Scotland).

Either option could have worked, but the Treasury and its consultants wished to experiment with greater competition on the railway through fragmentation. This led to the physical split between track and trains; to train companies operating
with short-term franchises – and to a belief that there could be ‘open access’ to the railway network much as to a motorway. In practice the railway system was virtually full up and efficient services depended on a carefully planned use of slots – one train may need twenty pre-planned slots at junctions for just one journey. Sixteen years after the first privatisation deal, only 14 scheduled ‘open access’ passenger trains run daily, out of the 20,000 services.

Britain’s railways have effectively been privatised twice. The view now is that a complex, interlocking industry was broken into too many pieces which were then put on the market without sufficient co-ordination or regulation. Railtrack made what has been seen as the fatal mistake of deciding it could outsource all its engineering activities and knowledge, with catastrophic results for both cost control and public safety. This culminated in the effective bankrupting of Railtrack in 2002 from a combination of West Coast cost inflation and the need for track renewals that followed the Hatfield crash. The Government and Stephen Byers, the then Transport Secretary, refused further support and proposed putting Railtrack into administration, replacing it with an alternative company and different model, now Network Rail, which some critics suggested amounted to renationalisation.

The outsourcing of railway engineering remains a subject of dispute to this day. Railtrack saw both railway maintenance and renewal projects as just items to be procured in the market-place and replaced skilled engineers with commercial negotiators. In practice these activities are absolutely central to the day-to-day running of the railway and fundamental to both passenger safety and costs. Entrusting over £1 billion of maintenance - and twice as many projects - to contractors spread across the country and working around the clock was a risky act. To do it without extensive supervision and ‘man-marking’ doomed it to failure. Contractors increasingly put up their costs, left hidden work (such as drainage), undone and failed to understand the importance of finishing projects on time and to the highest safety standards.

The Second Stage. We are now in the second privatisation era, which began in 2003 with the replacement of Railtrack with a not-for-dividend company, Network Rail. Railtrack had a divided duty to provide dividends for shareholders and investment for the railway. Network Rail was created with a single purpose – to provide safe and reliable infrastructure. It has done this by abandoning the requirement to pay shareholder dividend and substituting the right to borrow against a government indemnity. This created a triple ‘A’ rating for debt funding (about the cheapest private borrowing possible) but aimed to retain the business discipline of a private company without shareholders. It also kept the funding off the public sector accounts, and thus opened the door to additional investment which the state could not afford alone.
Railtrack was unable to survive through its combination of shareholder capital and train company access charges. Network Rail is now being expected to undertake a much bigger infrastructure renewal without worsening public borrowing. It is doing this by increased track access charges to private companies, increased debt borrowing against government indemnities, and more recently, some open market borrowing.

Some critics of these arrangements felt that the opportunity had been missed to return the rail industry to state ownership, but this was always an unrealistic option. A state-owned railway would be a return to stop-go Treasury funding and the public borrowing register. History rarely re-enacts itself successfully and the future lies in a much more subtle blending of the public (strategic direction and funding guarantees) and the private (innovation and funding).

The New 2003 Structure

The 2003 restructuring also gave the Department for Transport (DfT) responsibility for the long-term planning of the rail industry in areas such as the nature of future franchises, major new buildings, new high speed lines and future policies on energy and electrification. The DfT has used its new authority over key projects to produce both a funded five-year plan for rail and the first ever thirty-year strategy (see below p.11). It will also influence the shape and cost of future franchises when it re-lets them every seven years or so.

Regulation falls to the independent Office of Rail Regulation (ORR) which plays an important, if often unseen, role in the detailed scrutiny of Network Rail on safety, performance, costs and value for money. The ORR provides both economic and safety regulation, and is the main source of pressure on Network Rail to perform more effectively. A specialist team examines Network Rail, costs, train performance and safety – and also adjudicates on the necessary funding and targets for the next five years. Infrastructure costs and performance have never been challenged in this systematic way before.

The ORR also provides a powerful means through which the train companies can take action over poor performance by Network Rail. South West Trains took Network Rail to the ORR over the disruption it caused at Portsmouth when the signalling renewals overran. The ensuing investigation led to a breach of licence decision against Network Rail and a fine of £2.4million. This very public failure promised a radical shake-up of its project management. Train companies have the power they need over Network Rail through judicious appeals to the regulator – and they are learning to use this power to greater effect. Breaches of licence are serious offences and can lead to the withdrawal of Network Rail’s licence to operate if they continue. The first sanction, a fine, is a warning shot which not only censures the management team publicly, but also reduces its profits and quickly hits bonuses throughout the company.
In the new period since 2003, the industry has begun to start addressing the many operational issues that need resolution – from train performance to cost control and project delivery. Crises will continue to occur, but they now concern management competence rather than structural issues. Train punctuality across the whole of Britain will pass the magic 90 per cent target this year and the passengers’ chief concerns are now overcrowding and the over-running of engineering works. They are being tackled as top priorities. For example, Britain is currently investing in four times the amount of track renewal as France. This will bring huge benefits in reliability in the future, but at the cost of some short-term disruption.

Network Rail has taken the difficult step of bringing all track maintenance – as opposed to major renewals – back in-house. Railtrack saw infrastructure maintenance as something to be procured in the market-place and replaced engineers with commercial negotiators. The reality is that on a railway, these activities are totally integrated with the day-to-day running and safety of the railway and directly affect costs.

The industry and politicians will continue to hunt for a better railway organisational structure. Train companies, Network Rail, the Treasury and others would all like to move the levers of power a little more in their own direction. The main current challenge is to make Network Rail more accountable to both its stakeholders and individual train companies. Network Rail is already under greater scrutiny by the ORR than ever before. This existing structure needs to be made to work successfully in order to provide the improvements in cost and performance that everyone wants.

Network Rail was formed in a crisis to rescue ‘Railtrack in administration’ (see above) and it has done this by concentrating powers of decision-making and funding at the centre. There is now recognition within Network Rail that the time is coming when more authority for providing train services should be delegated back to the regional level. This would help to promote closer teamwork between local train companies and local infrastructure providers.

Meeting Passengers’ Concerns

Since privatisation in the 1990s, a number of new factors have placed greater emphasis on rail policy ranging from the growth in rail use to concern for environmental pollution. These main recent concerns can be summarised as follows:

• Worsening overcrowding on commuter services. This is likely to extend to InterCity travel in the near future.

• Variation in punctuality and reliability: improved performance in some routes must be the rule across the whole network.
Chart 2. Investment in the Rail Industry. Great Britain annual data (£ millions at 2005-2006 prices)*

• Environmental issues. There is going to be a growing expectation that the railways will take more of the travel strain to reduce heavy carbon transport such as short-haul air flights (triple the carbon per passenger to rail) and road transport (double the carbon). There is surprise that the Government’s proposals for rail do not include any additional rail electrification, let alone a plan for more network electrification.

• Value for money/above inflation fares. There is a widely perceived clash between raising rail fares in order to reduce government subsidies in the short term and the danger the higher fares will drive people back to low cost-airlines and the car. But it has already been decided and announced, that fares will rise by large margins every January until at least 2014.

These concerns are at the centre of proposals for the five-year period 2009-2014 set out in last year’s White Paper, _Delivering a Sustainable Railway_*.  

The White Paper

In July 2007, the Department for Transport published the White Paper, *Delivering a Sustainable Railway*. It includes two main policy proposals: a five-year plan for 2009-14 and a thirty year-strategy for 2009-39. They provide, for the first time in a generation, a clear long-term policy for rail transport in the UK. More significantly, the short and long-term plans are predicated on a dramatic increase in rail demand, with the Secretary of State looking for a rail network ‘handling double the number of passengers we have today’.

*The Five Year Plan 2009-2014* aims to improve the running of the present system in terms of capacity, punctuality and cost to passengers, assumes that the West Coast investment will be completed by March 2009 and goes on to propose:

- Over £10 billion investment in capacity enhancements
- Over £5 billion direct state support for passenger services
- Capacity to accommodate an additional 22.5 per cent of passengers
- 1,300 new coaches to reduce overcrowding
- Thameslink £5 billion investment: Stage I by 2011
- Punctuality to rise from 89 per cent to 92.6 per cent by 2014
- 25 per cent reduction in serious delays (over 30 mins)
- State support to fall from 50 per cent of total costs to 23 per cent

*The Thirty Year Strategy 2009-2039* seeks to provide a wider framework for rail investment by reviewing long-term energy and environmental issues. Crossrail has been authorised outside this procedure as it involves funding by Transport for London and the City, and represents a massive investment of £15 billion, with completion in 2017. The issues addressed by the strategy are:

- Thameslink II completed by 2015 with 12-car trains
- £1 billion of capacity improvements at both Reading and Birmingham
- New InterCity fleet replacements from 2012
- High speed line under consideration
- New environmental initiatives – but no electrification

The five-year plan recognises that additional funding will be needed for investment in capacity and that the funding must be secure to 2014. This has been addressed by the publication of a ‘Statement of Funds Available (SoFA)’. The independent ORR will be required to reconcile the cost of the work required with the funds
available, with the power to insist on a re-cycling of the plan if insufficient funds have been committed. The Government has made its commitment to increased rail capacity in the five-year plan and the ORR’s role is to put this commitment into effect in terms that give clear value for money. Projects are to be prioritised to ensure the greatest possible benefit in terms of reduced overcrowding and improving performance. This part of the plan is due to be completed in mid-2008, after which the nation will, for the first time, have an agreed and funded rail development plan to 2014 which cannot be altered without the agreement of the ORR.

This represents a new departure in transport thinking. There is now a political consensus across all parties that future transport demands will require a greater use of rail. An expanded rail network is a core part of the plan. The five-year plan anticipates that rail use will grow by a further 22.5 per cent over the next five years – and the thirty-year strategy is based on rail use growing by 100 per cent over the next thirty years. This means focusing investment on those services that rail delivers best.

**Making Best Use of Rail**

Unlike the ubiquitous car, rail does not permit travel anywhere the passenger may want to go. It is best used selectively where it is most effective. Its unique quality is its ability to move very large volumes safely at speed, particularly in three key ways:

- High speed inter city
- High density urban
- Heavy freight corridors

It is encouraging that both the five-and the thirty-year plans focus investment on developing rail’s contribution in these three prime areas.

What has prompted the suddenly increased political interest in British rail? First, spare capacity in our motorway network is being exhausted, causing steadily worsening delays. No thirty-year plan could be realistically based on either doubling road travel, or building an extensive network of new motorways and urban expressways. Second, the economic circumstances of the country in the decades since the UK’s economic revival of the 1980s, suggests that the UK economy has every reason to plan boldly for the future.

Transport keeps the great economic machine turning – and rail is the key element on both urban and inter-urban routes. 78 per cent of London commuters reach their work by rail and if their journeys become unbearable, or even impossible, the City of London will rapidly lose business to rival capitals abroad. Hence,
the willingness of the City of London to become an investor in the proposed £15 billion Crossrail scheme.

A similar argument can be made in relation to the regional capitals, where train and tram are going to become increasingly important in getting growing populations into congested city centres. Those with the most flexible transport systems are likely to enjoy the best economic growth and prosperity. This is also true for freight, where major new-deep sea ports are being built without adequate rail resources to carry the huge increases in container traffic.

So we move into 2008 in an unusual position. We are on the point of committing to a negotiated and funded five-year plan which will create enough new rail capacity by 2014 to allow rail travel to reach a level which it has never achieved before, even at the height of the Victorian era before motor transport was invented! By July 2008 Britain will have a strategic plan to create the capacity to carry 1,600,000 million passengers a year – compared to the nadir of 700,000 in 1983.

Conditions for Success

The rail industry is about to enter an important period in which it starts to deliver significant extra capacity for the first time in half a century. What is needed, above all at this juncture, is stability without change in a number of areas and support, across the spectrum, for the general principles on which policy will proceed:

*The Five-Year Plan.* The new five-year plan must be fiercely protected throughout the five years of delivery. It is the blueprint for improving capacity, performance and productivity. It also probably represents the limit of what Network Rail can deliver and what the Government is willing to fund. Any new ideas must be held back for the next five-year plan.

*Political Support.* The political consensus in favour of the five-year plan is to be warmly welcomed. Opposition parties have indicated that they would support the completion of the plan as finally negotiated. This political consensus contrasts with the divisions over policy in the 1990s and will bring stability into the debate.

*Stable Industry Structure.* Roman generals used to complain that just when they had got their army into fighting shape someone would come along and insist that they reorganise. The rail industry in Britain has suffered by many reorganisations in the same way; many people still confuse operational failures with structural failures. When an operational failure occurs, such as a project over-run, we should resolve the problem and see the plan through. We now have an organisational structure that is capable in principle of ensuring the improved safety, performance and cost control that the five-year plan demands and the challenge now is to manage the operational delivery.
IV

The Problems

The immediate goal is to ensure that the present weaknesses such as overcrowding and unreliability, are overcome through the five-year plan. This will still leave major issues for resolution in the future strategy, including those omitted from the strategic sections of the White Paper.

The White Paper’s Strategy

*Short on Solutions.* The first concern is the nature of longer term-strategy set out in the White Paper. Whilst the strategy is welcome in that it raises issues for the next generation, it is generally considered to be far too thin on solutions. It identifies serious capacity deficits in ten years’ time, but offers no solutions to remedy the potential crisis. It raises issues of future energy policy and tapping rail’s potential environmental problems – but again without guidance for future policy. Railway electrification, new high speed lines and future power sources are all left undecided. The good news is that the thirty-year strategy is to be reconsidered every five years.

*Transport – Not Just Rail.* The second criticism of the rail strategy is that it is not part of a much wider transport strategy. Issues of traffic capacity and carbon emissions should be traded between the appropriate transport modes – not debated in isolation. A new high speed line creates the same capacity as a new runway at an airport. Where is the debate over which would bring the greater benefits? Would a new high speed line to Heathrow (and on to South Wales) save the need for a future Terminal Six at Heathrow?

*Electrification for the Environment.* The strategy is also largely silent on how the nation might exploit rail’s natural environmental advantages over both the jet and the combustion engines. This was probably because the Government only announced its future energy policy in January 2008, confirming that more nuclear capacity would have to be provided over the next thirty years. Rail is unique in being able to use electric traction for heavy loads and an electric railway, fed from nuclear power stations, generates negligible carbon damage. Electric trains are up to 100 per cent more reliable than diesel and create far less noise.

But the rail strategy is not proposing any additional electrification for the next thirty years! The current rail network is only 39 per cent electrified against 50 per cent in France and 95 per cent in Switzerland. Scotland has already declared unilaterally that it aspires to fund the remaining electrification of its rail network by 2028 - and England and Wales need to follow suit. The priority would be to electrify the remaining mainlines (Great Western, Midland and CrossCountry) to
get the biggest benefits, followed by a programme for missing links, busy freight routes to ports and the urban commuter corridors. Rural and branch lines may be best left to improved diesel or alternative power sources. A rolling electrification programme in a new transport strategy could also get installation costs down by 40 per cent.

**New High Speed Line**

The top capacity problem around 2020 looks like being the congested transport corridors from London to the North. They include not just the three rail mainlines, but also the M1, M6, A1(M) and the domestic airlines. The most innovative solution emerging is to extend Britain’s first high speed line (HS1) from the Channel Tunnel to London St Pancras northwards to the West Midlands, the North – and ultimately to Scotland. The current thirty-year strategy recognises the option – but avoids a firm decision. It does, however, helpfully dismiss both the Maglev option and the other extreme of a freight-only line.

There is a ten-year planning cycle before work can start on a new line, so it is imperative that the DfT is encouraged to start desk-top planning for HS2 now, so that it can include the outcome of its work in the next plan and strategy. It should aim for 200mph high speed electric trains linking London to the West Midlands in 45 minutes and Manchester/Leeds in 90 minutes. It could also include a link to Heathrow airport to reduce the carbon damage from short-haul take-offs. HS2 would also have real economic benefits in reducing the huge £30 billion GDP gap between the North and South.

**Radical Cost Reduction**

The five-year plan estimates that the cost of running the railway doubled between 1994 and 2004 from £6.6 billion to £12.2 billion. This increase was both unnecessary and unsustainable and the new plan gets a grip on cost reductions by targeting Network Rail to achieve a further 31 per cent reduction for the second five-year period running and squeezing train operator costs through the re-franchising approach. This is going to produce radical cost reduction solutions such as aggressive procurement policies and even higher asset utilisation. New technologies also have a role, with light-weight trains bringing lower track damage and fuel costs, and radio signalling potentially eliminating costly line-side signals and cables.

**Evolution of Structure**

The stability needed to deliver these cost reductions should come from maintaining the present railway structure. Any fine-tuning must be done with a light touch, and could usefully address the concerns over the imbalance of powers within the rail industry. Network Rail has been likened to an 800lb gorilla pitted against twenty 40lb gorillas. The imbalance has been accentuated by Network Rail’s decision to
Chart 3. Proposed High Speed Two route*

*High Speed Two: A proposition by Greenguage 21
centralise decision-making power in 2003, whilst train companies conversely were given a high local autonomy to keep them close to their customers.

The logical development should be for Network Rail to de-centralise its operational activities gradually back to its eight regions. This would leave headquarters managing strategy, funding, engineering standards and major projects, whilst the Regions became responsible for safety, performance, maintenance and minor projects. Network Rail HQ would remain responsible for the overall performance of their regions. The DfT could also cut the number of train companies to match the emerging eight regions. Scotland has shown how effective working relationships can become when boundaries are co-terminus.

A second stage would be to require the regions and relevant train companies to meet formally as virtual regional boards. This would bring the benefits of partnership without the disadvantages of separate legal entities. The aim would be to conduct business together in a really collaborative form, include passenger feedback, performance improvement, project delivery and joint safety issues.

**Funding**

There are many different ideas about how the railways should be funded. The current approach is to ensure the level of funding that the rail industry needs for the first time. If it ain’t broke, why fix it? It might be cheaper to return to a nationalised railway funding structure – but few would like the results. The history of 1948 – 1996 was one of short-term funding, skimped investment, powerful unions and a stagnant rail network. We have tried City funding with Railtrack and found it unsustainable in such a complex industry. Today’s funding system is finally ensuring a catch-up on investment, the creation of new capacity and one of the most modern train fleets in Europe.

There are, however, choices to be made over fare levels. Does the nation want to lower rail fares as an environmental policy to reduce road travel/carbon? Or does it wish to raise rail fares and reduce taxpayer subsidy? The British tradition is for the user to be charged a relatively high slice of the rail travel costs and for the taxpayer to pay a lesser amount. In the UK the tax-payer is currently paying about 50 per cent of the cost of travel, but the five-year plan states that this will fall to just 23 per cent by 2014. Subsidy reductions of this level will not be halved by cost cutting and volume increases alone – a significant level of fare increases will also be needed.

*With the exception of the 1955 modernisation plan, which committed the government to expenditure of £1,500 m at the price of 1995.*
Conclusions

The UK rail industry has been through a turbulent ten years in which it has been radically restructured and effectively privatised twice. Users - both passenger and freight - have little interest in such structural change: rather they judge the industry on individual experience of punctuality, overcrowding and fares. They want rail transport that is dependable, comfortable and affordable.

Despite all the problems of the last ten years, rail has experienced an unprecedented 40 percent growth in demand in the same period. This in turn has put further pressure on performance and overcrowding. The Government considers that increased demand is set to continue; recognises that additional funds will be needed to increase capacity - both through longer trains and additional infrastructure such as Thameslink; and has proposed major long-term plans for the industry in the recent White Paper Delivering a Sustainable Railway.

This pamphlet argues that the present structure of the rail industry provides a firm basis on which to build for the future, while the system of funding will allow improved performance and extra capacity. However, successful results will depend on a period of stability in which the industry can focus on ensuring consistent quality performance. There is scope for the existing structure to evolve – for example, towards a more regional delivery focus – but there is no justification for another root-and-branch upheaval.

The Government’s plans cannot be given an unqualified welcome. The five-year plan, produced with the help of the entire rail industry, provides a practical basis for the improvements now needed and should be systematically implemented. The thirty-year strategy, by contrast, fails to address some of the questions central to rail travel in the UK, such as how extra capacity will be provided, the extent to which funding should come from rail users rather than taxpayers and the increased role that electrified services should provide. These strategic issues now need to be addressed urgently.
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