Bamford, Colin

Should train operators be given greater power in determining how the Government should spend its rail budget?

LOUISE ELLMAN MP

Chair, Transport Commitee

Few rail services in Britain are operated without a contribution from the taxpayer. With the taxpayer contribution must come political accountability, but how this can be achieved has been one of the main dilemmas in rail policy in recent years. Since privatisation, successive governments have tended to take on more responsibility for specifying the detail of how train services are run, to the point where train operating companies are often seen as mere contractors, not as private sector firms. This has led to questions about whether the profits earned by some rail firms are justified and about the costs of the rail network as a whole.

The previous Labour government addressed this problem by inviting Sir Roy McNulty, a former chair of the Civil Aviation Authority, to report on the value for money of the rail industry. McNulty reported in May 2011 and his conclusions will dominate debate about rail for the rest of this Parliament. He found that rail costs in the UK are some 40 per cent higher than might be expected, as a result of which passengers and taxpayers are both paying around 30 per cent more than they should. Train operator and rolling stock costs are part of the problem, in part because of low levels of utilisation. And he made a series of recommendations, some of which relate directly to train operators. These include that Government should focus on higher level strategic issues and set less-prescriptive franchises giving operating firms more freedom to respond to the market; that the industry has looked too much to Government for leadership; and that Network Rail should become more decentralised and better aligned with train operators.

It is easy to say-and everyone agrees-that officials in Whitehall should not make decisions about where specific trains should stop. The problem is that if this is left solely to the operators, local communities will be affected and not everyone will be pleased with the outcome.

How about local government? For example, TfL specifies everything about London Overground and takes all financial responsibility. Generally speaking, however, the organisation of local government-in England at least-does not fit railway services. In the south-east, most train routes are important to both London and the surrounding counties, but there is no political entity to shape rail policy. Elsewhere, even a branch line can cross through numerous local authorities. There is no corresponding elected entity although the integrated transport authorities may have a role.

The central McNulty criticism of train operator costs is that there are too many train-miles for the number of passenger-miles. This impacts on Network Rail's costs too-lots of short trains clog up the network and drive the demand for more costly infrastructure. One of the key initiatives of train operators since privatisation has been to increase the frequency of train services. Across the core trans-Pennine route, the basic service is now a 15-minute frequency, against an hourly service not so

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many years ago. If this is to be addressed directly it will mean painful cuts in service.

As is usual in both politics and transport, there are no easy answers. If the extent of Government specification is to be reduced, politicians will have to accept that train operators will take decisions which some passengers will not like. If this happens, the Government must ensure that an effective mechanism is created to enable passengers to hold decision makers to account. And cutting costs must not compromise safety. The Transport Committee will want to look closely at McNulty's conclusions and the Government's response to see that these potentially conflicting aims are resolved.

PROFESSOR COLIN BAMFORD

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The recently published interim report by Sir Roy McNulty, "Rail Value for Money Study", has again thrown the political spotlight on what is arguably the most controversial transport privatisation. It currently costs the Government around £5bn a year to keep our railway system operating. This is almost half the total costs and consists of funding to Network Rail for infrastructure projects and payments to passenger train operating companies for running subsidised services.

Significantly, the current level of government funding is five times what it was in the last year of the nationalised British Rail. It is, therefore, hardly surprising that the last Labour administration sought to have an independent review as to whether the taxpayer was getting "value for money".

Not all passenger rail services require a subsidy from the Government. An increasing number of services require the franchise holder to make a premium payment for the right to operate. Demand is remarkably robust despite the economic downturn, so when franchises come up for renewal, prospective bidders will be keen to get right the forecasted premium payments they are prepared to offer. The business risk should not be underestimated, as clearly evidenced when the Labour Government refused to allow a renegotiation of the terms of the National Express Group's (NEG) seemingly lucrative East Coast franchise. It transpired that NEG had offered substantially more for the franchise than its main rival, Virgin Trains. Revenue growth was hit by recession forcing NEG to "hand back the keys" to the Department of Transport (DfT).

So, what is the relationship between passenger train operating companies and the DfT? The simplest explanation is that they are suppliers of services to the Government in so far as they have a contract to supply at a pre-determined level and on financial terms that have been agreed. This even includes control over regulated fares depending on performance. Although some degree of protection from competition is provided by the regulator, the total revenue of train operating companies is subject to considerable uncertainty.

Strategically, an efficient, well-run and well-managed railway is central to the wider policy objective of a more sustainable national transport policy. This is quite clear from the Coalition Government's attitude to railways. As the key stakeholder, train operators are very dependent for their business well-being on an efficient infrastructure, track and signalling. This in turn raises a very relevant question: "Should train operators be allowed greater power to determine how the Government's rail budget is spent?"

One of the criticism's often made about current arrangements is that the process of bidding lacks transparency for those outside of the specific negotiations between a prospective franchisee and the DfT. It appears that the Department is more concerned about the reputation and reliability of the bidders rather than who might put in the best offer. This is in some ways understandable. After all, unlike say a McDonald's franchise, a failing train operating company cannot just "shut up shop"– the service has to persist under DfT rule until another franchisee is found to be suitable.

A much more fundamental criticism is one which will not go away and which has been implied by McNulty's criticism of Network Rail. This is whether the Adam Smith Institute's model of track and operating separation, rejected by Mrs Thatcher and Nicholas Ridley, is the most appropriate one. Many would say 'No'. Rail is a natural monopoly. To obtain the benefits this gives particularly to passengers, the track and operations need to be reunited under a single organisation, ridding the rail system of costly fragmentation. This would give better value for money than the narrow remit that has been given to McNulty. It would also give train operators greater power in determining how the Government should spend its rail budget.

ANNA WALKER

Chair, Office of Rail Regulation

This is a crucial period for the rail industry-yet a time of great opportunity. Sir Roy McNulty's Rail Value for Money Study has brought into sharp focus the value for money challenges facing the rail industry, and makes proposals that the Office of Rail Regulation (ORR) wholly endorses and believes everyone in the rail sector needs to agree to.

Yet, as economic issues are rightly at the forefront of the rail sector's thinking, one of the biggest challenges is how to ensure that rail safety is not compromised. Britain has one of the safest railways in Europe – a fact we are proud of but must never be complacent about - and ORR has always been clear that health and safety on Britain's railways is an absolute priority and an integral part of our business plan. Safety is fundamental to all those who travel and work on the railways and there is no room, or need, for safety to be compromised under any circumstance.

As the independent safety and economic rail regulator, ORR works hard to ensure that improvements in efficiency, safety and performance go hand-in-hand. ORR works with the rail industry to help make sure that the health and safety and welfare of passengers, railway employees and members of the public are protected, and that the rail industry achieves excellence in health and safety. But it is important to remember that it is for Network Rail and train operating companies to deliver these improved safety practices.

ORR believes that an organisation can only achieve excellence in safety through effective, and efficient, management. That is why ORR has developed and implemented a rail management maturity model known as RM3. RM3, which has been welcomed by Sir Roy, is a vital tool for assessing, and managing, an organisation's ability to control health and safety risks and for identifying issues to be improved. Best performing companies are those which have fully integrated health and safety practices into their culture.

Another way to efficiently maintain high levels of safety is by enhancing co-operation across the rail industry. The recently established Rail Delivery Group, as recommended by Sir Roy, brings together key leaders in the industry to help develop overall goals and practices, of which safety is an important issue.

Technological innovation is also important to help make railways both more efficient and safer. For example, the innovative ways in which points on the line are now replaced. They are now assembled off site and transported to the area - making the process cheaper, quicker and, importantly, safer.

These are big achievements but we recognise there are considerable challenges ahead – including improving worker safety, passenger safety at stations, and safety at level crossings. ORR recognises that more needs to be done to help ensure that drives to increase efficiency and improve safety stay on track. That is why a central question in ORR's recently launched periodic review, titled PR13, is how we can better deliver value for money without compromising safety. The review is our assessment of what Network Rail must achieve from 2014, the money it needs to do so in light of what the government wants from the rail sector, and the incentives needed to encourage delivery and outperformance. PR13 presents a real opportunity to put the right incentives in place to ensure a better railway for passengers and taxpayers.

There is much to be proud of. Britain's railways have a good safety record and are one of the best performing in Europe. But it is crucial that the rail industry demonstrates now-to passengers, customers and taxpayers-that it is capable of meeting the efficiency challenges ahead while working towards excellence in health and safety and driving improved performance.

ORR is already stepping up to these challenges and believes that improvements in efficiency, safety and performance go hand-in-hand. But only by working together, and showing real leadership, will Britain's rail industry take the huge strides needed to deliver these objectives. ORR believes that by acting now this is possible.