

PARTY CONFERENCE BRIEFING

September 2011

Rebuilding Rail

Overview

The UK's privatised railway is failing society, the economy and the environment, whilst draining taxpayers' money into the pockets of private shareholders. Common sense and expert railway knowledge have ceded to a misguided private-must-be-best ethos, leaving Britain with a fragmented dysfunctional railway system that other countries view with disbelief.

Excessive costs in the UK rail industry have recently been highlighted by the McNulty Review. This criticised waste from fragmentation and complexity in our railways, but ignored the obvious solution: simplify the system. Instead, the Review proposes more fragmentation. Analysts have predicted the McNulty approach would lead to older trains, higher fares, fewer services off-peak and at weekends, and more freight going by road¹. Large sums of money would still be lost to inefficiencies of complex contractual agreements between dozens of companies.

This paper begins to outline a different recipe for reform. It shows that over one billion pounds of taxpayers' money could be saved annually by reuniting the railways under public ownership. All the public money invested in the railway could then be put to good use, delivering a better service for passengers while also achieving wider environmental and social goals.



1. Introduction

Rebuilding Rail is a project initiated by Aslef, RMT, TSSA and Unite, and implemented by Transport for Quality of Life. It commenced in July 2011 and is due to be completed by December 2011. The terms of reference for the project are to examine what should be the structure of the railways, in order to put a Labour Government firmly on the side of the passenger and the taxpayer. Questions to be considered include:

- How to substantially reduce fragmentation
- How to effectively integrate rail with other transport modes, and how to support sustainable communities
- Whether the not-for-dividend model for Network Rail should be extended
- Whether re-integration and public ownership would benefit the taxpayer and passenger
- How to get costs under control and ensure that money that goes into the railway is actually invested in the railway
- New ways of funding and supporting the railways
- How the railways could help to re-build our economy and protect the environment
- How the railways could increase equality between communities and regions
- How to help the 'squeezed middle', especially commuters facing ever-increasing fares
- How to make the railways clearly accountable to Ministers and parliament, while also giving a greater say to passengers and local authorities.

The project will carry out a comprehensive review of the academic and professional literature on the effects of privatisation on Britain's railways and the options for reform, drawing on examples from other countries; and will interview over 20 key experts with deep knowledge of the railways, in order to gain their insights as to how we might make Britain's railways work better. At this stage, our literature review is almost complete, and our interviews with key experts are ongoing.

This interim briefing for the Labour Party Conference sets out what we have found so far. It focuses on:

- the financial, social, economic and environmental costs of the current structure of the railways
- the benefits of reform
- how other European countries structure their railways
- the barriers to reform, and how they can be overcome
- some initial ideas on how our railways might be reformed, and the practical and policy steps the Labour Party could take.

The final report will look in much more detail at the last of these points, examining the mechanisms for reform of the railways, and how a reformed railway would be structured.

2. The financial cost of the privatised railway

Since privatisation, more than £11 billion of public funds has been misspent: on debt write-offs, dividend payments to private investors, fragmentation costs including profit margins of complex tiers of contractors and sub-contractors, and higher interest payments in order to keep Network Rail's debts off the government balance sheet (see Figure 1).

Figure 1: Quantifiable costs of privatised and fragmented railway system

	Annual (£ million)	Cumulative (£ million)
TOTAL COSTS	£1.2 billion	£11.3–11.7 billion
Excess interest payment on Network Rail debt ²	156	950
Fragmentation costs		
Cost of interfaces between TOCs and Network Rail ³	290	not known
Network Rail: cost of outsourcing renewals / enhancements (and maintenance before 2003/04) ⁴	200	2311
TOC sub-contractors' operating margins ⁵	76	771
ROSCO sub-contractors' operating margins ⁶	15	176
Leakage		
Dividend payments: Railtrack ⁷	-	709
Dividend payments: TOCs ⁸	227	507-1000
Dividend payments: ROSCOs ⁹	207	2520
Sunk costs		
Underselling of ROSCOs at time of privatisation ¹⁰	-	1100
Debt write-offs and liability transfers to make Railtrack sell-off attractive ¹¹	-	2208

These are only the readily-quantified costs of rail privatisation, but there are many more costs which are difficult to quantify: excess interest payment on rolling stock company (ROSCO) debt¹²; poor cost control¹³; excessive bonus payments and high salaries for senior managers¹⁴; costs of bidding for franchises, awarding them, and re-branding when a new company takes over¹⁵; bail-outs of failing operators¹⁶; unplanned costs arising from over-complexity¹⁷; and tax not paid¹⁸. If implemented, some recommendations of the McNulty report would create even more interfaces, leading to even higher costs.

None of this expenditure has paid for a single new train.

Much of the public money that has leaked out of the railway system is now irretrievably lost. But we are still spending at least £1.2 billion every year in entirely unproductive ways, and this money could be saved by reforming the structure of the

railways. This seems especially important at a time of austerity and tight public budgets.

The proponents of rail privatisation argued in the early 1990s that it would bring greater efficiency to our railway system, reducing waste and leading to a reduction in public subsidy. It is now clear that their expectation was wrong. By 2009, total operating costs had more than doubled since privatisation, and the average annual subsidy had more than tripled¹⁹.

3. The social, economic and environmental cost of the privatised railway

3.1 The social cost

The money wasted through fragmentation and privatisation of the railway translates into social costs. Public money has been diverted to provide private profit rather than invested to increase the railway's capacity and to improve services. That money could have been spent on tackling overcrowded commuter trains and run-down stations, and re-opening missing links to make the railway work better. Instead, we have more unpleasant commuting, more dysfunctional cities, and rural isolation.

The travelling public are hit twice, because train travel is priced to recover the costs of privatisation and fragmentation. This renders it unaffordable for ordinary people. Britain has Europe's highest commuter fares for both day returns and season tickets; and for the price of a completely restricted advance purchase ticket in Britain a passenger could generally get a fully flexible ticket in other European countries²⁰. This situation will get worse as the UK Government implements a policy of raising fares by RPI plus 3%.

3.2 The economic cost

Leakage of money out of the privatised railway system has reduced the amount that can be invested in improvements to stimulate economic activity and regeneration. The complex structure also adds to business costs.

- **Lost opportunities to support economic activity:** lack of investment in development of regional train services means that towns with slow transport links to their nearest main city are falling behind economically. For example, there is a widening 'wealth gap' between such towns as Burnley and Blackburn and Manchester²¹. There are sizeable towns lacking rail links which could benefit from reopening rail lines and stations to attract economic investment and offer residents access to more work opportunities²².
- **Lost opportunities to support rail freight:** leakage of public money out of the railway wastes funds that could be invested in rail freight distribution centres, freight links to serve new industrial capacity, and expanding the strategic rail freight network. The high cost of out-sourcing rail enhancement projects to private contractors means new works to increase freight capacity are prohibitively expensive. The fragmentation of the railway has also created obstacles that make it hard to move freight trains around, particularly if there is a requirement for any flexibility in train paths.

- **Undermining British manufacturing jobs:** The UK's once successful rail manufacturing industry has been almost destroyed by the hiatus in orders following privatisation, successive changes of foreign ownership of once publicly-owned British Rail Engineering Ltd, and, most recently, the Government's decision to award the Thameslink train contract to Siemens. This decision threatens a loss of 1400 jobs at Bombardier, plus an estimated 10,000 jobs in Bombardier's supply chain, affecting 825 sites around the UK²³. A recent survey found that 41% of UK companies in the rail manufacturing supply chain are facing job losses as a result of the Government's recent decision, with SMEs facing the largest impacts on their businesses. It has also been estimated that £20 million per year will be lost in tax revenue²⁴. Other countries take account of domestic economic factors when awarding train manufacturing contracts and as a result have sustained their rail manufacturing industries.
- **Direct costs to business:** the hugely cumbersome booking procedure for all but the simplest of journeys adds a staff time cost, and the high prices of flexible fares often required by a business traveller add costs to UK-based operations compared with European competitors.

3.3 The environmental cost

The railways have an important role in reducing carbon emissions, especially for regular commuter trips, long-distance inter-urban trips and long-distance freight.

But if they are to play this role, we need to increase rail capacity, through more train carriages and enhancements of the railway network, and we need to invest in electrification and designing and building lighter, more efficient trains. All these investments are more expensive under the current cost structure of the railways.

Planned RPI + 3% increases in rail fares will force passengers to switch from rail to driving, increasing carbon emissions. Since privatisation, the real cost of train travel has risen by 17% in real terms, while the real cost of motoring has fallen by 7%²⁵, and higher fares will widen this gap.

4. What a reunified railway *could* achieve

Other European countries are maximising the benefit of their railways whilst the UK seems to have lost sight of what a unified railway system can achieve.

The UK *could* choose to have a strategic investment programme that aims to endow all UK cities of a given size with a certain quality of rail service and which aims to use rail to generate industrial development and economic regeneration.

We *could* choose to build good rail links for new housing developments so that residents can travel sustainably rather than being car dependent, and could expand urban rail systems to help create uncongested liveable cities like the best in Europe.

We *could* choose to reduce longer rail journey times so that flying is made comparatively unattractive, in the way that Spain has achieved mode shift from air to rail.

We *could* choose to invest in moving freight from road to rail, for which the consequent gains in carbon emissions are huge (as are congestion reductions on some key motorway links). For example it would be possible to facilitate palletised freight movements that operators consider nigh-impossible under the present system.

We *could* choose to have simple system-wide ticketing and affordable fares, and to tackle overcrowding by expanding capacity, rather than pricing people off trains.

To put these ambitions in the context of efficiency savings from a reintegrated railway, a saving of £1.2 billion a year from reintegrating the railways equates to an across-the-board cut in fares of 18% (or a substantially larger cut in fares that are price-regulated because of their social importance). Any cut in rail fares would be extremely popular. An opinion poll survey in October 2010 found that 80% of voters opposed the current Government's plans to allow rail fares to rise faster than inflation, and this was the single most unpopular policy announced in the spending review²⁶. Another poll (also October 2010) found that 74% of rail commuters in the South-East said they could switch their support away from parties that raised fares²⁷.

The railway is potentially a powerful tool to achieve economic, social and environmental benefits. However, attaining these benefits needs overt recognition – largely lost from the UK political debate in recent decades – that the purpose of the railway system is primarily to provide a public service, not private profit.

Germany recognises this – and, ironically, is investing in its own railways at our expense. The German government this year claimed its first dividend of EUR 500 million from Deutsche Bahn, of which it is sole shareholder. The annual dividend is due to rise to EUR 700 million by 2015. A German transport ministry spokesperson described the rationale for the payment thus:

“We're skimming profit from the entire Deutsche Bahn and ensuring that it is anchored in our budget - that way we can make sure it is invested in the rail network here in Germany”²⁸

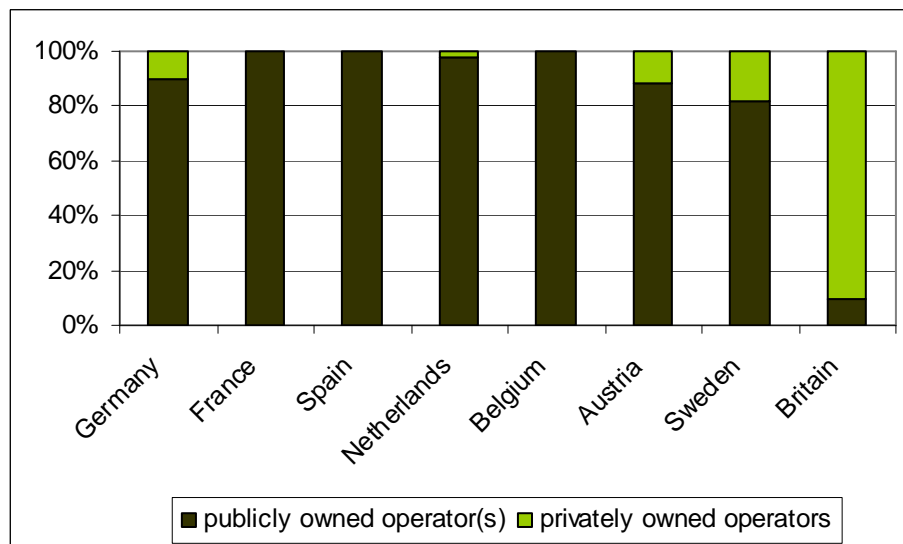
Some of these Deutsche Bahn profits come from three franchises operated by its subsidiaries in the UK – Arriva Trains Wales, Arriva Cross-Country and Chiltern railways – as well as UK freight operations by DB Schenker. So, as well ensuring that its own railway does not leak money as private dividends, the German Government is achieving higher investment in German railways by capturing monies that could have been invested in the UK railway if the UK Government had not let them leak out as corporate profits.

5. How would it work?

5.1 Examples from other countries

In most European countries apart from Britain, the tracks and other infrastructure are publicly-owned and there is also a publicly-owned train operator that provides the majority of passenger train services (see Figure 2).

Figure 2: Passenger market share of private and public operators in Europe^{29 30}



Comparable figures not available for Switzerland or Italy, but in both countries passenger operations are almost entirely by state-owned rail company

There is no shortage of European examples showing how a unified railway operation can be achieved within EU laws. Spain, Germany, France and Switzerland (which operates under EU rules on rail, despite being outside the EU) all have highly-regarded railways that are undergoing significant development.

The track and train operations vary in whether they are:

- distinct departments of a single corporation (Switzerland)
- separate companies under an over-arching parent corporation (Germany), or
- separate companies (France, Spain).

They also vary in the closeness of their relationship to the government ministries responsible for rail, although there is generally an arms-length relationship to meet EU requirements. However, in each of these countries, there is a strategic relationship with the government ministry that determines a forward-looking plan for what the country wants from its railways and agrees public finance over a number of years to achieve the agreed investments.

5.2 Choices for reform in the UK

There are choices about how a future government might rebuild the railways. But some key themes have emerged from the research so far:

- in place of the current fragmented system, a single overarching 'guiding mind' is needed to make sure that the railway operates as a coherent whole
- it makes economic sense to bring train operating companies back into the public sector at no cost as franchises expire or fail
- maintaining Network Rail as a not-for-dividend company incurs substantial debt service costs, which would be reduced by bringing the company back under public control
- the leasing of rolling stock is a hugely expensive way to obtain our trains, and a shift from 'hire purchase' to buying trains outright is needed
- there may be benefits in establishing a publicly-owned freight operator, although EU rules mean this would not completely replace private rail freight companies

These themes are explored below. Other points, which are starting to emerge from our interviews with external experts, will be examined in the final report.

A guiding mind

The absence of a 'guiding mind' that ensures that the whole railway is operating as a coherent whole, developing in a shared strategic direction, is one of the big issues for the British system. Whilst governmental input is essential to set out what we want of our railways and to represent the interests of public finance, it also needs a coherent railway organisation to deal with. This is a possible argument in favour of the Swiss or German models where an overarching public body spans divisions (or subsidiaries) responsible for infrastructure and passenger train operations.

Train operating companies

Moving to a coherent structure from the present unsatisfactory railway set-up does not need to be done in one 'big bang'. It would be essentially free, and easier, to unify train operating companies into one 'passenger operations' organisation as the existing franchises expire or as the train operating companies fail to meet their franchise conditions – which on past evidence will happen regularly.

This 'passenger operations' organisation will need to be separate from Network Rail in terms of accounting, due to EU rules requiring separation of accounting functions for train and track, but both could be brought under the single over-arching entity that would provide the 'guiding mind'.

The gradual process of bringing passenger operations into the public sector would provide a comparator against which the performance of other operators could be benchmarked. Evidence to date shows that where franchise operations have, perforce, been taken back by the DfT to run under public control they have significantly outperformed the private franchise operators³¹. The process of taking the railways back into public ownership could be undertaken in such a way that it proves

its worth as it progresses. The immediate potential gains from reuniting passenger services under public ownership are all monitorable and capable of being tested: lower costs; higher performance; greater customer satisfaction. The process to rebuild the railways could monitor these factors against residual private operations that anyway cannot be entirely removed immediately.

Our final report will consider points made by some interviewees about the role of PTEs, the Scottish and Welsh Governments, and Transport for London, in relation to passenger operations.

Network Rail

Network Rail, whilst in receipt of considerable public funds, has very inadequate accountability to government for how it spends that money. Its large debt is significantly more expensive to service because of its status as a private company nominally independent of government. There are anyway increasing arguments that the off-balance sheet nature of Network Rail's debt is anomalous, as the Government ultimately bears the risk³². All these problems would be solved by bringing Network Rail into the public sector, as a division or subsidiary of the publicly-owned 'guiding mind'.

Rolling stock leasing companies

Since the time of privatisation, there have been repeated questions about the rolling stock leasing system, focussing on the large profits being made by the completely unregulated ROSCOs. For example, Angel Trains had a profit margin of 60% in the seven months to December 2010³³. The present absurdity of leasing rolling stock from leasing companies which enjoy a largely monopolistic market position should be ended as soon as possible. A 'passenger operations' organisation would not be obliged to fulfil future rolling stock requirements from the ROSCOs, and could instead procure new trains directly, using either government grant or government-backed debt. New train procurement should include an objective to support and rebuild the imperilled remnant UK train manufacturing industry.

There remains the problem that existing rolling stock owned by the ROSCOs will still be needed. A new government could propose a reduction in lease rentals in return for a usage guarantee on the ROSCOs' stock. If no agreement were reached, the government could introduce regulation to control lease rentals, with an independent expert determining a fair price for the remainder of the life of the stock.

Freight operations

Freight operators are at present entirely in the private sector and competition in this sector is required under EU law. There is, however, no EU rule that would prevent a publicly-owned freight operation being set up as a division or subsidiary of the 'guiding mind', in fair competition and exploiting its potential systemic efficiencies (e.g. depots with drivers that can operate across passenger and freight routes) to out-compete existing private operators. This approach could offer the political advantage of proving that reassembling the railways under public ownership is cheaper than privatised options.

The private freight operators are profitable companies and therefore could be expensive for the government to purchase. Since any freight operator who was bought out is guaranteed a right under EU law to re-enter the UK rail freight market it is anyway unclear what purchase might achieve.

Rail regulation

Although it complicates matters, the UK will probably need to retain an independent rail regulator, although probably with modified terms and powers, to oversee access arrangements to UK railways for private operators where EU rules insist upon it, which at present only means freight services and international passenger services through the channel tunnel.

6. The perceived obstacles to reuniting the railways under public control

The three big obstacles to reuniting the railways under public control are the belief that the private sector can run a railway more efficiently than the state; the concern that it would cost too much to buy back the assets that have been sold off; and the fear that any action would run counter to EU law. All these obstacles can be resolved.

6.1 'Public funds should not be used to own a railway'

Since the 1980s it has been political anathema to suggest that the state is best placed to own and operate any kind of assets, albeit that with the banking crisis and failure of Railtrack some ministers surprised themselves by becoming nationalists.

In the case of the railways, however, the evidence points to a huge saving to the taxpayer every year if the railways were regained as a public asset. Of the public monies paid to the railways in 2009/10 (£4.6 billion), more than a quarter (£1.2 billion, or 26%) drained away as dividends, debt interest payments at rates above those paid by government, and on costs of interfaces between different parts of the privatised railway.

There is potential for greater efficiency through unified operation under public ownership. Despite its inefficient reputation in passenger folklore, the last year of British Rail actually saw UK railways achieve 56% more train kilometres per member of staff than the European average³⁴. Since privatisation, fewer passenger kilometres have been achieved for each member of staff³⁵.

6.2 'Acquiring the railway will cost too much'

Through a step-by-step approach, the railway's assets could be reacquired for the public at minimal immediate cost, with substantial ongoing savings being realised over time.

Considering the train operating companies, the cheapest (and easiest) approach is to acquire these as franchises expire or as companies fail to meet franchise conditions, which on past showing is liable to happen regularly and might be more frequently precipitated if franchise conditions were strictly enforced. No costs accrue to government if it waits until expiry of a franchise. There is a cost to regaining a franchise from a failing franchisee, but this is less than the cost of a bail-out. For example, in the case of Connex South Eastern, the administrative and legal costs

plus residual liabilities amounted to some £6.6 million, of which £2.8 million was recovered from Connex and the NAO considered that more could have been³⁶.

Whilst up-front costs can be minimised by playing a waiting game, there may come a point at which the one-off cost of buying out the remaining franchisees is justified by savings from a completely unified operation that avoids the ongoing costs of residual fragmentation.

Considering infrastructure, Network Rail does not require to be repurchased. It merely requires steps to make it properly accountable for the public monies it receives. Formally making Network Rail a public body would mean that its £24 billion debt would show on the government balance sheet as public debt. This would save £156 million per year because of the government's superior credit rating³⁷.

Regardless of how the railways are managed in future this debt is utterly unsustainable for the future of the railway and will in any event need to be shouldered by government at some point. The history of railways all over the world shows it is not feasible to make sufficient operating profit to significantly reduce this level of accumulated debt. The countries with the world's best-maintained best-run railways accept that they can only make profits on some parts of their operations and recognise that social, environmental and economic benefits justify use of public money for investment in railway improvements and to support important services.

The approach we are proposing for rolling stock will also deliver savings to the public purse. Direct procurement of new trains would be cheaper than leasing new trains from the ROSCOs. Existing rolling stock would still be leased, but costs would go down through regulation of the rolling stock leasing market to ensure a fair price.

6.3 'In breach of EU Rules?'

Despite arguments made at the time of UK rail privatisation, European legislation does not dictate that railways must be privatised.

Do EU rules state that railway tracks and other infrastructure must be put in private hands? – No.

Do EU rules state that train services cannot be operated by a Government-owned enterprise? – No.

But the UK decided upon this course of action nevertheless. In fact, the EU Commission has so far failed to secure member states' agreement that internal passenger operations should be open to private competition, although it will try again next year. Even the latest 'recast' of EU rules, presently going through the European Parliament, only re-states the existing laws that national rail networks must be open to private competition for rail freight operations and cross-border passenger operations.

The key stipulation in EU legislation is that railway infrastructure and train services must be run in such a way that they have separate financial accounts. Other EU countries have, in various different ways, achieved this whilst largely or entirely retaining public ownership of their railways.

6.4 'A licence to strike?'

There is a tabloid canard that national publicly-owned industries equate to more industrial strife, with the public at the ransom of muscular unions. In reality industrial relations on the railways were better under BR, and there has been a considerable worsening of industrial relations since privatisation. In the seventeen years from 1979 to 1996 there were only 8 strikes; whereas there are now a number of serious pay disputes every year³⁸.

7. The political programme for railway reform: now and from 2015

Our final report will examine in full the actions that Labour would need to take to reintegrate the railways under public ownership. Here, we summarise some practical steps that are already clear – some of which can be taken immediately – and outline areas that we will be examining further as the research progresses. We also look at the broad policy position that the Labour Party could adopt in relation to rail reform.

7.1 Practical steps for rail reform

For **passenger operations**, the Labour Party could:

- promise that no new franchises will be signed under a Labour Government, and that as franchises expire, passenger operations will be brought together under public control
- state that any franchising negotiations for Great Western, Essex Thameside, Thameslink, InterCity East Coast, South Eastern, Greater Anglia or Northern / Transpennine³⁹ that were still ongoing at the time of a change of government would be halted
- say now that there should be break points in all longer franchises let under the current Government, to allow for review including termination
- campaign through the European Parliament against the European Commission's stated intent to force member states to open their domestic passenger services to competition.

In the next stage of this project we will explore:

- the implications of terminating some franchises before they expire, so that a programme of reform could be accelerated.

For **rolling stock**, the Labour Party could:

- promise to regulate the ROSCOs' oligopoly to prevent profiteering.

In the next stage of the project, we will explore options including:

- 'fair price' regulation involving an independent expert; claw-back of excessive profits; buying back existing rolling stock from the ROSCOs; and a programme of accelerated investment in new publicly-owned rolling stock.

For **Network Rail**, the Labour Party could:

- promise to realise immediate savings of £156 million per year by bringing Network Rail's debt onto the public balance sheet, and further savings of at least £200 million per year by progressively bringing renewals and enhancements in-house.

In relation to **governance**, the next stage of the project will look at how a Labour Government could:

- involve passengers and the workforce in creating a better railway.

In relation to **fares**, the Labour Party could:

- promise that money saved from putting the railways back together will translate into lower fares in real terms for passengers.

The next stage of the project will also examine the practical steps that the Labour Party could take to:

- give a greater role to the regions, Greater London Authority, Scottish Parliament and Welsh Assembly Government in improving local train services, within the context of an integrated national network
- rebuild domestic train manufacturing capacity
- achieve more investment, lower fares and better services, as in the most successful European countries.

7.2 Policy for rail reform

The actions above should be in the context of an over-arching Labour Party strategy to Rebuild Rail. At this stage, this should have the following key policy elements:

- The UK railway system should be as integrated as possible within the constraints of EU law.
- The present fragmentation of the UK railway system and its attendant costs will be progressively reduced, taking advantage of all economical options to achieve this end.
- The UK railway system should be a railway for all, not an expensive service for a social elite. Over time, fares will be brought more into line with those in Europe.
- Public money being paid to the railways to fulfil social, economic and environmental objectives, whether as subsidies or fares, should not leak out as private profits and dividends. Leakage will be eliminated as far as possible within EU law by seeking, without excessive cost to the public purse, to regain public ownership of parts of the railway where such losses are occurring.
- The UK railway's potential to contribute to Britain's long-term prosperity and to an effective industrial strategy will be developed to the full, through support for regional rail services; investment in the freight network; and rebuilding domestic train manufacturing capacity.

Political steps need to be taken now to set Britain on the path to a reunified railway that offers the public a service they can be proud of. All of these political steps can

and should be made openly and in public. Now is the moment to set the signals at warning for the train operating and rolling stock companies. Such signals should be clearly given and mandated through electoral support so that commercial interests are forewarned and can adjust their investments accordingly.

The evidence of the last 17 years is that a privatised railway is too expensive, too bureaucratic, and too unresponsive to passengers and local people. Labour can do better. The arguments are clear and common sense and can command broad public support. It is time to lay it on the line.

¹ Campaign for Better Transport (2011) *The McNulty value for money review of the rail industry – Campaign for Better Transport briefing*

² Just Economics (2011) *A fare return: ensuring the UK's railways deliver true value for money*. This is the additional payment because Network Rail is not in the public sector (i.e. the difference between private and public sector borrowing costs). Total annual borrowing costs were £1115.4 million in 2009. Annual figure is for 2009; cumulative figure is for 1997-2009. Just Economics (2011) *A fare return: ensuring the UK's railways deliver true value for money*

³ McNulty R (2011) *Realising the potential of GB Rail: final independent report of the rail value for money study, detailed report*, for DfT / ORR. This report says that Oxera estimate that interfaces between train operators and Network Rail are substantial, perhaps 5% of TOC costs. It puts TOC net costs (excluding Network Rail access charges but including ROSCO charges) at £5.8 billion in 2009/10. This suggests that interface costs between train operators and Network Rail are about £290 million per year. Note also that Oxera / Arup (2010) *Review of rail cross-industry interfaces, incentives, and structures: options to reduce industry net cost* Report to McNulty value for money study for DfT / ORR: states that 300-500 staff are employed at Network Rail and operators for delay attribution.

⁴ Jupe R (2009a) *New Labour, public-private partnerships and rail transport policy* Economic Affairs 29(1) pp20-26, and Just Economics (2011) *ibid*. Network Rail saved £264 million per year by bringing maintenance in-house, but 70% of infrastructure expenditure (renewals and enhancements) remains outsourced, and it seems likely that Jupe's estimate that bringing this in-house could save £200 million per year is conservative. Cumulative figure is for 1997 – 2009

⁵ Just Economics (2011) *ibid*. Annual figure is for 2009; cumulative figure is for 1997-2009

⁶ Just Economics (2011) *ibid*. Annual figure is for 2009; cumulative figure is for 1997-2009

⁷ Jupe R (2009a) *ibid*. Cumulative figure is for period between 1995/96 and 2000/01, when Railtrack went into administration

⁸ Jupe R (2010a) *A model or a policy muddle? An evaluation of rail franchising in the UK* Public money and management 30(6) pp347-354; Just Economics (2011) *ibid*.; RMT (2010) *Integrated, publicly owned and publicly accountable: RMT submission to the Government rail value for money study*. Estimates vary. Lower cumulative figure is for period 1997-2009; upper cumulative figure uses different assumptions about portion of dividends attributable to UK rail and is for 1997-2010.

⁹ RMT (2010) *ibid*.; Shaoul J (2007a) *Leasing passenger trains: the British experience* Transport Reviews 27(2) pp189-212. Cumulative figure is for 1996 – 2009.

¹⁰ Crompton G and Jupe R (2003a) *'Such a silly scheme': The privatisation of Britain's railways 1992-2002* Critical perspectives on accounting 14(6) pp617-645. ROSCOs were sold off in 1996 for a total of £1.8 billion, but by the end of 1997 all three had been sold on for £2.7 billion. The NAO concluded that taxpayers had lost £1.1 billion over this sale, and that the Government was at fault in failing to include a clawback provision in the terms of the sale

¹¹ Crompton G and Jupe R (2003a) *ibid*. To make Railtrack's flotation attractive to prospective shareholders, the Government wrote off debt of £1.5 billion and introduced new debt of only £586 million (subsequently reduced by £225 million to allow Railtrack to finance Thameslink 2000). It also transferred liabilities of £1 billion for the upkeep of 1000 bridges to local government. A privatisation dividend was also paid to shareholders, costing £69 million, and paid for from surpluses while the company was still in the public sector

¹² Shaoul J (2007a) *ibid*. The ROSCOs make annual interest payments of between £127 million and £203 million (figures are for the period 1997-2004)

¹³ Crompton G and Jupe R (2007) *Network Rail – forwards or backwards?: 'not for profit' in British transport* Business History 49(6) pp908-928; Jupe R (2009a) *ibid*. These studies concluded that project management capacity in Network Rail is unequal to the complex task of organising many layers of contractors and cost-contractors, leading to poor cost control and wasted expenditure. Jupe R (2009a) cites one study for the ORR which found that of 798 renewal projects, only just over 60% were fully justified

¹⁴ RMT (2011a) *Paying for privatisation: RMT briefing on the McNulty report into the railways*; House of Commons Public Administration Select Committee (2009) *Top pay in the public sector*. Sixth report of session 2009-10. CEOs of TOCS and Network Rail typically receive remuneration packages of £640,000 - £1.35 million per year, comparable to typical annual earnings of a FTSE mid-250 CEO; CEO of publicly-owned Directly Operated Railways receives a substantially lower salary, though still generous by comparison with other senior public sector roles (–£436,000 per

year). A reintegrated railway would require fewer chief executives, and would offer remuneration that was in line with public sector salaries, which are typically 10-25% of those of a FTSE mid-250 chief executive

¹⁵ House of Commons Transport Select Committee (2006) *Passenger rail franchising* Fourteenth report of session 2005-06. Cost of bidding for each franchise is £3-5 million per TOC, and cost of DfT managing the franchising process is £2.5 million per franchise awarded, giving a typical cost of a franchise award with just three bidders of £11.5-17.5 million. To this should be added start-up costs of the new franchisee, put by TfL in evidence to the Select Committee at £2-5 million

¹⁶ Shaoul J (2006c) *The cost of operating Britain's privatised railways* Public money and management 26(3) pp151-158 cites the example of the £58 million bail-out of Connex South East in 2002

¹⁷ Shaoul J (2006c) *ibid.* cites National Audit Office (2004) *Strategic rail authority: improving passenger rail services through new trains*. This found that the SRA had paid an additional subsidy of £760 million to four TOCs to offset costs associated with new trains they had been required to commission that were unreliable

¹⁸ Murphy R (2007) *Tax paid by railway companies* A report for the RMT. In the period 2002 to 2006, the train operating companies and rolling stock leasing companies paid tax at a rate which fell from 18.7% to 7.9% (and was just 3.8% in 2005), at a time when the headline UK corporation tax rate was 30%. Over this four year period, £731 million was not paid as a result of the low tax rates the industry enjoyed. There has been no estimation of the amount of tax not paid since 2006

¹⁹ Jupe R (2010b) *A poll tax on wheels: might the move to privatise rail in Britain have failed?* Kent Business School working paper 22

²⁰ Passenger Focus (2009) *Fares and ticketing study: final report*

²¹ Centre for Cities (2008) *City links: integration and isolation*; also The Guardian 18 March 2008 *Poor transport links hit wealth of outlying northern towns*

²² http://www.bettertransport.org.uk/campaigns/public_transport/rail/lines_that_should_reopen/top_36, accessed 9 September 2011, includes a list of the 'top 36' lines that should re-open.

²³ Information supplied to Unite by Bombardier

²⁴ CRESC (2011) *Knowing what to do? How not to build trains*

²⁵ Hansard 14 February 2011, column 640W. Figures are for the period between 1997 and 2010.

²⁶ YouGov poll, 20-21 October 2010, results available at <http://today.yougov.co.uk/commentaries/peter-kellner/more-bouquets-brickbats-spending-cuts>, accessed 15 September 2011

²⁷ <http://www.bettertransport.org.uk/media/oct-5-yougov-poll-fare-increases>, accessed 15 September 2011

²⁸ Deutsche Welle 7 April 2011 *Deutsche Bahn to Pay its First Ever Dividend*, <http://www.dw-world.de/dw/article/0,,14971427,00.html>, accessed 9 September 2011

²⁹ European Commission (2009) *Report from the Commission to the Council and the European Parliament on monitoring development of the rail market. Commission staff working document*

³⁰ Civity (2011) *International whole industry including train operating cost benchmarking*, Final report to the Rail value for money study for DfT, ORR

³¹ Jupe R (2005a) *What counts is what works? New Labour and rail franchising* Public money and management 25(3) pp142-144

³² Jupe R (2007a) *Public (interest) or private (gain)? The curious case of Network Rail's status* Journal of Law and Society 34(2) pp244-265; McCartney S and Stittle J (2006) *'Not our problem': UK government's fiscal obligations towards the privatised railway network* Accounting Forum 30(2) pp139-153

³³ House of Commons Transport Select Committee (2011) *UK rolling stock procurement* Written evidence from Unite, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtran/writev/rollingstock/rsp10.htm>, accessed 15 September 2010

³⁴ RMT (2010) *ibid.*

³⁵ McNulty R 2011 *Realising the Potential of GB Rail*, Report of the rail value for money study, summary report, for DfT and ORR, Figure 2.4

³⁶ National Audit Office (2005) *The South Eastern passenger rail franchise: summary report*

³⁷ Just Economics (2011) *ibid.*

³⁸ RMT (2010) *ibid.*

³⁹ According to the franchising programme announced by Transport Secretary Philip Hammond on 5 August 2011, these franchises are all scheduled for re-tendering with contracts to be announced between December 2012 and April 2014. However, it is possible that the timetable for this round of franchising could slip beyond May 2015, or that a General Election could take place before this date.