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HOUSE OF COMMONS TRANSPORT SELECT COMMITTEE

RESPONSE BY RAILFUTURE TO REFORMING THE RAILWAYS

Railfuture is pleased to submit this response to the Reforming the Railways inquiry that has been prepared by the Policy, Lobbying & Campaigns Committee.

Railfuture is a national voluntary organisation structured in England as twelve branches and two national branches for Scotland and Wales.

**Introduction:** It is difficult to define the extent to which the railways are subsidised and how much is taxation and how much is investment. Taking into account the large sums of money which the industry returns to government through taxation, premium payments and profit sharing arrangements, it is clear that the net cost of the rail industry is significantly less than the figure currently being used to determine fares policy and that assumed by the Sir Roy McNulty inquiry. Including indirect taxes, it is now estimated that Network Rail alone pays taxes under 19 different headings, many of which British Rail did not have to pay as a Nationalised company and many of which would not have been in place when British Rail was in existence. One such is Industrial Buildings Tax, which Network Rail has to pay on structures like bridges, tunnels, viaducts and even embankments. Furthermore, unlike the privatised railway, British Rail did not have to pay insurance let alone insurance tax. This is not a plea for not taxing the railway but drawing attention to the fact that it is not possible to compare the cost of British Railways with the cost of the railways now.

**Question 1:** *What should be the government's vision for the railways in 2020, taking account of likely spending constraints? How should the balance be struck between taxpayer and the fare-payer?*

**1.1** In 2020 the government should look to having the major schemes that are either under construction or on the drawing board completed within this timescale.

**1.2** Thameslink upgrade, Crossrail, Great Western & the North West Triangle electrification, Northern Hub, Reading and New Street stations should all be completed and working as required. The government should have in place a strategic plan for the future development of the rail network, which lines should be developed, which should be expanded under the strategic freight network, which are suitable for conversion either to light rail or tram-train operation and the infrastructure developed accordingly.

**1.3** Rolling programmes for electrification and capacity enhancements should be in place. The speed of implementation would be adjusted to suit the financial situation but work should not be stopped. In the past, the stop start policy has been costly with the break up of construction teams and assembly lines, requiring it all to be put back together again before work can restart.

**1.4** In 2020 the most pressing need will be for the provision of more capacity. External factors will generate continued strong growth in demand for rail transport. Population growth, higher oil prices and the trend away from car ownership will all play a part in further mode shift to rail. About one third of young people under the age of 26 do not now own a driving license and the number of men up to the age of 39 and women up to 29 in possession of a driving license is reported to have been falling for the last ten years.

**1.5** Railfuture is concerned that the government has underestimated the future cost of oil from an assumed low figure of \$75 per barrel to a high of \$170 in 2030. This seems grossly unrealistic when it is remembered that the price has already exceeded \$125 per barrel in 2012. In addition, environmental concerns will combine to generate strong growth for rail transport and in parallel with a rolling programme for electrification government will need to have in place a rolling programme for new rolling stock and rail served freight terminals.

**1.6** Generally speaking, rail expenditure is twofold, firstly operating and maintenance and secondly investment in enhancements. Whilst it would not be unreasonable to say that the former should be in

balance between cost and fare income, it must be remembered that Network Rail inherited a huge backlog of maintenance and renewals from Railtrack and British Rail before it. Much of this backlog has now been cleared and there is evidence that costs are now falling as a result. However, there will always be a need for some services to be subsidised through revenue support for social and wider economic benefit reasons and, to its credit, the present Government has recognised this.

**1.7** Railfuture would caution against experiments with vertical integration for a number of reasons. Firstly, it is vital that Network Rail is maintained as a unified national network for reasons of impartiality and to maximise economies of scale. Secondly, fragmentation is acknowledged as a major cause of rail industry costs and vertical integration would increase fragmentation and create more interface issues. Thirdly, a franchise system cannot work satisfactorily with vertical integration because, without certainty of future ownership of the franchise, operators would tend to neglect investment in maintenance, renewals and enhancements as a franchise approached the end of its term. We therefore urge that alliances and “virtual” integration should be allowed to develop as currently proposed by Network Rail.

**1.8** It is an unfortunate fact that much of the recent growth in rail patronage has occurred at times of day when the railway is already operating at or near capacity. Nobody travels in overcrowded trains by choice but out of necessity and further juggling with fares will make little if any difference. A high proportion of rail industry costs therefore results from the need to provide capacity to cater for huge peak demands with about one third of passenger rolling stock used for just one journey each way per day for 5 days per week. At around £1.5m per carriage, the high cost of catering for peak commuter traffic can be judged. The national trend to work in city centres as manufacturing and traditional industries have declined has exacerbated this problem. However, failure to cater for this demand would damage the economy by making access to jobs and education more difficult whilst increasing road congestion, pollution and accidents.

**1.9** Railfuture therefore considers that the balance between fare payer and taxpayer has already been reached. Fare payers are themselves taxpayers and further above inflation fare increases would simply price many people off the railway and make access to jobs more difficult. Nor should the wider benefit provided by rail transport to tax payers generally be under estimated.

**Question 2:** *How are the targeted efficiency savings to be delivered? What will be the consequences?*

**2.1** Longer franchises will reduce the cost of the franchising process, both for the DfT and the bidders. It is estimated that bidders each spend about £5m per bid and the DfT spends at least as much evaluating the bids. Short franchises distract management time from running the railway and creates a high workload for the DfT. Longer franchises could be phased so as to avoid peaks when several renewals occur simultaneously, allowing the DfT to work more efficiently and provide greater stability whilst encouraging private sector investment.

**2.2** Closer collaboration between Network Rail and train operators should help create more efficient working practices, reducing perverse incentives and giving operators more control but, other users concerns such as freight companies must not be overlooked. It is probable that there would be pressure on Network Rail to carry out as many maintenance and renewal works as possible at the same time when routes are closed for engineering work, reducing the number of closures needed. Single line working to keep routes open during maintenance on one track should be used wherever possible. Alternatively, trains should use diversionary routes rather than bus replacement services being deployed. Most importantly, closer collaboration between Network Rail and the operators could remove the wasteful need for compensation payments, which has a major influence on the cost of renewal and enhancement work.

**2.3** One of the suggestions in the McNulty report was the reduction in the number of booking offices to improve efficiency and reduce costs. This will be unpopular with the travelling public for a number of reasons. Firstly, ticket machines are suitable only for basic transactions and many passengers find them complicated. They do not sell the complete range of tickets and present problems for holders of oyster and freedom cards travelling outside the zone area. Machines will not answer queries. Where do I change trains? Which platform do I go from? What time is the next train etc.? Unmanned ticket offices usually

mean unmanned stations with all that that implies. Where ticket sales are lighter, staff can be asked to carry out additional duties and they could issue tickets away from the office using portable machines.

**2.4** There is scope to convert some routes to tram or tram-train operation and operating costs would be reduced because expensive signalling systems would not be required. More frequent services could be operated, making the service more attractive to passengers. Light rail systems can also be extended into town centres, making the route more accessible. Croydon Tramlink is just such an example where the previous single-track heavy rail branch line had a poorly patronised 45-minute interval service. Following conversion to a tramway and extensions into Croydon town centre and beyond with a 7 to 8 minute interval service, patronage exploded and the system now carries over 28m passengers a year. Conversion to light rail operation could also improve the efficiency of lightly used rural routes and enable service enhancements to be implemented by provision of automatic passing loops at minimum cost. Routes such as the Whitby branch, whose timetable is geared to the needs of school children but cannot cater for commuters and tourists, and the St Albans- Watford line, would be suitable candidates. We also note that an additional passing loop and more frequent service provided on the Falmouth branch has brought a significant increase in the number of passengers.

**Question 3:** *Will the reforms to rail franchises proposed by the government, including alliances deliver better services at lower cost?*

**3.1** The answer is “yes” in both cases, but because certain activities and obligations will still have to be met, the scope for cost reduction is limited. The cost of catering for peak loads has already been discussed above and this problem is likely to become more acute with demand growth. Operating more intensive services increases operating and maintenance costs and, at the behest of government, investment in capacity enhancements is funded from interest bearing loans at commercial rates from city banks and Network Rail now pays over £1.2 billion per year in interest charges alone. With future projects to be funded in the same way, this burden is set to grow considerably and combined with taxation and loan guarantee fees, we feel it is unlikely the cost savings of the order of magnitude envisaged by Sir Roy McNulty and in the Rail Command Paper could be realistically achieved.

**3.2** Community Rail Partnerships have proved their worth with an average of £4 worth of benefits for each £1 spent. They have very successfully promoted patronage, particularly on branch lines in Devon and Cornwall and the principal should be expanded.

**3.3** Railfuture remains concerned however, that seeking to put more and longer trains onto an already overcrowded network while trying to reduce costs is a very big ask.

**Question 4:** *How should fares and ticketing be reformed?*

**4.1** Fares are one of the most contentious issues with passengers sitting in adjacent seats often paying vastly different fares for the same journey. Most passengers think fares are poor value for money and too complicated. Journeys over different routes of similar distance also have vastly different fares. Restrictions on the use of off peak tickets are also a minefield with many rail staff often making mistakes apart from passengers. Ticket restrictions are also used as a devious way to increase fares. The common practice of charging full fare with no refund on the fare already paid should a passenger make the mistake of boarding the wrong train is wholly unacceptable and should be disallowed.

**4.2** The fares minefield could be made more easily understood by colour coding tickets to indicate if any train can be used or if the ticket is valid only for off peak or shoulder peak services. Timetables could also indicate ticket restrictions by colour coding each train. All tickets should be available at half the price of the equivalent return fare, enabling passengers to travel out during the peak period and return on an off peak service or vice versa. Anybody wishing to upgrade should pay only the difference, not the full fare.

**4.3** The idea of introducing discounted carnet tickets is to be welcomed. This will make it much easier for people with part time or irregular jobs to get to work without needing to purchase a season ticket, which

would only be partly used. Validation at point of use as is common practice in most continental cities would enable carnet tickets to be sold in shops, post offices and libraries, for example.

**Question 5:** *What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?*

**5.1** At a local level, this could be beneficial. Better station facilities and access to them could be improved. Integration of local bus services with rail could be encouraged. Local authorities could become more involved in supporting and developing train services. PTE's could gain more responsibility for specifying franchises train services. Closer cooperation between train operators and local authorities could improve efficiency and aid promotion of local services.

**5.2** In the absence of Regional Development Agencies however, there is a risk that Local Enterprise Partnerships will be too small to take an overview of strategic issues. Since most rail services are inter-regional, the overall effect could be detrimental. It would only take one LA with different priorities and little or no rail expertise but who see their problems only in road terms to make development of rail services difficult. For example, proposals to reopen the Oxford-Cambridge railway are currently supported by local authorities along the route but if only one LEP had a change of heart, this strategically important project could fail.

**5.3** Where services are self-contained or within the boundaries of one authority they could be "micro franchised" subject to oversight by the ORR. The Whitby branch and the Watford–St Albans lines could be suitable examples.

**5.5** Overall, Railfuture is optimistic that decentralising will improve working relationships between Network Rail, train operators and local authorities but concerns about the integrity of the wider rail network will need to be addressed.

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