railfuture

Railfuture response to Williams Rail Review

Introduction

Railfuture is an independent national voluntary organisation campaigning on behalf of rail users for better rail services over a bigger rail network. We would be pleased to discuss some of these issues with the review team and plan to submit further evidence before 18th May including points of regional interest.

Question 5.1. Commercial models for the provision of rail services that prioritise the interests of passengers and taxpayers.

The standard model is the **franchise model.** It has evolved considerably since franchising was first applied upon privatisation of BR. The ITTs include encouragement to provide benefits to passengers but the competition is judged on franchise value, i.e. minimising the cost of the franchise to the taxpayer or maximising premiums paid to the taxpayer. This approach subordinates passenger priorities and incentivises bidders to overbid on revenue, as well as bidding service improvements that the industry cannot deliver in a timely way owing to lack of agility (please see response to Q 5.6). Additionally, in attempting to deliver investment the operator is not fully in charge of the supply chain as would be largely the case for example in the motor industry.

The key challenge here is how to retain the benefits of competition whilst addressing these supply side issues and revenue optimism.

The **concession model** works better in terms of accountability where provision of rail service is seen as directly part of an economic or transport plan for a city or region, such as London, with the London Overground Concession. This model applies to many, if not most urban transit systems worldwide, where fares are fixed by the sponsor as part of an integrated transport system. Whilst revenue risk is confined to performance incentives, risk is still with the operator for the operation.

Direct contract. This approach is similar to the concession model, often used in the provision of local authority services. It is not treated here, as the necessary incentives soon move this into the area of the Concession model. It has been used of course in the case of franchise failure.

Open access. This approach, carefully nurtured by the ORR, has worked well for freight customers. The competition is directly between the customer and the freight operator for freight service. The key point here is that all freight on the network is open access and it needs a national network to work.

Open access has not worked as well for the passenger, devoid of a level playing field and only really viable when provided by another, usually state operator as a way encroaching on other franchised operations. This approach has not addressed franchise value and so sits uneasily with the franchise structure. Nevertheless, although all open access operators have targeted competition on core rotes, they have had to convince the Office of Rail and Road that new markets are served bringing benefits to cities such as Hull, Sunderland and Bradford and potentially, Lincoln, all of which are only served by a token franchised Inter City service. There are various options to put such operations on a sustainable footing, including adding viable service from such locations into future franchise specifications. Alternatively an attempt could be made to put open access on a sustainable level playing field footing, by providing strategic advice to would be operators on what additional rail service would be welcomed as seen as sustainable in terms of available infrastructure capacity. This approach suggests a competitive bid approach.

Management competence and employee involvement. Irrespective of the model applied to any particular situation, many current issues can be attributed to the loss of career development over the long term for management. For all its faults, BR had a good management development set up and proper succession planning. That has all gone with fragmentation. Nationalisation is not proposed as the solution, but a way has to be found to nurture talent and develop it. The Institute of Railway Operators is a cross industry attempt at this, but something bigger and better is needed for all disciplines, not solely operations.

Whatever model is seen as appropriate to the particular operational circumstance, it is clear that the employees, although protected by TUPE at franchise change, should have a minority share interest in the success of the operation and be seen as the company by its customers, because they are part of it. Many customer service issues could be addressed by employee participation in the companies providing service. This could be democratic or non-democratic, with provision for this element to continue at franchise change in parallel to a TUPE transfer.

State operation and devolution. Worldwide experience suggests a general move away from state operation, for legal reasons such as in the EU, but also on grounds of efficiency. Worldwide benchmarking particularly of urban and transit systems suggests that public sector operations are high cost and less customer focussed than concessions, hence the move towards concessions. The French state operator is looking towards replacing the whole passenger system with route concessions.

State operation in Britain has not sat comfortably with devolution to PTEs/ITAs, some of which have resorted to light rail partially on account of this. If rail operations are to require subsidy, ie particularly urban operations, they must fulfil a purpose in terms of contribution to the regional economy and hence need far more accountability to devolved government.

For **freight,** although BR moved towards customer focus by the creation of sectors and indeed privatised freight, seen as a dog, to a single operator (other than Freightliner to the management). Serious growth, expressed in tonnage terms, moving from declining coal to other commodities, particularly construction materials, and intermodal freight, only occurred when competition was introduced by the entry of other operators. This suggests that the Rail Review should maintain the existing arrangements for freight on the rail network, including a continued role of the ORR in policing access and access pricing. However Britain is unlikely to see a more strategic transfer from road to rail unless barriers to entry to using rail are re-addressed.

Question 5.2. Rail industry structures that provide clear accountability and effective joint-working for both passengers and the freight sector.

The current franchise structure is accountable to the shareholder, not the taxpayer, nor the customer. Given the cost of the franchise bidding process including the raising of large bonds, only other state railway operators or large existing transport conglomerates, tend to win franchises with bidding often motivated by wider strategic objectives. The popular perception about money going to foreign governments is evident, but the way the franchise contracts have developed with cap and collar the actual amounts are probably less than the cost of capital invested taking risk into account. Any review of franchising should take into account how franchising has evolved.

Change is needed to widen the bidding field to include smaller players by reducing the cost and complexity of the bid process and a proper understanding where risk lies. Similarly set up costs are too high also leading to inexperience in dealing with delivery of promises. Typically, bidding for a franchise costs about £30m (based on five bidders), a cost to the industry. Accountability can be increased by more prescription, as in a concession on what the government actually wants from a franchise rather than seeking for detailed compliance. Bidding cost can be reduced by simplifying the process and by careful attention to franchise length.

Increasing accountability is important and suggests that the answer may not be long franchises, unless major investment is involved, but that far more weight should be added to current performance and customer perception during the franchise bidding process, assessing the incumbent operator and also bidders who have other franchises. This suggests a two stage process with a pre shortlist evaluation based on past performance and how the operator is seen in terms of the stakeholder interface, ie not just on initial compliance to the ITT. Track record should count far more than grand or indeed peripheral ideas.

Seven year franchises should probably generally have an extension clause as many procurement contracts do, and subject to an audit before the term ends. The results of such an audit would determine whether government would wish to provide a direct award franchise extension. The franchisee would in this scenario have the right not to take up a franchise extension.

Whilst not particularly advocating long franchises, unless earned as described above, it is clear that franchisees would be more committed if they had more skin in the game in terms of capital invested in the franchise.

DfT should be an informed buyer in respect of franchise bid evaluation, but relies heavily on consultants who will tell them what they want to hear, and much of the appraisal is process driven with little strategic view on what is actually being procured.

Sub franchising. In the United States freight operators have long reduced the cost of operations by the creation of “short lines” or sub franchising. The only example of this in Britain, as far as we are aware, is the Stourbridge-Stourbridge Junction shuttle where novel technology has been applied which taken together with agreement on flexible train crew working conditions has resulted in a low cost, high quality operation. This is a direct contract with the franchisee ie a sub franchise which works well both in cost and passenger service terms. This is probably a far more cost effective model than micro franchising by direct central mini franchise competition. There are many elements of current franchises that might benefit from this approach with small teams of flexible staff on pay scales appropriate to local conditions.

Question 5.3. Systems that are functionally sustainable and able to address long term cost pressures.

The McNulty review suggested that costs of the railway industry were about 30% higher than they should be. This was referred to the industry itself, now termed the Rail Delivery Group, where no element of the industry had any incentive whatsoever to reduce costs. The only opportunity was the franchise bidding process but all the incentives for bidders are in the other direction in terms of increased revenue.

Railfuture's contention here is that this should be seen in the context of a growing railway, a railway that has seen passengers double over the past 15 years, a railway that has replaced coal by new traffic, particularly intermodal, with real environmental benefits. We can safely assume that this trend will continue in the medium and long term. This suggests a different approach should be taken from that suggested by McNulty, although his analysis was sound. The strategic solution advocated in terms of operational costs, is "bank the costs, increase the business within a sensible cost envelope". The tension must be to provide for growth but to do so essentially within existing resources, particularly staffing, by increasing versatility and efficiency of working until a McNulty level of efficiency is achieved. The current recruitment of staff to patch operational shortfalls is a hiding to nothing unless efficiency is addressed. The long term aim must be a focus on continued investment on a higher capacity railway operated efficiently.

The interface between Network Rail and the train operators could be seen as a weakness. Interestingly this has produced safety systems that have produced a continuous upward trend to the highest level of safety ever achieved on Britain's railways, certainly better than any railway in mainland Europe. The Review should ensure that this focus is maintained.

Network Rail. Developing effective joint working with Network Rail needs the right incentives as well the experience of more established management structure. This is difficult when senior management changes upon franchise change, just at the point when it is most needed. A standardised model of joint working is required that can transition seamlessly across franchise changes. The basis for this must be shared objectives of increased performance and cost efficiency with less focus on internal processes such as delay attribution. It is the delay that matters to the customer, not who caused it.

Rail industry performance, particularly – operational performance (Schedule 8) and engineering work (Schedule 4) compensation arrangements must be addressed if the industry is to be focused on the customer. Currently shortfalls on revenue on account of over bidding and economic uncertainty are replaced for by such compensation in many train operator accounts. A detailed analysis of the cost of within house trading might reveal that this is a significant driver of rail industry costs and management focus, also, possibly in some cases, dictating perverse behaviour not in the customer's interests, for example in the area of acceding to engineering possessions.

This suggests that focus on the product delivered to the customer should prevail over internal trading and the scope of what train operating companies do should be reduced. The concession model is an area where this potentially applies, where focus on providing good customer and operational service can be the driver, with all parties in the supply chain sharing both the benefits and risk of the complete operation. Currently each component of the supply chain protects its own particular element, totally subordinating action for the common good. This of course needs more continuity particularly down the supply chain.

The key driver must be how to increase overall output efficiently and focus.

None of this suggests combining operations and infrastructure into a regional structure helps, where new complexity replaces the current interfaces. The key here is simplifying this interface and the customer focus discussed, and allowing the operators to be responsive to devolved government. Freight development is not really tenable unless planned nationally, running on a national network, as is the road system.

Delivery of rolling stock is a key cost element particularly if it is unnecessary given surplus equipment in other areas. Serious consideration is advocated in terms of "rolling stock cascade" planning so that reduced rolling stock assumptions can be common to franchise bids. The rolling stock leasing companies are adapting intelligently to the huge current surplus of relatively modern rolling stock. However this is still a huge cost to the industry.

Question 5.4. A railway that is able to offer good value for passengers, while keeping costs down for taxpayers.

The rail industry cannot be seen as offering increasingly good value for passengers unless costs are under control. However the balance between how much the passenger pays and how much the taxpayer pays is a choice for government, a choice that becomes less difficult as the rail industry moves toward cost recovery. Railfuture's view is that the rail industry should cover its long term operational costs (opex) overall, but that local services which incur a deficit should be judged on their contribution to a devolved economy. Devolution allows such choices to be made. The revised franchise and devolved concession structure advocated here facilitates such an approach, reducing central government interference. Finance and capital project investment costs should be treated within the business case methodology against the potential improved contribution that a higher volume railway can bring to the economy.

Big capital investment schemes such as Crossrail have to be treated this way and could never be justified on transport only criteria (ref the business case for Crossrail).

In terms of devolved government and, preferably, concessions, cost efficiency is promoted by competition, and that the authority concerned makes investment in rail project and service choices, based on the cost and benefits of a rail option. This potentially increases rail value for money in that where a better or more cost efficient alternative is available, they have the ability to take it. In this context, rail is inherently a high volume product. For urban areas this works best in a planned integrated transport scenario such as in London where the buses are effectively regulated so that overall transport costs can be optimised. This potentially applies in other city regions where better integrated transport using rail as a core volume provider should be provided.

Fares increases. It is not difficult to understand why fares increases at RPI or RPI plus level are built into the franchise structure. This process is not particularly motivational in terms of incentivising efficiency. It is also hugely unpopular with passengers who clearly wish to see the rail industry trying a little harder to control its prices, given the pressures passengers are under. Reduction to a more realistic index (ie CPI) is advocated by Railfuture as likely to increase such incentives and indeed demonstrate that the government understands the pressures customers are under. This is an area where TOCs should be prepared to swallow a little squeezing of margins, not seeking compensation from government.

Passenger compensation. Of course compensation for undelivered or poor service is important, but compensation should not be seen as a replacement for the railway improving customer service and performance. It is perverse when compensation from Network Rail to train operator is greater than that paid out to customers, hence the importance of addressing internal compensation issues (Schedule 4 and 8 in particular). The danger is that, spurred on by the franchise bidding process, this is becoming an industry in itself, so in effect becoming a tax on the passenger. A standard approach across the industry is advocated.

Question 5.5. Improved industrial relations to reduce disruption and improved reliability for passengers.

Trade Unionism has generally served the railway industry well and history suggests that it is not without reason that they became an important part of the rail industry scene. They have a job to do, particularly at local level, in resolving local issues, and staff health and wellbeing and personal liability.

National collective bargaining. This is favoured by the unions and in fact union political campaigns for nationalisation are clearly, in part, driven by a wish to return to collective bargaining in the rail industry. The rail industry was privatised and fragmented in a way to reduce trade union bargaining strength. British Rail collective bargaining did not stop the largest, all industry, disputes ie removal of the fireman (later termed second man) years after steam trains ceased or the bitter dispute about Driver Only Operation on the Bedford to London line (now Thameslink) in 1983, now being acted out 36 years later across the country. Perversely, the industry has actually created a situation where nobody can afford to have a strike and the unions know this.

The benefits of collective bargaining were in the area of experience and expertise where, generally, a ballot for strike action was seen as a last resort rather than the first port of call. This process greatly facilitated the many reorganisations as traffic was rationalised or declined but was less successful, as it is now, in addressing more structural issues such a crewing levels.

The move to fragment the industry has resulted in a move to an increasing number of local disputes many resorting quickly to strike action where a strike ballot is seen as a mandate to negotiate, as also seen regularly on London Underground. The BR Management training programme, referred to more generally, in section 5.1, included a succession process where managers trained and competent in negotiation, were directed towards areas where change was seen as necessary. A rebalance of experience between seasoned union negotiators and managers perceived as rookies is required, probably in the context of general management training discussed earlier.

ASLEF in particular, have exploited the franchise system to play one TOC off against another creating a ratchet of ever more expensive drivers who get more money for working fewer hours. The DfT, by the way it evaluates the cost lines of bids, makes this worse by creating a situation where TOCs rely far too much on overtime and rest day working to keep the advertised service running. ASLEF exploit this very professionally.

Looking at some individual smaller rail disputes it quickly becomes evident that local union representation is, or should be, generally focused on representing the staff and the industry's interests. It is disappointing when issues have been resolved at local level that they are sometimes overruled at national level in pursuit of other, political, interests, encouraging strike action. This suggests that in terms of process, ballots for strike action should come later in the process and what local representation want to agree should have more weight in terms of the union position.

National level political issues need a separate space from local level representation on local operational issues.

There is also a serious communication issue in that the return to a 1983 dispute on Driver Only Operation has been exacerbated by far more effective central communications by the trade union, irrespective of the merits or accuracy of the content, than by rail management or the government. Rail management is therefore widely seen as incompetent and inconsistent, with no central authoritative figure to speak for the industry other than the Secretary of State. This is not his role. The Rail Delivery Group needs a stronger voice on national issues.

It is difficult to reform leadership at trade union national level and facile to propose improving relationships at local level. However this is exactly what is needed. Rail management has to be competent to do this and, has to be seen as having the authority to do so, thus elevating the confidence of local union representatives to agree on compromise in the best interests of the staff and the rail industry. Pricing out the rail mode is not in the long term interests of the staff, nor the public who have to pay for it.

Question 5.6. *A rail sector with the agility to respond to future challenges and opportunities*.

Any follower of the Institute of Logistics and Transport or indeed other supply industries knows that agility of delivery and resilience of the supply chain is critical to the success of the industry. The rail industry is well behind the curve on this, both in the area of immediate challenge and also long term opportunity.

Short term franchising has been cited as a reason for not tackling agility issues in areas such as the restructuring of rostering. The reality is that these are management issues, many of which require an all industry approach with a view to local implementation.

This includes attention to the following areas:

- **Staff job definition flexibility, including examination of practice overseas**
- **Local agreements -flexibility**
- **Link sizes and structure –smaller links for specific situations**
- **7 days a week rostering -potentially improving work life balance in reducing overtime**
- **Route knowledge training**
- **Traction training**
- **Rolling stock commissioning – including parallel processes reducing contractual handover delays**

These opportunities listed are not expanded here, but we would be pleased to discuss any of these areas with a view to increasing the agility of the rail industry so that it can realise its potential to adapt to change and indeed provide increased service in a cost efficient, timely way.

Question 5.7. Other

Railfuture has produced a Blueprint for the North, treating one particular region that has had serious issues in terms of rail delivery. This is an area where the issues and questions posed in the Rail Review have not gone well. It proposes a specific franchise and concession structure for this region in the context of devolution designed to provide accountability. Refer: https://www.railfuture.org.uk/article1817-Blueprint-for-the-North.

It is probably right to increase accountability significantly across Britain by such an approach, restructuring franchises over time into regional/long distance franchises and local concessions (grouped in this case as even local rail services cross local government boundaries.)

Railfuture is not a political organisation. Its purpose is to provide informed advocacy for a bigger and better railway in Britain that is sustainable, operationally, economically and socially. To be successful, the railway must rebuild trust with its users by fulfilling ten key customer demands, set out in our Rail Challenge 2019. Refer: https://www.railfuture.org.uk/article1815-Rail-Challenge-2019.

We would be pleased to discuss some of these issues with the Review Team and will be submitting further evidence before 18th May including points of regional interest.

Railfuture Board 18th January 2019

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