A Better Railway for Britain

Re-unifying our railways under public ownership

A Report by
Bring Back British Rail

October 2016

1993 RAILWAYS ACT
One of the most heavily amended bills in British parliamentary history

Rail Privatisation: A Timeline of Failures

SEPTEMBER 1997
Southall rail crash kills seven people and injures 139.[1] Great Western Trains is fined £1.5 million for health and safety violations.[2]

DECEMBER 1998
National Audit Office report finds that taxpayers lost £1.5 billion as a result of the government's rushed sale of shares in Railtrack in May 1996,[3] (in 2016, the equivalent of £2.3 billion).

OCTOBER 1999
Ladbroke Grove rail crash kills 31 people and injures 52. Thames Trains' poor driver training is cited as a major contributing factor.[4]

OCTOBER 2000
Hatfield rail crash kills four and injures 70. Railtrack's lack of knowledge and failure to maintain its track is blamed,[5] leading to plans to transform the company into a 'not-for-profit' trust.[6]

OCTOBER 2000
Strategic Rail Authority strips Connex of the South Central rail franchise, following criticism of poor customer service and financial management.[7]

OCTOBER 2001

After severe financial difficulties, Railtrack is placed into administration by Transport Secretary Stephen Byers[8] and replaced by the arms-length public body Network Rail in 2002.

MAY 2002

Potters Bar rail crash kills seven people and injures 76. Private contractor Jarvis is blamed for its failure to maintain points.[9] In 2010, Jarvis and Network Rail (having taken on Railtrack's liabilities) are charged under the Health & Safety at Work Act,[10] prompting Network Rail to take its track maintenance back in-house.[11]

JUNE 2003

Strategic Rail Authority strips Connex of the South Eastern rail franchise for poor performance and financial management.[12]

DECEMBER 2006

Department for Transport strips GNER of the East Coast rail franchise, after it falls into financial difficulties.[13]

NOVEMBER 2009

Department for Transport is forced to re-nationalise the East Coast rail franchise after National Express (which had taken over operations following GNER's failure in 2006) walked away with more than £1 billion of debt.[14]

AUGUST 2012

Department for Transport awards the West Coast rail franchise to FirstGroup prompting a legal challenge by Virgin Trains.[15]

OCTOBER 2012

The West Coast franchise competition is cancelled at a cost of £50 million to the government.[16] Virgin Trains and many other incumbent franchise holders are directly awarded extensions instead of opening them up to tender.[17] This undermines the very purpose of the franchising process.

SEPTEMBER 2014

Network Rail is finally fully re-nationalised to reduce its borrowing costs, enhance transparency and make it accountable to parliament.[18]

APRIL 2015

East Coast rail franchise is re-privatised, despite having returned nearly £1 billion profit to HM Treasury and delivering record passenger satisfaction and punctuality, whilst in public ownership from 2009 to 2015.[19]

APRIL 2015

West Coast Railways has its operator's licence suspended by Network Rail amid concerns over the company's ability to perform its safety obligations.[20]

SEPTEMBER 2016

The government announces a £20 million fund to address the crisis with the Southern rail franchise,[21] after it axes 341 services a day on the London to Brighton route to make the remaining services 'more reliable'.[22] Meanwhile Southern's parent company Go-Ahead reports £99 million annual profits.[23]

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Bring Back British Rail supporters at London Waterloo station in August 2011
Photo: Robin Prime

Preface
Ellie Harrison, Glasgow

It gives me great pleasure, after seven years of volunteer campaigning in which trains have totally taken over every spare moment of my life, to publish this: Bring Back British Rail's first report.

It was summer 2009, fifteen years after the ill-fated 1993 Railways Act came into force on April Fools' Day 1994, that I founded the campaign. I was (and I still am) a 'pissed-off passenger' pushed over the edge. With no specialist knowledge of rail policy at that time, I could tell from my own deeply frustrating experiences of trying to buy affordable tickets and interchange between the myriad different private Train Operating Companies (none of whom seemed prepared to take responsibility for problems and delays), that something was seriously wrong. Only a radical re-think of the whole system would suffice.

Bring Back British Rail became a battle cry. It chimed with so many other disgruntled rail passengers and disheartened train employees, who wanted to see a re-unified national rail network run in their interests.

That autumn, through the campaign's booming social media network, I met Oliver Lewis, the author of this report. Unlike me, he was from a conservative background; a young economics graduate and historian who specialised in rail policy. Despite our different perspectives, we formed a partnership and, since then, have worked together relentlessly to force the re-nationalisation of our railways onto the mainstream political agenda - not for ideological reasons, but as the only commonsense solution to the inefficient and unaffordable mess that privatisation has created.

As Bring Back British Rail's online network has grown to what is now more than 150,000 supporters,[24] we have been able to give a voice to the majority of British citizens,[25] who, like us, want to see our whole national rail network brought back into public hands. Some of the 10,000+ supporters' comments now archived on our website are quoted throughout this report (see p.8, p.18, p.24, p.28, p.35 and p.41).[26]

The people of this country spent decades building our public infrastructures, funding them with taxpayer money, only to have them sold off at a fraction of their worth.

Ben Guest, Winsford

In 2012, we were joined in our fight by other better-resourced campaigns: We Own It and the unions' Action for Rail. Their *Rebuilding Rail* report written by Transport for Quality of Life, and *The Great Train Robbery* (2014) written by a University of Manchester research team, provided all the facts we needed to back up our heartfelt demands.

It became totally clear that privatisation is failing everyone: taxpayers and passengers. For example:

- Our railways now cost 2-3 times more in public subsidies each year than they did as British Rail.[27]

- And yet, despite this, train fares have risen 24% above inflation, since the 1990s.[28]

Bring Back British Rail continues to collaborate with these organisations. However, we have ensured we retain our autonomy. Only we - **a volunteer-run campaign founded and funded by ordinary passengers** - have the real freedom to speak truth to power.

Not wanting to duplicate the research that's already been done, our report fills in some of the important history of our railways. Focusing on the innovative structure British Rail adopted in the 1980s to maximise its efficiency in the years before it was broken up and sold for £ billions less than its actual value (see p.2), it dispels all the myths that a publicly-owned national rail operator was an unwieldy and expensive beast.

This lost history of innovation in the public sector, in addition to the more recent success of the publicly-run East Coast (see p.4), provides vital evidence that public ownership can be our future, not just the past.

We cannot afford to take a piecemeal 'franchise by franchise' approach. Given that the inefficiencies of a fractured, privatised railway network are wasting £1.2 billion a year,[29] the deeply flawed rail franchising process (which itself costs £45 million per 'competition')[30] must be abolished without delay.

It is only re-unification; re-aligning all parties' interests under public ownership, which is going to achieve what we want - a comprehensive national rail service, which we can all afford to use and can start to take pride in once again.

Placard from the national Day of Action for Public Ownership of our Railways in August 2016

placard no.	3/4
issued	Aug. 2016

End the Farce of Franchising, Bring Back British Rail

bringbackbritishrail.org/franchises

Executive Summary

- The operational structure defined in the 1993 Railways Act has not delivered on expectations: dramatic customer service improvement and reduced government subsidy, more than two decades after it was passed.

- State support to the railway has in real terms been up to three times as much as it was in 1990, when the industry was run by public corporation British Rail (BR), and key performance indicators (such as passenger satisfaction and punctuality), after deteriorating substantially to 2001/2, are now only just above BR's last full year of operation (1993/94).

- The emergence of railway firms in the 19th Century set the precedent for how the modern Limited Company operates; for the first time business had to operate integrated tasks across multiple time zones (which themselves were eventually standardised to simplify railway timetabling). A railway by necessity requires national inter-operability and unified management structures.

- Previous cost problems on Britain's railway were matched by an innovative re-organisation by BR in the mid-1980s - 'sectorisation' - which created national passenger businesses and much improved inter-operability for customers. Government subsidy to the railways reached its lowest in recent history in 1989/90, the peak of success for sectorisation prior to the changes delivered by the 1993 Railways Act.

- Restoration of a new national rail company - British Railways - and British Rail's former 'sectorised' businesses would satisfy the demands of voters (including many Conservative and UKIP voters) who overwhelming support rail re-nationalisation (see note 25 on p.42). Its sole priority should be to sustain a high-level of investment while reducing the requirement for public grant.

Press cutting from the Daily Mail on 2 September 2016

Public fury Commuters using Southern have faced months of disruption and mounted a protest in Victoria station over the firm's failings

Southern Rail to be handed £20m bailout

Outcry as we pay to repair firm's trains ... and clear leaves on line

By **James Salmon**
Transport Correspondent

MINISTERS were last night facing fresh calls to re-nationalise Southern Rail after revealing that £20million of taxpayers' cash will be used to ensure more trains run on time.

The rescue package includes extra cash for Network Rail staff to clear leaves from the line and fix faulty tracks.

A new board, headed by former Virgin Rail executive Chris Gibb, will oversee the changes, which will be implemented as quickly as possible. But it was described as a 'sticking plaster' by one MP, who claimed it would make little impact.

The decision to use public funds to bail out Govia Thameslink Railway, the private firm that runs the Southern network and is a third French-owned, has incensed opposition MPs. Describing it as a 'reward for failure', they claimed this strengthened the case for bringing Southern back into public hands.

The row erupted as train guards prepare to stage a 48-hour strike next Wednesday and Thursday over the decision to hand responsibility for opening and closing train doors to drivers. A separate strike by station staff over the closure of ticket offices – also organised by the Rail Maritime Transport union and due to take place next Wednesday – was suspended yesterday.

Hundreds of thousands of commuters across the South East have endured months of disruption following a wave of strikes and engineering works.

In its first major intervention in the debacle, the Department for Transport said its package of measures would 'improve the performance' of the Southern network and 'restore passenger confidence'.

It includes a £2million investment to double the number of Network Rail 'rapid response teams' to fix faults in the track.

Another £2.5million will be spent repairing trains more quickly, while £800,000 will be invested in employing more signal supervisors. The Department for Transport told the Mail a further £3.5million will be spent on helping to prevent 'seasonal delays' – which means employing more teams to clear leaves and foliage from the lines to prevent disruption.

Extra staff will also be drafted in at key stations, including East Croydon and Gatwick.

Transport Secretary Chris Grayling said: 'I want the Southern network to be run by a team of people who work together to make sure passengers get decent journeys and that problems are dealt with quickly. We also need to get to grips with the things that go wrong on this part of the network.'

But he also accused trade unions of an organised 'campaign of disruption on the network'.

Labour politicians criticised the decision to divert more public money to prop up the struggling rail franchise.

Robert Flello, a Labour member of the Commons Transport Committee, said: 'There is no comfort in this for the commuter. In the grand scheme of things £20million is a drop in the ocean – it's a sticking plaster and a cheap one at that.

'Commuters will think sweeping leaves off the line more quickly is not going to make much difference – particularly if they haven't got a train in the first place.

'This feels like a reward for failure. If Southern can't do the job then this railway needs to be put back into state ownership'.

London mayor Sadiq Khan also criticised the Government's plans, which emerge just weeks after his offer to take responsibility for the struggling franchise was rejected. He described Southern as an 'embarrassment to London'.

Some 341 trains a day have been axed since the beginning of July after an emergency timetable was introduced.

Introduction
Oliver Lewis, London

That there are challenges for Britain's railway system is not in doubt. Privatisation in 1993 was designed to introduce the very greatest level of competition to any industry, wider even than the telephony, electricity or gas markets, but in doing so created a level of complexity which led to an abrogation of performance following the Hatfield crash (see p.2) and the subsequent nationalisation of the infrastructure provider, Railtrack, in 2002 (see p.3).

This report supports the overwhelming view of voters, **that privatisation was a mistake**, and that it took a form that did not and does not provide for the best allocation of the country's resources. The rail franchising process, particularly, must be terminated under a new Railways Act if our railways are to provide the value-for-money fare- and taxpayers expect. Even before 'Brexit', such an Act would have been legal under European law: Northern Ireland Railways remains a wholly state-owned and integrated rail operator, and France's SNCF or Germany's Deutsche Bahn (DB) remain majority publicly-owned national rail operators. Rail franchising is a licence to operate, not ownership, and remains so only by the will of parliament.

The creation of Network Rail (NR) from the embers of Railtrack in 2002 came at an immediate and long-term cost to the taxpayer. Although it was expressly stated at the time by the Labour government that NR was a private company limited by guarantee, and not a nationalised entity, debt markets awarded it a similar level of credit worthiness they would any other organisation backed by the state. Since 2014, Britain's rail infrastructure is again in the public sector (see p.4). Unless policy makers wish a high-risk repeat of the Railtrack débâcle (see p.3), it should be left there.

The size of the implicit subsidy to NR, explicit revenue support to the private sector Train Operating Companies (TOCs) and payments by local authorities to Passenger Transport Executives (PTEs) in Britain's major conurbations led, at its peak in 2006/7, **to a subsidy almost three times that received by British Rail** in its last full year of operation (1993/94).[31]

Following the publication of *New Opportunities for the Railways* in July 1992, a paper outlining options for privatising the industry, HM Treasury's view was that no option should be accepted that included a perpetual subsidy. It must be manifestly disappointed with the results more than two decades on.

With the election of a Conservative-led government in 2010 determined to return public spending to a level that corresponded with the size of our economy, the railways appeared an obvious candidate for retrenchment. The McNulty Report, commissioned by Labour but continued by the Coalition, was published in May 2011 and its findings fully endorsed. It identified up to £3.5 billion of 'efficiencies', with a view to implementing them by 2019.

The challenge to the industry is clear, but under the present structure there is no certainty these 'efficiencies' will ever be fully realised. By 2019 almost thirty years will have passed since the 1993 Railways Act. Must the legacy of privatisation be a railway that took thirty years to balance its books, despite the anticipation that private sector investment and 'flair' would deliver a railway free-of-subsidy by the beginning of the 21st Century?

The government's commitment to High Speed Rail is genuine and welcome, though it has served to cloud the big railway debate somewhat. Notwithstanding its economic logic, consideration must be given by decision makers to ensuring that the existing Victorian railway is fit-for-purpose as the High Speed network expands. The economic vitality of 'commuting London', and the many areas of the country that will not benefit from High Speed 2, depend on it. But whether it is High Speed Rail or re-nationalisation, make no mistake about it: **the railways are a top political issue in British politics today and voters demand reform**.

British Rail (BR) was a much maligned organisation. Despite the impression that Margaret Thatcher was not a 'rail person', the turn-around of the industry is one of the lesser-noted successes of Thatcherism. She also refused point-blank to privatise the industry. BR in 1979 - a monolithic, public corporation with assets directed with what its senior leaders described as 'managed decline' - was transformed into a commercialised holding company-type corporate structure, the owner of five major subsidiary businesses each responsible for their bottom line: InterCity; Network SouthEast (NSE); Regional Railways; Railfreight and Red Star Parcels (see figure 1 opposite).

'Sectorisation', as it was called, was the British Railways Board's (BRB's) response to a demand from David Howell, in 1982 then Minister responsible for Transport, to reduce its costs. The outcome by the time of privatisation was a profitable InterCity and NSE, with rapidly declining

Figure 1: corporate logos of the 'sectorised' British Rail, 1982-1997

subsidy for the other major business, Regional Railways. All of these profits were invested back into the industry. This stands in stark contrast to the railways' financial performance at present.

It is true that there are more passengers on the railways today than in the days of British Rail, but it is important not to confuse correlation with causation. Numbers have increased since the end of the recession in the 1990s as the country enjoyed a long spell of continuous economic growth. Britain's roads became fuller than ever after 1993, too. In fact, as a percentage of all transport miles, rail has hovered between 8-10% since the 1960s.[32] To reduce congestion, combat air pollution and shift towards a more sustainable transport system, we need to expand capacity on the railways to enable rail's share of transport miles to *actually* start growing.

This report follows with a deeper analysis of the 'problem' and a comparison with the experiences of other countries; reference to the political response to past cost problems in the industry; consideration of the success of BR's 'sectorised' model, ending with Bring Back British Rail's vision for a wholly integrated national rail operator; a railway that meets the expectations of passengers, and one which Britons can be proud of.

Backcover adverts in Private Eye & New Statesman during the General Election in May 2015
Photo: Ellie Harrison

The Industry has had a Problem since 1993

BR was more efficient than was thought

One of the most surprising legacies of the 1993 Railways Act has been the increase in costs in the industry. The impetus for privatisation had been partly to address what was thought to be a costs problem; one that necessitated a state subsidy which HM Treasury was very eager to dissipate. According to one of the UK's leading authorities on Britain's railways, Dr Terry Gourvish, a realisation once the privatisation structure had had time to bed down, was that BR was actually a lot more efficient than had been supposed.[33]

Gourvish argues, convincingly, that a lot of the cost savings and productivity improvements to be found had already been implemented by BR as a result of sectorisation. BR was forced to improve its costs position as a result of demands from the Thatcher governments. The subsidy, termed the Public Service Obligation (PSO) since the 1974 Railways Act, was to be reduced year-on-year. The data that exists, derived from Gourvish's research, suggests that cost and productivity savings were substantial but did vary between sectors.[34] Whatever the case the progress made by BR's prudent financial management in the late 1980s and early 1990s has since been lost.

Economies of scale

The McNulty Report provides the most recent insight into the costs challenge. He pointed to the growth in passenger numbers and freight volumes as being a credit to the railways' success over the past fifteen years. Notwithstanding the contribution economic growth made to the rise in these volumes, which comes as no surprise to transport economists who note the relationship between economic growth and the 'derived demand' for transport services, McNulty stated that the increase in patronage had come at a substantial economic cost. For an industry with incredibly high fixed costs, where the extra (or marginal) cost for carrying an extra passenger is equivalent to printing an extra ticket, this is highly unusual.

More rolling stock does operate on our railways today and some of it is new, but it would be hard to argue infrastructure capacity has kept pace with the growth in patronage. Not least since much of this has been derived from using old rolling stock much more intensively by improving maintenance turn-around times or revising timetables. It is logical that where the number of passengers has doubled (the rise in freight volumes have been less impressive) the cost per passenger should have fallen, since the very high fixed costs are now spread over a greater number of travellers. The opposite has been the case.

Imagine the amount of time gained when we no longer have to waste hours and hours to deal with the websites of dozens of non-communicating train companies.

Stefan Weigert, Hull

Investment

The explosion in costs has of course driven the increase in subsidy, though other factors (such as the contractual complexity of franchises, brought home by the flawed tendering of the West Coast Main Line (WCML) in 2012) have not helped to reduce the percentage of the DfT's budget allocated to rail. This is largely welcomed in the industry, perhaps given the orthodox view that the railways had been under-invested in and substantial catch-up required. The evidence is to the contrary.

BR achieved one of the highest-ever years of investment in the railways in 1990/91, in a year with a much lower PSO than the current cumulative subsidy to Network Rail, TOCs and PTEs. The continental comparison, highlighted by the economic historian Dr Tim Leunig,[35] is that Britain's railways received a similar level of subsidy to other European countries' railway systems but that BR chose to spread investments across all lines rather than focus on high speed rail (as in France with the TGV).

In fact, growth in subsidy has seen disappointing levels of real capital investment, with the notable exception of the modernisation of the WCML - whose cost led to the collapse of Railtrack - and the renovation of a number of the major London terminals. The volume of electrified track miles, a good gauge of progress in energy efficiency and improvement in line speeds, is barely higher than that inherited from BR in 1994. Between 1985/6 and 1995/6 the increase in electrified track rose by approximately 3% each year.[36]

The East Coast Main Line (ECML) London-Glasgow[37] is just one example of many value-adding economic investments that were made by BR at a time of declining subsidy. These investments brought real 'travel time' and cost-savings to Britain's economy during this period.

It is clear that many opportunities for similar value-adding investments have been lost since privatisation, given that the same data for increase in electrified track mileage has been 0% or negligible in every single year.[38]

Opportunity costs

No matter how important the level of subsidy is for the industry, it is an issue for the rest of government too, given the opportunity cost of the funds spent on a transport asset that accounts for nearly 8% of total transport journeys taken.[39] The London Underground (which each year carries more passengers than the entire national rail system) and our road system, still require substantial investment to bring them to an acceptably consistent standard.

Road schemes, where congestion results in significant lost time to individual workers and firms, often deliver a far higher return on investment than the equivalent spent on the railway in its present structure,[40] given that so much subsidy is being wasted covering its unnecessarily high costs.

Franchising business costs

On the rail franchising process specifically real concern must be given to: a) the transactional costs of tendering a franchise; and b) the business costs of a change in owner. The former, which in the recent WCML example are estimated to be £50 million (see p.4), imposes costs on the Department for Transport (DfT) which are not, strictly, reflected in the subsidy, but which have to be paid by the public purse one way or another. The business costs, borne by whichever operator takes over the route, also mount.

Although not a concern to the new operator, which absorbs them as part of the new franchise agreement, it will of course mean foregone funds for the firm's dividend and thus a broader economic cost to society as a whole. At its most extreme, the change in franchises may have seen a passenger on a given route see as many as six different colours of trains since privatisation. For example, the East Anglia line changes have been as follows:

1986: BR InterCity/Network SouthEast
1997: Great Eastern/Anglia Railway
2004: One
2008: National Express East Anglia
2010: Greater Anglia
2012: Abellio Greater Anglia

Business costs do not only include re-painting trains. Staff uniforms, staff contracts, station signage: the list is as lengthy as one can imagine it to be. In an industry where margins are higher, re-branding even of this nature would be considered anathema. In one where there is no lender of last resort in the state the costs imposed would very likely lead to insolvency. This cannot be a sensible approach to targeting the country's scarce financial resources in the railway, not least where levels of say, electrification, remain pitifully low by developed country standards.

Finally, though harder to quantify financially, reference must be made to the disruption caused to passengers. Every time a franchise comes to end, management attention to the route's performance is lost. These hand-overs create confusion over responsibility and accountability, which leads to distrust and frustration given the growing cost of train tickets since privatisation.

The benefits of specialisation in services

The sectorisation of BR worked so well, because the five national businesses created were part of a national strategy for the industry developed by one 'guiding mind'. This meant that resource allocation could take place nationally and compensate various parts of the country's network with investment as finances permitted. InterCity was probably the leader in this respect. A passenger travelling from Paddington to Penzance or from London to Edinburgh could be assured that the catering, interior upholstery and ticketing would be consistent across the country. This existed as one uniform standard, with BR a design leader.

The inconvenience for passengers of there being no consistent standard across the network, from a single website to consistent ticketing, creates stress costs which are hard to quantify but undeniably exist. The absence of standard luggage storage specifications in the diverse range of rolling stock now operated on the railway would be one such example; there being no single booking website covering all rail franchises, constantly a source of bemusement for many French or German visitors to Britain, another. These are primarily the challenges raised by the diversity of inter-city route franchises that exist; they are less important to passengers on commuter or rural services.

What should be accepted is that the competency required to maximise passengers' utility on an inter-city service will be different to those on a commuter route. In other words, the same franchise running both is probably not in the best interests of resource allocation. BR accepted this with sectorisation, a principle which seems now to have been lost with the 'combined franchise' arrangements on the Great Western Railway and Anglia Lines. Providing the best service for a long distance service (optimised luggage storage, best-in-class on-board catering, combined travel/hotel booking) is a world away from a commuter one (fast and efficient means of communication or fast interchanges at main stations).

Competition

Part of the challenge of the model of privatisation implemented in 1993 is that it assumed competition could be implemented in almost every possible activity present in the railway's operations. Even the infrastructure provider Railtrack contracted out maintenance and renewal activities, many of which have since been repatriated by Network Rail in a bid to control costs (see p.3).

From a rail franchise perspective genuine competitive forces exist on barely a single route since the vast majority of the population are served by a single station, serving their area, with services provided at a specific point of time. Commuters especially often only use a given number of services around a specific time. Any other choice is simply not realistic. Furthermore, in the limited cases where a station is served by different TOCs, contractual agreements mean passengers are not permitted to utilise them. Known as 'Moderation of Competition' clauses, they actively seek to limit competition in passenger services in an industry structure that was supposedly designed to maximise it.

To the chagrin of commuters, Banbury and Watford Junction stations are two places where passengers' choices have been limited by these legal restrictions being in place. In practice competition for passengers' wallet share is largely theoretical since the overwhelming majority have had no option but to pay the increases in their season tickets, a point strongly made by the Commons Transport Committee.[41] Since the process of privatisation and the structure that followed has arguably contributed most to the increase in the industry's costs, it does not seem fair to place the far larger financial burden passed from the state (the same state that imposed the structure) to the fare-payer.

Michael Roberts, Chief Executive of the Association of Train Operating Companies (ATOC), once stated that: 'since 2004, the government has sought to sustain investment in the railways by reducing the contribution from taxpayers and increasing the share paid by passengers'.

If public policy is to be equitable, the tackling of costs, and thereby industry structures, must take centre stage. The answer to this is the re-establishment of a single, nationally-integrated owner and operator of Britain's trains.

Industry leadership

Finally, the industry lacks leadership. The former Labour government attempted to resolve this with its creation of the Strategic Rail Authority (the SRA, which it was hoped would replicate the BRB's role), but it achieved limited progress and was abolished in 2005.[42] Network Rail was a beneficiary, but as an infrastructure provider with captive customers it is arguably not best placed to be driving strategy for the entire industry.

Significantly the travelling public's day-to-day experience is with whichever TOC they use regularly. Bar the ATOC, which has no legal purpose and is largely the voice of its diverse membership, there is no independent body coordinating passenger services. In practice the day-to-day decision maker is the Department for Transport. It cannot be sensible for a government department to have such extensive powers in the day-to-day operation of a whole industry and it is yet another absurd consequence of privatisation that it would result in more direct government control.

Other utilities are regulated by independent bodies which report to, but are not controlled by, a department of state. Since 2010 this unusual situation has not been helped by concerns of weak standards of corporate governance in Network Rail.[43]

Bring Back British Rail supporters at London King's Cross station in August 2014
Photo: Robin Prime

Railways are a natural monopoly. If we are to combat climate change we need to get cars off the road. A public service would be more efficient and cheaper.

Keith Cain, Llangedwyn

Railways do not Make Money

Modal shift

Railways find it very hard to make money. Although the railway network was built and operated by private enterprise in the nineteenth century, this was under quite different market circumstances to almost any other railway operating in the world today. The key reason for this is chiefly the much greater range of modes of transport passengers and freight have at their disposal. It should come as no surprise that the financial challenges of the railway began in the late 1950s, when swathes of freight began to be transported by the beginnings of what is now a comprehensive motorway network.

Airlines too, between England and Scotland, have been able to price-compete rigorously as the costs of air transportation have fallen. Economists call the movement of freight and passengers to other forms of transport 'modal shift'. Largely based on the benefits of time-saving derived from increasing speeds, it applied as much to horse-driven stage coach passengers shifting to railways in the 1830s as it did to the falling demand for train services as a much greater number of people could afford cars in the 1960s and 1970s. The development of high speed rail networks is much in-line with the desire of people and firms to transport themselves and their goods at shorter times than before.

Transaction costs in a natural monopoly

Since most railways around the world faced a similar challenge to that of our own - very high-cost fixed assets, public service expectations - most national networks are owned by a single monopoly provider, state-owned or with a large government shareholding. The advantages of maximising the economies of scale available, easier to achieve with a single holding company as this reduces the 'transaction' costs of operating a service with multiple interfaces and with infrastructure maintenance required over huge physical areas, are obvious.

That these would increase with the industry structure that was imposed by the 1993 Railways Act was a concern noted in a paper published in the Journal of Transport Policy in 1999: 'There would be considerable complexities in the transfer pricing and costing mechanisms required for a fragmented railway industry'.[44]

Railways changed the way firms behave

In fact the organisational changes needed by firms, when railway companies were first formed, resulted in a crucial stage in the evolution of how the modern company operates. As the distinguished business historian the late Alfred D Chandler convincingly argued,[45] for the first time the management of these new companies had to standardise their services over space and time. This was no easy feat when not even the telegraph had been developed as a means of communication over long distances. The standardisation of time itself was a consequence.

Exposure to the business cycle

The susceptibility of railway firms to lurch into losses when demand falls suddenly, has been proven over time. BR, in the period after it was successful in reducing the subsidy it received from government (that provided to BR in 1989/90 was one of the lowest the industry has received in the past 25 years),[46] was forced to request a much larger PSO as the recession of the early 1990s meant a reduction in the demand for railway services.

The collapse of the East Coast National Express TOC in 2009, due to its inability to service the payments to the DfT it had promised to make when awarded the franchise, was also a consequence of a recessionary period. The demand for all modes of transport is strongly related to the corresponding level of economic growth in a country, as the demand for transporting goods, commuters travelling to work and leisure travellers, all rises as the volume of the goods and services exchanged is greater and disposable incomes are higher.

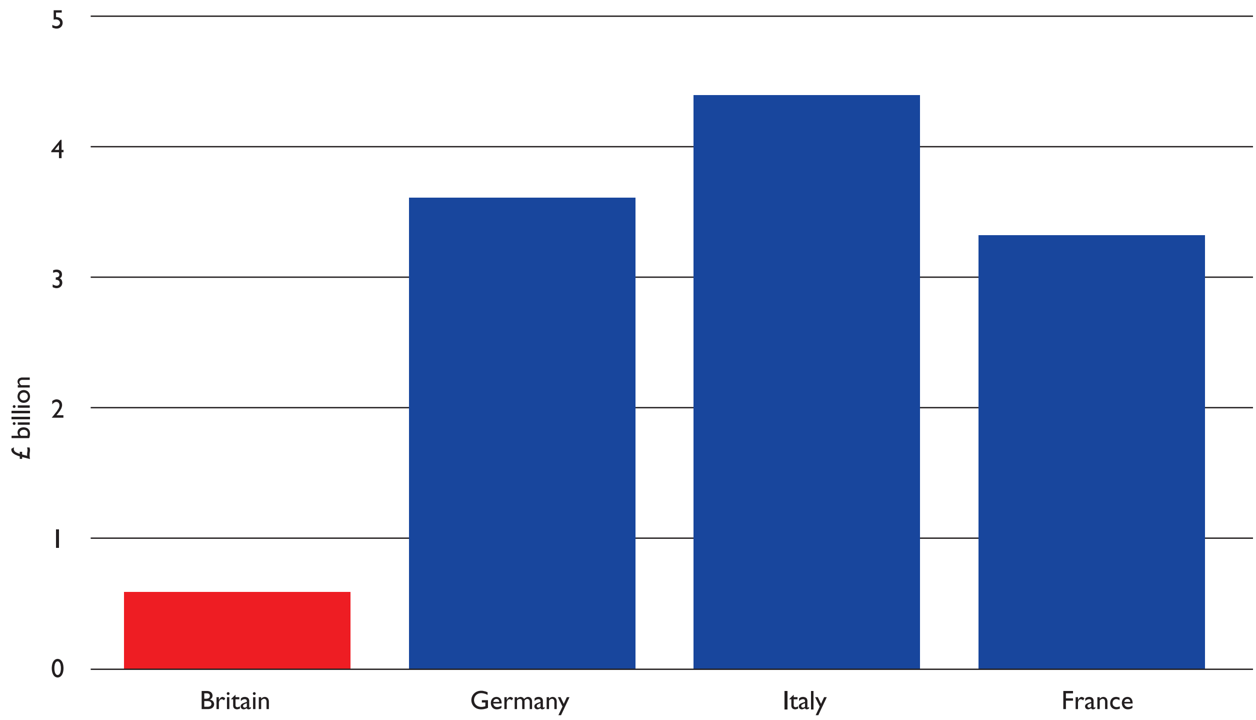
One of the most remarkable challenges about Britain's rail industry, then, is that despite sixteen years of uninterrupted economic growth - 1992 to 2008[47] - with just the sort of uplift in passenger and freight traffic we would expect to see for a derived demand, the state support provided to the railway is so much higher.

A continental comparison

On a continental comparison the levels of state support are similar across the major European countries, though due to a different corporate structure the level of day-to-day direct government involvement in railway operations is limited. Both SNCF and Deutsche Bahn (DB) are semi-public corporations with substantial autonomy in the running of their businesses.

A research paper prepared by the specialist transport consultancy Steers Davies Gleave in the early 1990s[48] identified that at that time the level of subsidy provided to continental railways was substantially higher than that provided to BR: the 'catch-up' in state support came after the 1993 Railways Act, which was anticipated to remove the need for subsidy altogether.

Figure 2: public subsidy to European rail networks in 1989



Fare comparisons do not show Britain's railways in good light either, again suggesting opportunity for cost reductions and productivity improvements are legion. Since both fares and state support 'fund' the operation of a railway, and Britain now subsidises its railways to the same extent as France or Germany, it might be expected that fare levels would be comparable with those on the continent.

For walk-on purchases and season ticket holders, fares are up to 50% higher than railways in those countries.[49] Both the French and German railways operate under the same EU Directive 91/440 regarding the structural operation of railways, namely the accounting separation between infrastructure and operations permitting open access, and the same health and safety regimes as defined by EU Directives incorporated in 1992 into an amended Health & Safety at Work Act (1974).

With similar levels of subsidy and legal equivalence in structural and health and safety regimes, it is baffling that fares for walk-on and season ticket fares are so much higher than on the continent.[50]

Public transport is too important for the smooth running of our economy, for our society and for our environment to be left to the whim of the market.

Lauren Gomez, Glasgow

Some History

The railway boom

Successive governments at Westminster have lost sleep over costs and structures in the railway industry. Like many public policy challenges - education reform, healthcare costs - it is a recurring issue. Lord Dalhousie, charged with resolving the challenge of a huge number of railway start-ups emerging unregulated in the 1830s, resolved that a form of vertical integration (that the track and trains be controlled by the same entity) would be a means to reduce costs and achieve the beginnings of economies of scale, not least because multiple railway lines had been constructed through the same settlement areas even after demand was saturated.

The outcome was a diktat from the 1839 Railway Commission that Britain's railways industry would be vertically integrated in nature. This remained the case until 1993.

Figure 3: Dalhousie and the Railway Commission as seen in Punch in 1845

The merger of a thousand rail firms

The merger of over one thousand railway companies into four in 1923 and the four into one nationalised corporation in 1948 had similar aims to Dalhousie's. Namely, that to achieve greater efficiency the railway firms would have to merge and exploit economies of scale. London Midland Scottish (LMS), the owner-operator of the WCML from 1923 until 1948, was one of the largest companies on the London Stock Exchange in 1939 and an original investor in the fledgling British Airways.

A lack of investment during the war, followed by the modal shift from train to car, meant efficiency savings were required however. From the creation of BR up until the early 1980s the belief of the BRB (until 1963, the British Transport Commission) was that rationalisation of route mileage was part of the solution to reducing the state support required. The infamous Beeching Report was the outcome in 1963.

This analysed for the first time how many passengers and what volumes of freight were carried where and whether the volumes paid their way in absorbing the cost of operation. Large swathes of branch lines and those serving rural areas proved, unsurprisingly given the growth in car ownership, to be hopelessly uneconomic. Though Richard Beeching was a controversial figure who certainly recommended too much pruning in some areas, it was considered a sensible economic assessment to make at that time, without knowledge of the impact increased road traffic would have on air pollution and climate change.

A decade of discontent

Despite the cost reductions following piecemeal implementation of the Beeching Report and a much lower subsidy than that of the early 1960s, the PSO began creeping upwards as the 1970s progressed. With reductions in route miles no longer politically acceptable, more painful labour practice and productivity reforms would be necessary. BR managed to invest in some routes during this time, with the remarkably successful introduction of the InterCity 125 on a number of Main Line routes. They remain the workhorses of the Great Western Line and the routes to Scotland out of King's Cross, almost forty years since they began running.

The organisation was much less successful in implementing cost savings in the 1970s, though it was hamstrung by as yet unreformed trade union laws, and began the 1980s as a somewhat hopeless case of failed Corporatism. Thatcher's governments, demanding commercialisation of the industry, would prove crucial to resolving the challenge of yet another escalating volume of state support - a situation not terribly dissimilar from that we see today.

Why BR worked 1986-1994

BR's innovative approach to addressing its costs problems made for a fascinating experiment in running a railway, which we must learn from today. Each 'sectorised' business was responsible for the costs its train services absorbed; where a route was used by multiple sectors, the predominant user would own costs and re-charge the other business a percentage of this. This represented a marked change to the period 1948-1982, when costs and the operation of passenger and freight services were the responsibility of the six (five after 1967) BR regions.

These were the descendants of the old 'big four', the railway companies nationalised by the Attlee government in 1948 (which included LMS). Little had changed organisationally after nationalisation, but as with other nationalised industries the Thatcher governments from 1979 were determined to improve their financial performance. David Howell, Secretary of State for Transport in 1981, asked BR for:

'Improved trading results by increased efficiency, cost reduction and in improvements in financial control.'

This was a steer from government for genuinely radical reform, with sectorisation the outcome in 1982 and the creation of the five national businesses (see figure 1 on p.15).

Business transformation

Although such a major re-organisation was not fully achieved until 1990, when almost all of the railway's assets had ownership split between these national subsidiaries of the BRB, corporate culture transformation was very real. Network SouthEast was launched in 1986, and InterCity (a brand since the late 1960s, but not managed as a single business) in 1987. For the first time national business managers had bottom-line responsibility for costs and revenue for the services they provided, with consistency and 'inter-operability' promoted nationally.

Passenger satisfaction was on an upward trend: in their last year not a single train route in London and the South East had to pay out to season ticket holders any compensation for disruption to services.[51] The Passenger's Charter, launched in 1991, established the minimum standards BR's customers should expect and substantial, cost-conscious investments delivered fantastic improvements to journey times and improved stations. The redevelopment and refurbishment of London Liverpool Street and Birmingham Moor Street are obvious examples.

Commuting London

Network SouthEast's (NSE's) modernisation of the Chiltern Line provided the successor Chiltern Railways franchise with a very solid base from which to build its business. Replacement of the decrepit slam-door stock began in earnest in 1990, with an ambition to remove all slam-door stock from the southern lines by 2000. The hiatus that followed privatisation meant that this was not achieved by 2005, following only an order from the Health & Safety Executive that operators would be taken to court unless they replaced them.[52]

NSE also provided a unitary interface between London Transport (today's Transport for London) and the rail network. It is quite conceivable that acceptance of Oystercards on suburban rail services would have happened far quicker without the need for TfL to negotiate with twelve or so separate operators; it simply does not make sense for the South East's rail network, driven on connectivity to London, to be operated by so many separate players.

Long distance passengers

InterCity was arguably the prime beneficiary of sectorisation and had from an early stage been considered as a candidate for privatisation as a national business, separate from BR. It benefited from owning the country's trunk railway routes. Both Beeching and later David Serpell (his report of 1982) concluded that these constituted the majority of track miles which could be operated profitably.[53]

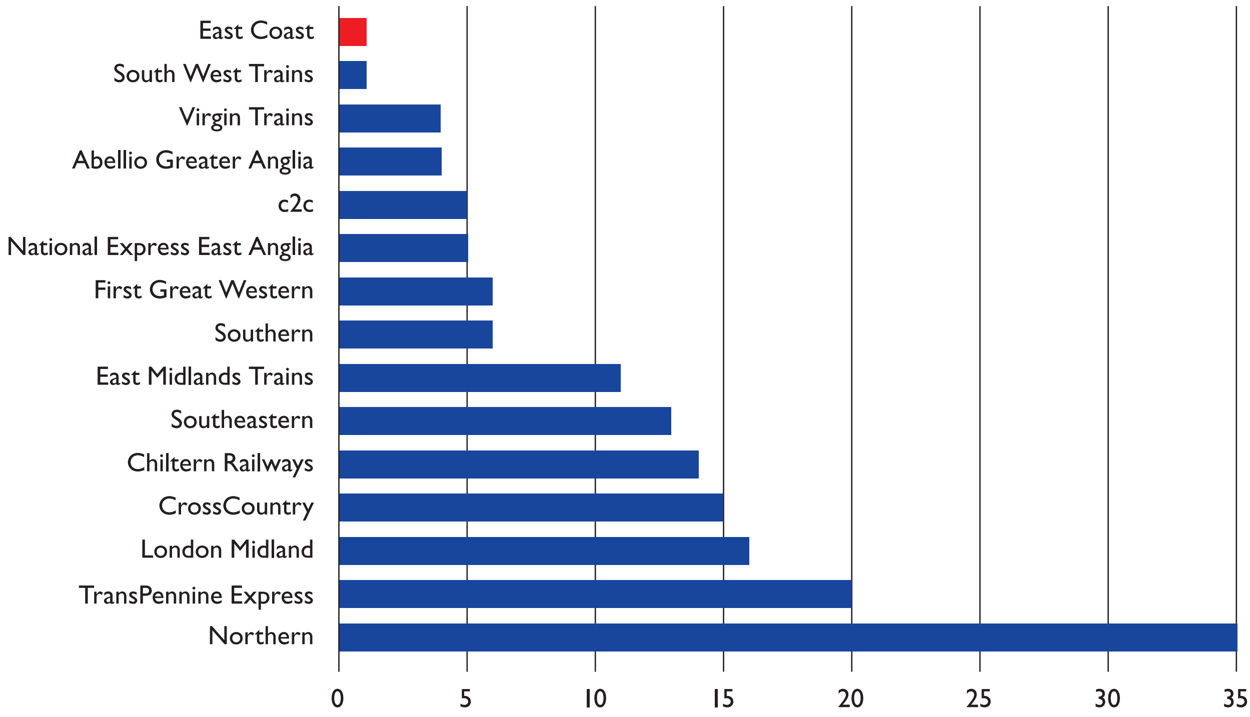
InterCity, with a focused leadership and ownership of its assets, quickly delivered profitability. It was also innovative in responding to its customers' changing demands. It launched InterCity CrossCountry - services between major conurbations without requiring a detour to London - using surplus InterCity 125 sets. They remain popular routes today, with over-crowding now a perennial issue.

Another achievement, in stark contrast to the modernisation of the WCML, was the electrification of the ECML. Delivered on time and on budget in 1991, InterCity's investment in the British-built InterCity 225 locomotives, noted for their speed and comfort today, reduced the journey time from London to Edinburgh to just four hours on the fastest timetabled service.

With its ticketing it introduced cheaper 'Advance' tickets - branded as 'APEX' - to maximise revenue by altering prices to match demand over time. This level of commerciality was in stark contrast to the distressed BR, 'managing decline', prior to 1979. By 1993/4, InterCity delivered a profit of £98 million without subsidy.

It would be interesting to calculate, were it possible, how much of today's substantive state support is used to subsidise routes which were previously self-sustaining. The DfT's own analysis for 2013 clearly demonstrates that the TOC in receipt of the lowest subsidy in that year was the only one in public ownership: East Coast (see figure 4 opposite).

Figure 4: Train Operator subsidy in pence per passenger mile in 2013



Rural Britain

Regional Railways, the largest operator in terms of route miles, was in a much less favourable position than either NSE or InterCity by the time of privatisation but as a business had successfully reduced its PSO almost every year over the 1980s and early 1990s. The lines it owned were incredibly diverse, ranging from commuter services in the Northern conurbations to the Inverness-Wick Line, on which it is joked it would be cheaper to fly its passengers by helicopter than continue to pay for the maintenance of such a long section of track served by a train or two a day.[54]

Regional Railways managed to minimise costs where it could: selling surplus land, converting stations to other uses and singling lines to reduce maintenance costs. A lot of its progress is arguably good reason to explain why the franchises that later took the lines over found cost-savings fiendishly difficult to find. Its rolling stock, delivering by far the lowest rate of investment return by pound in the BR group, was also replaced in its entirety during the 1980s. The Pacer - a freight wagon with a bus chassis attached to its top - is not a model of comfort from a passenger's perspective but reduced costs on swathes of lines that would otherwise make even greater losses than they already did.

Pacers, a 'temporary' innovation, remain in operation in South West England, much of Northern England and in Wales up to thirty years after they were introduced. Given the vastly greater public subsidy, it is disappointing to find they remain the only option for passengers that have no choice but to use the lines they serve.

Freight

The freight sector and Red Star Parcels fared less successfully. The latter, though sold as one of the hundred or so successor companies to BR, ceased to exist by 2000. Freight, given its close association to the private sector by necessity, was also a sector that needs a level of commerciality beyond those of passenger services. Its customers have a very real choice between modes and will not accept under-performance when their bottom lines begin to suffer from late delivery.

The freight sector required substantial investment to generate the confidence its customers would need to commit themselves to contracts; a number of private-sector experiments began in 1986 (the first, Foster Yeoman, proved a success as it tailored its services directly to its needs) and continued throughout and after privatisation. Freight has then been a part of the industry that has benefited in both operational and financial terms from privatisation.

Working practices, particularly, compare favourably to those on the continent. Public sector involvement (via subsidy or managerial involvement) is limited and as such a revived nationally integrated operator would not necessarily find it imperative to 'capture' the business of the Freight Operating Companies (FOCs), which are not subject to any franchising mechanism.

The bottom line

Financially BR's performance was impressive. The PSO was cut in half in real terms between 1979 and 1994. The number of train staff fell by 13,000, or 34%, between 1979-90, with an even more impressive reduction in headcount of 28,000, or 37%, in the number of operational staff in the same period. Total civil engineering costs fell by 9% in real terms between 1979 and 1986,[55] a figure that would be incomprehensible to an industry which now prices into its financial forecasts that costs will automatically rise at a faster rate than inflation.

BR's March 1993 financial targets were exceeded impressively by InterCity and Network SouthEast

- InterCity: £12m profit
  (actual + £98m)

- Network SouthEast: £128m loss
  (actual + £71m)

- Regional Railways: £411m loss
  (actual - £443m)[56]

Summarising the progress delivered by sectorisation, even in 1993/4 as BR's management was having to implement the organisational reforms required by privatisation, John McGregor (Railways Minister 1991-4) provided the following eulogy to the Chairman, BRB:

'... an operating profit; the impressive reduction in operating costs. The very substantial improvement in the supported sectors, enabling investment to be sustained at a high level, *while reducing the need for grant* (emphasis added)... you and your staff are to be congratulated on your excellent performance'.

The great irony of privatisation is that the Department for Transport now has much more direct control over our railways than it ever did with British Rail, and it's certainly making a mess!

Jane Morgan, Hove

Placard from the 'SouthernFail' protests in summer 2016

This report advocates comparing the evident successes of British Rail's 'sectorisation' with the railway as it stands today; one that has far higher levels of patronage but is not fit-for-purpose nor financially viable without substantial state support. Parliament and Secretaries of State for Transport are again left where they were in the early 1960s and early 1980s: with a railway that is faced with a cost challenge that cannot be met by retaining the existing operational structure.

Restoring sectorisation under a new British Railways

Sectorisation is a proven model of industry management, which had demonstrable success as an operating model. Following the failure of the 1993 Railways Act, it should be revived. A national rail organisation, owning and operating all infrastructure and trains, should be recreated. This could be called anything, but a nationally-cohesive brand, echoing the style of the national airline, is found in 'British Railways'. The restoration of a vertically integrated model would be the most desirable outcome of this policy, achievable under the terms of a new Railways Act. Under this act, passed in a new parliament, the failed and costly franchising system across Great Britain will be abolished.

The operation of the vast majority of train services would be resumed by a single national company, an arms-length but wholly publicly-owned rail authority established as a non-profit public corporation. A new British Railways would be accountable in a way the present system is not - a significant grievance for rail passengers and voters everywhere. And it should be regulated by a new Railways Commission, an independent agency reporting to the Secretary of State. Network Rail would be broken up and its assets distributed among the revived sectors, each of the new businesses responsible for managing its costs and ensuring the performance of its services is prioritised. The 'producer mentality' of Network Rail would disappear, and most important of all, the same business operating train services will also own the track, points and signalling its services pass over.[57]

The re-organisation would pay for itself over a decade. Although it would take a century, perhaps, to recoup the sheer volume of public money that has been sucked-out of this industry by the inefficiencies of privatisation since 1994. Network Rail, already wholly publicly-owned, would lead the continuing management of the former rail operators as the sectors are established. The new British Railways Board should have one objective: a relentless focus on removing the 'costs problem' that has dogged the industry as a result of privatisation.

Its ultimate aim would be a profitable industry, bereft of public subsidy, re-investing its profits with a vision to bring Britain's railways up to the standard of SNCF in France or DB in Germany.

The new sectors

Britain's new sectors would re-unify the country's fragmented intercity services, restoring InterCity as the UK-wide operator of high speed trains (see figure 5). Network SouthEast would return, and provide cohesive operation of London and the South East's mammoth commuting rail service. Working closely with TfL, it might transfer as many of its metropolitan services to the Mayor of London as it can identify, making rail transport accountable to its users via the four-yearly election of the Mayor.

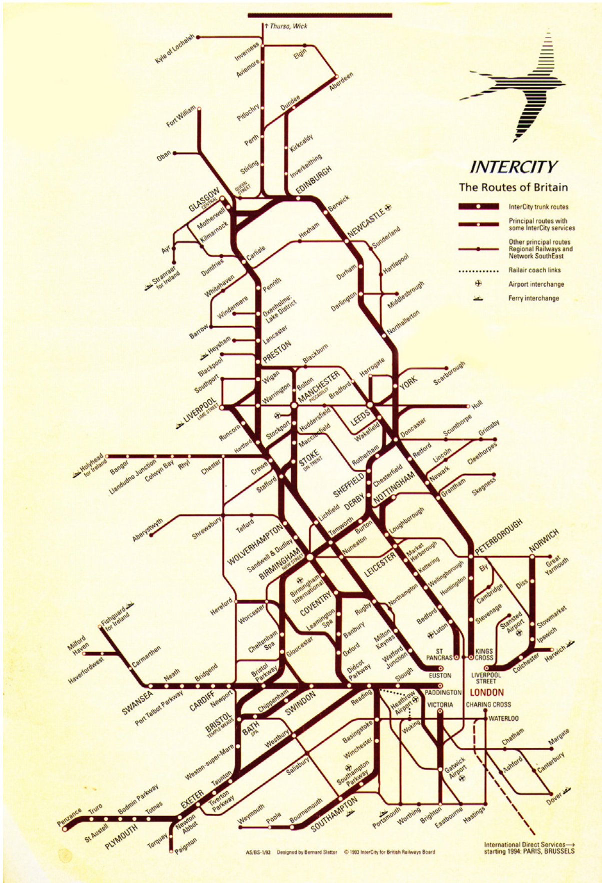


Figure 5: InterCity route map from 1993

Regional identity, so successfully promoted by SNCF, would be provided by the new sectors. Each of these would be a fraction of the size of InterCity and Network SouthEast, but bring much-needed improvement to the woeful state of many of Britain's provincial services. There is no need to determine what these might be *a priori*, but the following geographies could provide inspiration for the building of Britain's new national railway:

Anglia
Borders
Mancunian
Mercia
Mersey
Scotland
Tyne, Wear & Tees
Wessex
Wales & the Marches
Yorkshire

The rolling stock

One of the most profitable businesses of the privatised system has been the leasing of rolling stock - the construction cost of which was written off by the old BRB during the dismantling of British Rail. The three ROSCOs enjoy risk free profits from a mish-mash of tired assets. For instance, the pacers built by BR as a stop-gap still operate across swathes of rural England and Wales. Buying back these assets would be the only significant cost to the public purse of nationalisation, and could cost between £7-10 billion. This would not only be a politically challenging cost to justify during a time of public sector spending cuts, but perverse given the extent to which the ROSCOs have profited from the failed privatisation model. To avoid this, the newly organised sectors would continue to lease trains, but procure all new rolling stock on an ongoing basis until all the UK's rolling stock is wholly owned by the new British Railways. At the end of this period, the ROSCOs would be left with historic assets of little value, which it would be their responsibility to retire.

A railway passengers can be proud of

Of all the costs of rail privatisation, losing a nationally cohesive brand, marketing and operating system has been the greatest: passengers do not know where to get the best value when buying their tickets, since every TOC can sell tickets for services UK-wide. This confuses and obfuscates the public's use of rail transport, harming the vulnerable and poorest most. The new British Railways would provide a national vision for where the railway can be within a ten, twenty and thirty year time span. National conditions of carriage would apply throughout InterCity's services, standardising what is at best inconsistent provision, at worst shambolic. The sectors would specialise their business again at what they are good at. InterCity would ensure it provides high speed services for long distance passengers, while Network SouthEast would work hard to perfect commuter transport. The recent performance of a number of TOCs in and around London (particularly Southern) has demonstrated once more the public appetite for change, as Britain's railway falls woefully short of standards elsewhere in Western Europe.

An industry its employees are committed to

The railway cannot function without its dedicated army of employees, often working long and difficult hours to maintain a virtually 24-hour railway. Yet they have not worked together as one team since the early 1990s, and are to all intents and purposes leaderless. With one single board, Chief Executive and Chair, the industry's challenges will be answered with one voice, and the DfT have one stakeholder to interact with. Morale in the industry is low, and Bring Back British Rail regularly receives correspondence from rail employees bemoaning the quality of line management or management decisions. The unimpressive record of labour relations in the industry, not least in relation to the provision of train guards, is well known. While each business sector would be the employer in each region, or nationally in the case of InterCity, the new British Railways would enforce national standards of employment and be accountable as the last resort for local grievances. A Group Human Resources director would work to improve labour relations across the company, working to secure its employees' involvement and co-operation in delivering the new visionary railway.

A financially secure future

With the gradual dissipation of the operational and contractual complexities that have evolved over more than twenty years of privatisation, costs on the railway will begin to fall as overheads business-wide are reduced. This would apply, for instance, to the future bulk purchase of railway supplies, including staff uniforms and catering, while the Rail Settlement Plan, the ATOC-owned company responsible for allocating ticketing revenue, could be wound down. As the industry reverses the costs imposed by the 1993 Railways Act, it would again aim to reduce its public subsidy while keeping the cost of tickets constant, which would allow prices to begin to fall in real terms.

Since a decision by one-time Chief Secretary to the Treasury, Danny Alexander, HM Treasury has ensured public services providing a disproportionate subsidy to middle or high income earners see a real terms reduction in spending. In other words, passengers face higher ticket prices to compensate for a failed policy which a majority of the public now wish to see reversed.
No one doubts that the railway needs to be financially viable: this will only be achieved once the 1993 Railways Act is repealed. It goes without saying that the rail bureaucracy established over the past two decades in the DfT would be dismantled and the ongoing cost of tendering for franchises ended.

A Better Railway for Britain

But the newly re-unified railway is not just about removing needless costs and complexity. The new British Railways needs to be better. With the same ambition evident in its post-war predecessor's Inaugural Message of 1948, the new BR must also aim to 'overcome difficulties' and become 'the best in the world' at everything that it does.[58]

It might aim to: replace all pre-2000 rolling stock from the network; convert southern England's antiquated third rail to over-head power; enclose busy platforms to heat or air-condition them; improve journey times; electrify; build new lines and modernise older ones; create a visionary design and corporate brand to unify the industry and bring it into the 2010s; introduce national smart ticketing and a simplified fare structure with a maximum walk-on fare cap (of say £100) to travel anywhere in the UK - the list will be endless, and there are two virtually lost decades to make up for.

The new BR would not reverse the limited progress made since 1994. It will build on the successes of privatisation, and apply the highest standards to nationally-consistent ends. Most important of all it will be 'our' railway: a publicly-owned, vertically integrated owner and operator of rail services UK-wide.

People should be encouraged to use public transport systems, if we are ever going to reduce carbon emissions and combat climate change. But fares in my area are ridiculous.

Jade Tarsnane, Kidwelly

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Abbreviations & Acronyms

ATOC	Association of Train Operating Companies
BR	British Rail
BRB	British Railways Board
DfT	Department for Transport
ECML	East Coast Main Line
FOC	Freight Operating Company
NR	Network Rail
NSE	Network SouthEast
ORR	Office of Rail Regulation / Office of Rail & Road
PSO	Public Service Obligation
PTE	Passenger Transport Executive
RDG	Rail Delivery Group
ROSCO	Rolling Stock Leasing Company
SRA	Strategic Rail Authority
TfL	Transport for London
TOC	Train Operating Company
WCML	West Coast Main Line

Bring Back
British Rail

A Better Railway for Britain
Re-unifying our railways
under public ownership

A Report by
Bring Back British Rail

October 2016

Author: Oliver Lewis, London
oliver@bringbackbritishrail.org
T: 07507 936 000

Editor, Preface, Design & Layout:
Ellie Harrison, Glasgow
info@bringbackbritishrail.org
T: 07929 565 855

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