



# GB RAIL

LABOUR'S PLAN FOR A NATIONALLY  
INTEGRATED PUBLICLY OWNED RAILWAY



## Status of this document

Issued as a proposed structure for discussion, by office of Andy McDonald, Shadow Secretary of State for Transport, 2020. This document may be considered as the Opposition equivalent of a White Paper presented for consultation.

## Credits and acknowledgements

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Labour is very grateful to the deeply experienced and busy railway managers and other rail professionals who have provided thoughts, challenge and guidance, including colleagues in the railway unions. Thanks are also due to colleagues in Devolved Transport Authorities who have provided insights, ideas and comments.

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## Foreword



Britain's railway hasn't delivered for passengers or taxpayers for a long time. It's too expensive and money leaks out; services have deteriorated; it's out of control and unaccountable; and there is no structure to manage the whole system strategically. In short, the railway has lost sight of what it is for.

I believe the railway must be run with the public interest as its clear and overriding primary objective. It must also support a vibrant economy and a thriving society while supporting climate stabilisation and a healthy local environment.

Labour's vision is for a railway that enables everyone to travel easily and affordably right across Britain, as part of a completely accessible and sustainable transport system, fully connected with buses, trams and other public transport: a railway fit to tackle the Climate Emergency.

This Shadow Rail White Paper contains the detailed structural changes we believe the railway needs to make in order to come together as a coherent system once again. It also sets out a bold agenda for addressing fares reform and ensuring a strong passenger and employee voice in the direction of the railway.

Very significant work has gone into this White Paper over many years and I hope it will be regarded as a serious contribution to the rail policy debate as we embark on a period of industry and political transition. I also hope activists, Labour Party and trade union members use the document as they campaign in their communities and constituencies.

It has been a privilege to serve as Labour's Shadow Transport Secretary for nearly four years. I am hugely proud of the rail policy development work undertaken by my team in that time in consultation with senior figures from the rail industry and trade unions. I'd particularly like to thank Dr Ian Taylor for his immense contribution to this policy document.

**Andy McDonald MP**  
**Shadow Secretary of State for Transport**

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## Note on scope and terminology

This document considers the railway system of Britain. It does not include the railway system of Northern Ireland, which is completely separate, and operates as an integrated whole within public ownership and is therefore not relevant to this discussion of how to resolve the fragmentation and other problems that privatisation has caused the railway across England, Scotland and Wales.

The term ‘Devolved Transport Authority’ (DTA) is used in this document to refer to existing and potential future governance areas for rail that are not Britain-wide, at the level of the nations of Scotland and Wales, and the regions of England.

Where the term ‘national’ is used in this document the intended sense is a Britain-wide scope, not Britain’s component nations of England, Scotland and Wales.

Where the term ‘local rail’ is used in comparison to fast, long-distance inter-city services it is also sometimes used as a short-hand to encompass ‘regional rail’ services. However, it is appreciated that local and regional rail services may have very different characteristics, and the distinction is drawn in other sections of the texts where necessary.

## Glossary

|         |   |  |
|---------|---|--|
| BU      | = | Business Unit (of the GB Rail company)                                 |
| CP      | = | Control Period of railway financial and infrastructure planning        |
| CPI     | = | Consumer Price Index of inflation                                      |
| DfT     | = | Department for Transport   |
| DRS     | = | Direct Rail Services (freight operator that is already publicly owned) |
| DTA     | = | Devolved Transport Authority (see note above)                          |
| FOC     | = | Freight Operating Company  |
| GB Rail | = | Name adopted for a national publicly owned rail company                |
| HLOS    | = | High Level Output Specification  |
| HS      | = | High Speed rail services   |
| NR      | = | Network Rail, the railway infrastructure manager                       |
| ORR     | = | Office of Rail and Road (the rail regulatory body)                     |
| OU      | = | Operating Unit (secondary level of Business Unit of GB Rail)           |
| Oyster  | = | London pay-as-you-go transport smartcard scheme                        |
| PAYG    | = | Pay-as-you-go ticketing and fares                                      |
| PTE     | = | Passenger Transport Executive (e.g. Merseytravel)                      |
| RDG     | = | Rail Delivery Group  |
| RFG     | = | Rail Freight Group   |
| RPI     | = | Retail Price Index of inflation  |
| ROSCO   | = | Rolling Stock Company  |
| SOFA    | = | Statement of Funds Available   |
| SMU     | = | Strategic Management Unit (top level of Business Unit of GB Rail)      |
| TfL     | = | Transport for London   |
| TOC     | = | Train Operating Company  |
| TUPE    | = | Transfer of Undertakings (Protection of Employment) Regulations        |

## Structure and purpose of this document

This document lays out the structure that Labour proposes for Britain's railway, to achieve the many benefits that could be gained by a railway in public ownership and fully integrated across all of its functions throughout the whole of Britain.<sup>1</sup> The proposed structure is also designed to deliver benefits of devolution of rail governance whilst retaining benefits of a nationally integrated railway.

The rail structure described here has been informed by a round of private discussions spanning rail users (both passengers and freight), rail industry managers, front line railway operational staff including rail unions, other experts with rail expertise in specialist areas, and devolved transport authorities. We thank all those who have generously contributed their time, expertise and experience to the discussion of how best to achieve Labour's aims for the railway.

Different users have different priorities, and through its discussions, Labour has sought solutions that address this. Any rail structure must strike some compromises between the priority of different rail functions, and views differ amongst rail users and rail professionals on how these compromises should be struck. In particular, changes within the railway have at different times moved towards different ends of the centralisation-devolution spectrum. It is not possible to achieve all the advantages of both without some of the disadvantages of either, and no balance can meet expectations from all perspectives. Some aspects of the rail structure proposed here represent consensus or near-consensus, whilst others represent a judgement about the best solution available.

This document has been issued to invite further contributions to help refine and more fully define the proposals, and to enable key players in the Devolved Transport Authorities and rail industry to start to plan for the changes that the next Labour government will implement when it comes to power.

To achieve the necessary organisational change smoothly it is critical that the required organisational end point and the path of change is clearly defined from the outset. This is all the more important because some changes, such as moving franchises into public operation as they expire or fail, will take place incrementally.

The discussion in this document therefore concentrates on the solution, rather than the problem, except for a brief résumé in Chapter 1 of the main reasons for reintegrating Britain's railway and bringing it into public ownership, with Appendix 1 summarising research on the particular problem of fragmentation caused by privatisation from the perspectives of passengers, staff and management.

Chapter 2 then provides a broad statement of Labour's vision for rail and the more specific aims and objectives Labour will ask of the new public railway. Chapter 3 lays out the principles that have informed the development of Labour's GB Rail plans, with further detail of principles in Appendix 2. Chapter 4 provides a short overview of the GB Rail plans. Chapter 5 then goes into further detail, supported by Appendices on supervisory board operation, a passenger representation body, and fares and ticketing. Chapter 6 considers the transition process to GB Rail from present arrangements and Chapter 7 provides brief conclusions.

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<sup>1</sup> This can be compactly expressed as a '**national vertically integrated railway under public ownership**', where 'vertical integration' refers to integration between running of train services and management of the railway infrastructure (track, signals, power lines, etc) and where national is taken to mean Britain-wide, rather than restricted to Britain's component nations of England, Scotland and Wales. Northern Ireland's railway, already integrated within public ownership, is not considered in this report.

# Abstract

## How privatisation has damaged our railway

Privatisation has damaged Britain's railway. When the Conservative government privatised British rail in 1993, it was split into bite-sized pieces for investors to buy. Competition between the different pieces was meant to drive down costs. Instead, the cost to the public purse has doubled in real terms and fragmentation has added costs from inefficiencies where all the bits of the privatised railway interact and caused a confusing mess of ticketing arrangements. Worst of all, this fragmented railway is out of control. It lacks a 'guiding mind'. Nobody is in a position to manage the whole railway strategically to make it all work together and plan its development to be the best possible public service.

The privatised rail system has put private profit-taking before the provision of public service. A minimum estimate is that £725 million flows out of the railway every year into the pockets of shareholders. Profit leakage occurs in many places, from train operation to Network Rail subcontractors to renting trains with exorbitant rents.

Most of Britain's train franchises are wholly or partly run by the subsidiaries of other countries' publicly owned rail companies that export their profits for the benefit of their own railways. Yet, absurdly, the Railways Act 1993 that privatised British Rail prohibits any British publicly owned body from running train services.

## What is the railway for?

Because privatisation has rendered the railway headless, the answer to the question "What is the railway for?" has been lost. Moreover, the *de facto* interpretation of the railway's purpose has drifted towards practices that serve the vested interest groups that the privatised railway comprises.

Ultimately, the primary aim of Britain's railway should be framed in terms of supporting the health of the economy and society. Labour's top-level aim for the railway is to provide connections that support a vibrant economy and a thriving society whilst actively supporting climate stabilisation and a healthy local environment.

The deepest issues arising from the question "What is the railway for?" are in part cultural. Privatisation of the railway (and the fragmentation required to privatise it) has led to the idea of the railway as primarily a public service being subsumed to commercial objectives and primacy of shareholder profit.

Cultural changes have to be initiated right at the top of the railway and be pushed throughout it. Labour's integrated railway company will provide the basis for a transformative change of culture.

A publicly owned integrated railway could be at the forefront of the Green Industrial Revolution we now need to tackle today's pressing public policy challenges of climate change and dangerously dirty air. But to fulfil that role, the railway needs reconstructing with an overarching guiding mind that controls the whole railway in a strategic way. This necessitates unification of track and trains within a publicly owned railway company.

Labour's vision is for a railway that enables everyone to travel easily and affordably right across Britain, as part of a completely accessible sustainable transport system, fully connected with buses, trams and other public transport: a railway fit to tackle the Climate Emergency.

To this end, Labour will give priority to putting in place key things that are missing from the present railway: a guiding mind in charge of the whole railway, a railway responsible to government but with 'arms-length' professional freedom and long-term funding horizons and steady public investment. The railway ought to be unified so that all its parts work together efficiently and be locally accountable with simple, better value fares. And the railway should be not-for-profit in public ownership.

## **Tackling climate change**

The Shadow Secretary of State for Transport, Andy McDonald MP, has made clear that reduction of climate damaging emissions ought to be the top priority of the Department for Transport.

In order to tackle climate change successfully, many journeys presently made using private road vehicles have to shift to the more sustainable modes of transport – trains, buses, walking and cycling. Recent research of pathways to reach a 1.5°C climate target indicates that, even if all new cars are Ultra Low Emission Vehicles by 2035, there will also need to be at least 20% car mileage reduction and up to 60% car mileage reduction.

Such a large and rapid shift is only conceivable with a totally transformed public transport offer – an offer that gives people real options to travel conveniently and efficiently by other means.

An essential element will be putting the railway back together so that it functions properly for passengers. But much more than that is needed. The whole public transport system needs to work as an integrated whole, so that buses, trams and trains connect and complement one another, rather than running in competition as they have since buses were deregulated by the Thatcher government in 1985.

Labour believes that affordable access to good levels of public transport needs to be viewed as a universal basic right, enabling people to live a high quality of life, with decent access to education, training, jobs and facilities. To realise our vision for public transport to tackle the climate emergency, investment in affordable public transport fares, additional capacity for rail and buses, a multimodal timetable, staffing and staffing development would be treated as priorities, accompanied by a programme of steady rail electrification.

## **GB Rail governance structure**

Whatever its ownership structure, a railway should be run by rail professionals, not politicians. Labour understands that there are very good reasons that government should have an arms-length relationship with the railway. Although GB Rail will be publicly owned, Labour wishes its proposed structure for the railway to deliver more freedom for railway professionals to run the railway than the present privatised structure.

The proposals in this document for a rail structure and financial arrangements are designed to free the railway from ministerial interference, so that government will resume its rightful position of providing the strategic framework under which GB Rail will operate.

Labour proposes a structure for Britain's railway that achieves Britain-wide integration within a single publicly owned railway company, 'GB Rail', whilst enabling Devolved Transport Authorities (DTAs) to control both expenditure and governance of the GB Rail operations within their areas.

In this proposed structure, a publicly owned network-wide railway company, GB Rail, runs both the rail infrastructure and train services as part of a single unified company (i.e. a 'vertically integrated' railway). It is the guiding mind for the whole railway.

Public ownership of the railway increases from the present level as franchises expire – or are terminated early where that offers best value for money – and as GB Rail purchases new rolling stock. Network Rail disappears as an entity and is subsumed within the GB Rail company.

Under Labour's proposals, the GB rail structure balances Britain-wide integration within a single rail company with Devolved Transport Authorities (DTAs) controlling expenditure and governance of their rail areas, underpinned by GB Rail's national standards.

GB Rail runs both infrastructure and train services within a single overarching organisation that provides a guiding mind for the whole railway and is a single employer for all railway staff.

The company is 100% publicly owned with government holding a majority of shares and DTAs owning all the remainder. It has a two-tier board structure to enable stakeholders to input at a strategic level as members of a supervisory board (as used in companies in other European countries and UK third sector and public organisations).

The GB Rail national supervisory board has DTA members, staff members and passenger members. This board is responsible for a long-term vision and strategic plan to develop the network as an integrated whole, for ensuring network-wide integration of day-to-day working, and for network-wide standards.

GB Rail Mainline is a Business Unit operating mainline and high speed passenger services (approximately the former 'Intercity' network plus high speed lines). There is also a GB Rail Freight Business Unit devoted to freight services.

GB Rail is otherwise primarily structured with Business Units that geographically map to DTA areas. Each DTA governs the Business Unit that operates the railway in its area through control of the flow of funding and through a supervisory board at business-unit level. DTA Business Units have governance of train services and rail infrastructure, working to GB Rail Mainline Business Unit specifications where appropriate. The DTA Business Unit supervisory boards have staff and passenger members in addition to DTA members.

Each GB Rail Business Unit will be required to provide detailed cost-revenue data to the DTA that governs it, and DTAs will have powers to set up penalty-incentive contracts with GB Rail. Extra powers for DTAs to raise funds for rail from local

sources will be assessed, considering international examples. The founding legislation for GB Rail will ensure a continued duty on the Secretary of State for Transport to provide multi-year funding settlements for the railway so the industry and its supply chain can plan efficiently and strategically, but will extend and improve the present financial control periods.

## **Rail safety**

Labour is proposing changes to the railway's regulatory and safety functions. Those functions of the rail regulator, the Office of Rail and Road (ORR), that derive from the privatisation obsession will become increasingly unnecessary as passenger rail services are taken into GB Rail.

Labour recognises the rationale for an external safety auditing function to continue for the long term, independently of GB Rail. It is proposed that this function could remain with ORR. In addition, Labour recognises the ability of the Rail Accident Investigation Branch (RAIB) to investigate accidents without responsibility to apportion blame, whilst the Office of Rail and Road (ORR) separately holds enforcing and prosecuting powers.

The rail industry body, the Rail Safety and Standards Board (RSSB), is the repository of an invaluable store of monitoring data and other information regarding how to keep the railway safe. However, this information should be central to senior rail management decision-making. It is proposed therefore that RSSB functions should reside within the integrated railway company, GB Rail.

The 'economic functions' of ORR have manifestly failed to produce a cost-efficient railway. GB Rail, as a company overseeing the whole railway, will be in a position to plan, implement and monitor efficiencies that are presently unattainable to railway managers, meaning the economic functions of the ORR are superfluous and would be removed.

## **Passenger Voice**

The present system for passenger complaints, to provide a passenger 'voice' and to represent passengers within railway structures is fragmented and confusing. Labour proposes a passenger rights body, Passenger Voice, to be more representative of and accountable to passengers, with a funding stream fully independent of government.

Passenger Voice will provide one place for passengers to take complaints not directly resolved by the railway itself, taking over Transport Focus, the newly established Rail Ombudsman and some of the Office of Rail and Road powers regarding passenger service standards, including upholding the rights of disabled travellers. It should be a devolved organisation, mapping to the Strategic Management Business Units of GB Rail.

Beyond this, Passenger Voice will play an entirely new role as part of democratic governance of the railway, as a channel for the entire passenger body to vote in elections of passenger representatives to the national supervisory board of GB Rail.

## Industrial relations

Poor industrial relations have been a persistent feature of the privatised rail. The government's franchise contracts encourage the private rail companies to force aggressive policies on staff and not to settle disputes by declaring strikes 'force majeure' or using indemnification clauses.

This approach is against the public interest. It is short-sighted, destroying trust and management-staff working relationships, despite both parties sharing longer-term interests.

Labour will put in place structures and procedures that enable a forward-looking approach to industrial relations, including the difficult issues of technology change, so there can be industrial relations planning capable of realising the shared benefits to all parties from taking a 'long-view' – a High Level Industrial Relations Strategy.

This multi-year approach should span at least the period of the High Level Output Specifications for the railway (i.e. Control Periods, which Labour will extend to seven years).

The High Level Industrial Relations Strategy will be facilitated by all rail staff being employed by the single rail company GB Rail, for which its founding legislation will stipulate that pay, terms and conditions and working arrangements will be negotiated and set at GB Rail national level.

Labour will end the fragmentation of labour and will bring the workforce together, into the heart of the railways, including its decision making processes. We recognise the benefits that co-production with the workforce brings, as shown by the German model of industrial relations and the improved productivity and added value that brings to the workforce.

## Timetabling

An overall timetabling vision is completely lacking. There are no national standards for desirable speeds or frequencies, and no policies regarding connections between services. The result has been the loss of a public sense of a convenient and extensive national network.

The timetabling system should start with a high-level strategic view taking a whole-system perspective of how to maximise overall benefit. GB Rail will be able to take this role. It will be tasked with providing a vision for an overall timetable offer that integrates with other modes of public transport to provide a coherent and comprehensive structure of coordinated services.

Switzerland is acknowledged to have achieved the world's best integration of its timetabling, meshing all other modes of local public transport with nation-wide coordination of train services. GB Rail, as a fully integrated rail company, will be in a position to examine how far it may be possible to give every citizen in Britain Swiss-style freedom to travel conveniently by public transport between any two places bigger than a small village.

## Fares and Ticketing

GB Rail will allow for simpler and more affordable fares, delivering an integrated system covering all modes of public transport that offers travellers the ease and simplicity of “One Network, One Timetable, One Ticket”.

Labour believes this means wholesale reform of fares and ticketing, replacing the current system with a simple, London-style ticketing system across the nation, delivering contactless payments and creating zonal rail fares that will apply across all modes of public transport.

We will create rail fares that are simple, fair, affordable and transparent. We will work with local transport authorities to define ‘islands’ within which zonal rail fares apply across all modes of public transport, with an affordable daily price cap so travellers can Pay-As-You-Go using bank cards or mobile phones.

Longer distance rail journeys will form ‘bridges’ between the islands, for trips where passengers need to know the price in advance to judge whether to flex their journey time to get off-peak rates. Fares for these journeys will become simple and transparent, with mainly distance-related, ‘single-leg’ pricing, where the return price is always the combined outward and return leg prices. Apart from higher ‘peak’ prices other complexities will be wiped out.

As part of the reforms, Labour will guarantee fair rail fares for part-time workers by ensuring they don’t pay more per trip than holders of weekly season tickets.

## Conclusions

Labour believes the rail structure proposed in this document will deliver a railway that can go from strength to strength, and fulfil Labour’s vision for a railway that enables everyone to travel easily and affordably right across Britain, as part of a completely accessible sustainable transport system, fully connected with buses, trams and other public transport.

The key features of the new public railway will be:

- A guiding mind for the whole railway
- A railway in not-for-profit public ownership
- A unified railway where all its parts work together efficiently
- A railway with simpler, better value fares
- A railway responsible to government but with ‘arms-length’ professional freedom
- A locally accountable railway
- A railway with long-term funding horizons and steady public investment

We believe this will deliver:

- A railway with rising patronage
- A railway that is in receipt of rising investment
- A railway that cost-effectively uses public money invested in it

We invite all stakeholders, from all sides of the debate, to join with us to support this endeavour.

# 1 The problems caused by privatised rail

The reputation of Britain's railway has seen a sad decline in recent years. The combination of repeated fare rises above the rate of wage growth, increasing overcrowding and declining reliability has been unfair and unsustainable. So it came as no surprise when the railway attracted anger and opprobrium after its attempt to introduce a major new timetable in 2018 resulted in chaos, rather than the promised improvements.

As a result, even the privatised railway itself seems to have been forced to the conclusion that the system is broken, with the latest major official review of that system by Keith Williams (the 31<sup>st</sup> review since 2006 according to one seasoned rail observer)<sup>2</sup> stating that 'Franchising cannot continue the way it is today'.

This section briefly reviews how these and other problems arise partly or wholly from privatisation of the railway. However, it is also important to first step back from the railway's bad press to retain a fuller perspective, and in particular to recognise that Britain's railway and its many thousands of dedicated staff remain a hugely valuable national asset.

Day-after-day, year-after-year the railway carries many millions of people to their destinations, in the process keeping our towns and cities moving and economically viable. It does this with an extremely good level of safety, far better than that of private cars and better than most other railways in the world. Tens of thousands of workers – 'The Orange Army' – regularly achieve near-miraculous completion of major infrastructure improvements overnight during time-pressured shutdowns, but only make the news headlines when something goes wrong.

The frontline staff who operate the railway have no choice but to work under the flawed system that has been imposed upon them, and under the circumstances do a remarkably good job trying to bridge the cracks in the system. They deserve praise rather than the abuse they tend to suffer due to failings that are beyond their control. They are an immensely valuable resource that the next Labour Government will work to re-enable and will need to draw on and rely on to realise its ambitious plans to create a much better-functioning railway. Labour is thankful to all staff at all levels right across the railway for the way they have retained their loyalty and dedication to passengers despite the idiocy and difficulties of the privatised railway structure.

## 1.1 Cutting up the railway into privatisable pieces adds cost and worsens services

When the Conservative government privatised the railway in 1993, it split it into lots of bite-sized pieces for investors to buy. Competition between the different pieces was meant to drive costs down, but in fact the cost to the public purse of the private railway rose meteorically, more than doubling in real terms.<sup>3</sup>

A railway system works best as a unified network. Fragmentation has added costs from inefficiencies where all the bits of the privatised railway interact and makes the service disjointed and harder to use for passengers. A minimum estimate is that

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<sup>2</sup> Roger Ford 2019 *Informed Sources* e-circular 23.09.2019.

<sup>3</sup> Transport for Quality of Life 2012 *Rebuilding Rail*.

fragmentation costs the railway £290 million per year.<sup>4</sup> As an example, one official report found that over 300 people are employed full time on the railway to argue about which company is responsible for delays ('delay attribution').<sup>5</sup>

The wastage from this fragmentation for privatisation is one of the reasons that Britain's railways have sunk down the league table of cost efficiency. In 1989 research by the British Railways Board<sup>6</sup> found Britain's railways to be 40% *more* efficient than European comparator railways, whereas by 2011 the Rail Value for Money Study<sup>7</sup> found Britain's railways to be 40% *less* efficient than European comparator railways.

For rail users, fragmentation means a confusing mess of ticketing arrangements instead of ease-of-use and simplicity, with different rules about things like off-peak fares on different parts of the railway. Passenger information is often wrong or absent due to the breaks in the system. Trains that could easily be held to connect with slightly late services rarely wait because they are run by mutually hostile private train companies. No part of the railway takes a responsibility to get people to their final destination.

To add insult to injury, when passengers seek redress, different parts of the railway blame one another. A survey<sup>8</sup> of 2600 rail users found that one fifth had not been allowed to transfer their train tickets to another train company, even when services had been disrupted. Two thirds complained of the time they had to spend trying to work out an economical way to make a journey involving more than one train company.

But perhaps worst of all, this fragmented railway is out of control. Official studies have repeatedly concluded that the railway lacks a 'guiding mind'. Cutting the railway into pieces for privatisation means nobody is in a position to manage the whole railway strategically to make it all work together and plan its development to be the best possible public service.<sup>9</sup>

Research into the problems that fragmentation causes for passengers, staff and rail management is laid out in further detail in Appendix 1.

## 1.2 Money leaks out to shareholders rather than being invested in rail

The privatised rail system in Britain has put private profit-taking before the provision of a public service, abstracting large amounts of money from a rail system financed by the public purse. A minimum estimate is that £725 million flows out of the railway every year into the pockets of shareholders (of a total cost of privatisation to the rail system estimated at over £1 billion per year).<sup>10</sup>

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<sup>4</sup> Transport for Quality of Life 2012 *op. cit.*

<sup>5</sup> McNulty 2011 *Rail Value for Money Study*

<sup>6</sup> British Railways Board *Annual Report and Accounts 1988/89* p.57, measured against eight European comparators as absolute figures, presented in percentage terms in Gourvish 1990 *British Rail's 'Business Led' Reorganisation* p.149.

<sup>7</sup> McNulty 2011 *Rail Value for Money Study, Summary Report*, p.5, measured against four European comparators.

<sup>8</sup> TfQL Community Interest Company 2016 research, described in *Rail Review* Q4 2017 issue

<sup>9</sup> For example, Bowe C 2015 *Report of the Bowe Review into the planning of Network Rail's Enhancements Programme 2014-2019* - 'I have noted the lack of "whole system thinking", in both planning and in delivery'.

<sup>10</sup> Transport for Quality of Life 2012 *Rebuilding Rail* at <http://www.transportforqualityoflife.com/policyresearch/publictransport/>

Profit leakage from the privatised railway occurs in many places. In addition to the train operating companies taking their profit, there are many tiers of private subcontractors to Network Rail, with each tier taking its profit. On top of that, privatisation established an absurd system of perpetually renting trains, with exorbitant rents in a captive market delivering double-digit profits to the train hire companies, in one case peaking at 60%.<sup>11</sup>

What could £725 million of profit leakage buy?

It might for example, completely cover the public subsidy of £699 million per year to train operations covering the whole of the North of England, Scotland and Wales (comprising, in 2017-18, £285 million to the Northern Rail franchise, £321 million to the Scotrail franchise and £93 million to the Wales and Borders franchise).<sup>12</sup>

Or the profit leakage could buy brand new trains for the whole of Merseyrail's ancient fleet – every year – with more than enough left over to cover the entire operating subsidy to run them.<sup>13</sup>

### **1.3 Evidence shows the railway works better in public ownership**

For five years from 2009 to 2015,<sup>14</sup> the East Coast mainline was operated by a government-owned company after two private franchise operators in succession walked off the job when they found they could not make as much profit as they anticipated. They were able to renege on their contractual obligation to pay annual 'premiums' to government without suffering significant penalties.

After the publicly owned train operator Directly Operated Railways (DOR) stepped in, it out-performed both its private predecessors, with no change to the ageing rolling stock. Punctuality and reliability improved to consistently high levels well above the average performance of the earlier private operators,<sup>15</sup> and over the five years that it operated the East Coast, DOR paid more than £1 billion in premiums to the government.<sup>16</sup>

### **1.4 Profits from Britain's railway are invested in other countries' rail rather than here**

Most of Britain's train franchises are wholly or partly run by the commercial subsidiaries of other countries' publicly owned rail companies.

Abellio, part of the Dutch national rail company Nederlandse Spoorwegen, runs Scotrail, has a 70% share in West Midlands Trains, a 60% share of the East Anglia franchise and a 50% share of the Merseyrail franchise.

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<sup>11</sup> Angel Trains achieved a 60% profit margin in 2010.

<sup>12</sup> ORR 2016 *GB Rail Industry Financial Information 2017-18* see Table 2.13 – all figures quoted net of any payments made to government by the train operator.

<sup>13</sup> Merseytravel 2019 *New Trains* puts the entire project cost of the fleet renewal at £460m (a sum that may include substantial associated upgrades in addition to the new train fleet itself) <https://www.merseyrail.org/about-merseyrail/new-trains.aspx> accessed 23.09.2019. ORR 2016 *op. cit.* shows net public support for Merseyrail franchise was £78m in 2017-18.

<sup>14</sup> Nov 2009 to Feb 2015.

<sup>15</sup> ORR 2019 *Datatable Public Performance Measure (PPM) Train Punctuality Table 3.42 PPM MAA (Moving Annual Average) by Sector and Train Operating Company.*

<sup>16</sup> Guardian 2014 *East coast mainline pays taxpayers £1bn sparking fresh privatisation fury* 04.08.2014.

MTR, owned by the Hong Kong Government, will run the Crossrail franchise and already runs the Essex services that will be part of it, as well as holding a 30% share of the South Western franchise.

Keolis, part of France's public rail company, has a 70% share in the Wales and Borders franchise, and 35% shares in the Southeastern and Thameslink-Southern-Great Northern franchises.

Arriva, part of Germany's state rail company Deutsche Bahn, runs the London Overground, Northern, Chiltern Rail, and Arriva Cross Country franchise operations. And, through its freight subsidiary, DB Cargo, the German state railway even runs Britain's royal train.

Yet the Railways Act 1993 that privatised British Rail prohibits any British publicly owned body from running train services (except when franchisees fail as happened with East Coast).<sup>17</sup>

These foreign operators invest very little in the British railway. They export their profits for the benefit of their own railways. For example, Deutsche Bahn achieves 43% of its revenue outside Germany, but 95% of its investment is in the German railway.<sup>18</sup>

## **1.5 The railway should be a public service, not a vehicle for private profit.**

Britain has lost sight of *what the railway is for*.

The railway delivers workers to their employers. It stops our towns and cities choking themselves with vehicle pollution and strangling their economies with vehicle congestion. It takes people to facilities, friends, relatives and on holiday. It should be governed as the vital public service it is, not as a vehicle for companies to profit from the captive market of commuters and other travellers who rely on the train.

The idea of public service used to be a core part of the railway ethos. The railway could and should be run so that rail users – whether the travelling public or freight carriers – are always seen as the priority, and so that rail workers feel they are a key part of a vital public service, not just cogs in a machine turning for their company's profits.

Rail workers should be collaboratively involved in how the railway is run, using their skills to improve the railway, not wasting their energies in battles over rail safety being compromised for added profit, substandard working conditions and exploitative job contracts with adversarial rail companies intent on maximising shareholder yields. Most other European countries have sector-wide agreements on pay and conditions to minimise disputes. The industrial disputes across multiple franchises in recent years give the lie to the idea that handing services to private companies will lead to fewer strikes. Privatisation has led to a number of serious pay disputes every year, whereas in public ownership under British Rail, there were only eight strikes in the seventeen years from 1979 to 1996.<sup>19</sup> Some of the recent disputes have become protracted and caused disruption over extended periods.

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<sup>17</sup> This section describes franchise ownership as at 23.09.2019.

<sup>18</sup> Deutsche Bahn 2018 Facts and Figures 2018, Data from Tables p.9 (External Revenues by Region) and p.11 (Gross Capital Expenditures by Region).

<sup>19</sup> RMT 2010 Submission to the Government rail value for money study.

On a conservative estimation, the total costs of privatisation to the whole rail system are over £1 billion per year.<sup>20</sup> This is a large amount in relation to the £3.8 billion per year that the railway receives in net public subsidy.<sup>21</sup> This system has been described as '*politically constructed profit*'.<sup>22</sup>

The railway could be very much better if it were purposely run with the best public interest as its clear primary objective. As one expert put it, '*If British Rail had [had] the same funds [as the privatised railway] now we would have a gold-plated state railway*'.<sup>23</sup>

A publicly owned railway could also be used to maximise Britain's economic potential. Under privatisation the train manufacturing divisions of British Rail were all sold to foreign owners and are now much diminished. Other countries still consider their railways as a core part of their industrial strategies to build up manufacturing industry, and sell their trains abroad – including to Britain, the country that used to be the world's foremost train manufacturer.

Britain's railway was at the heart of the Industrial Revolution in the 19<sup>th</sup> Century. A publicly owned integrated railway could be at the forefront of the Green Industrial Revolution we now need to tackle today's pressing public policy challenges of climate change and dangerously dirty air – both problems where transport is the worst-performing sector. Rail is an environmentally sustainable mode of transport well-positioned to be a key part of the solution to these problems. But to fulfil that role, the railway needs reconstructing so it has an overarching guiding mind that controls the whole railway in a strategic way, so it can be properly tied in to industrial strategy and investment. This necessitates unification of track and trains within a publicly owned railway company.

A unified publicly owned railway could be meshed with a national industrial strategy that prioritises continuous investment to meet broader public policy objectives, such as climate change, rather than suffering constrained and unstrategic expenditure whilst ignoring waste inherent in privatised delivery of rail services. For example, a steady rolling investment programme to electrify the railway progressively, instead of stop-start investment, could ensure the railway can play its full role in reducing climate damaging emissions and cleaning up air pollution in our towns and cities, and in the process could reduce electrification costs by up to a half.<sup>24</sup>

There is a golden opportunity to make a publicly owned railway a core part of a climate-friendly industrial future for Britain, creating a new generation of environmentally sustainable, high-quality long-term well-paid jobs.

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<sup>20</sup> Transport for Quality of Life 2012 Rebuilding Rail.

<sup>21</sup> ORR 2019 GB Rail Industry Financial Information 2017-18 Table 2.15.

<sup>22</sup> CRESC 2013 The Great Train Robbery.

<sup>23</sup> John Stittle, Senior Lecturer in Accounting, University of Essex, see Transport for Quality of Life 2012 Rebuilding Rail.

<sup>24</sup> Rail Industry Association 2019 RIA Electrification Cost Challenge report, and press release Rail industry: Electrification can be delivered at 33-50% of the costs of some recent projects ([https://www.riagb.org.uk/RIA/Newsroom/Press\\_Releases/ECC\\_PR.aspx](https://www.riagb.org.uk/RIA/Newsroom/Press_Releases/ECC_PR.aspx)).

## 2 Labour's vision for the railway

***Labour's vision is for a railway that enables everyone to travel easily and affordably right across Britain, as part of a completely accessible sustainable transport system, fully connected with buses, trams and other public transport: a railway fit to tackle the Climate Emergency.***

### 2.1 How the public railway must be different

To achieve this vision, the next Labour Government must create a railway that looks very different to the present railway – a railway that can succeed where the current railway falls short or completely fails:

- A railway that is easy to use from one side of the network to the other, instead of nightmarishly complicated, disconnected and prone to breakdowns.
- A railway that is fully integrated with other forms of local public transport, so that journeys can be almost seamless, an impossibility with the present deregulated buses and commercial rail companies that see each other as rivals rather than allies.
- A railway able to take responsibility to get passengers from one end of their rail journey to the other, instead of abdicating responsibility to rival train operators when things go wrong.
- A railway that works together to give the densest possible network of services at regular spacings, rather than a railway with multiple operators but fewer available travel options except at excessive cost.
- A railway where ticketing is unified, simple and logical, where it does not feel like a lottery to get reasonable price tickets.
- A railway where information is reliable, timely, consistent, comprehensive and readily available, in place of hit-and-miss information provision by different train companies with self-interested information priorities, and variable capabilities and standards.
- A railway that functions as a whole in its daily operation, with infrastructure and all train operations working as an integrated whole to maximise service continuity around planned and unplanned disruption, rather than forbidding customers alternative options due to commercial rivalries.
- A railway that functions as a whole in its strategic planning for improvements, removing absurdities like new trains being ordered without deciding whether their routes will be electrified or will need diesel traction.
- A railway that is cost-effective in how its parts work together, instead of wasting money and resources through duplication and conflict across divisions created by privatisation.
- A railway that is cost-effective in procuring and managing its rolling stock and other equipment, so all parts of the railway maximise economies of scale, and so that rail manufacturing is supported in Britain.
- A railway that maximises opportunities to move freight by rail, with a 'guiding mind' that controls all train operations giving the environmental and economic

benefits of freight on rail appropriate weight in trade-offs against passenger services, instead of condemning freight trains to uncompetitive slow journeys with long waits in passing loops.

Labour will give priority to putting in place the key things that are missing from the present railway:

### **A guiding mind in charge of the whole railway**

For the first time in decades, the railway will operate and develop as a coherent whole, making it easy for passengers to use from one side of the network to the other. This unified railway will take responsibility to get passengers to the end of their journey when problems arise – rather than abandoning them between different commercial operators.

### **A railway responsible to government but with ‘arms-length’ professional freedom**

Rail experts will have the latitude to use their knowledge and experience to run the railway in the best way to achieve the strategic aims that the government sets out for the railway – rather than government interfering to organise a railway that has been rendered headless in order to create a market for private rail services.

### **A railway with long-term funding horizons and steady public investment**

The railway and its supply industry will be able to securely plan strategically and invest in skills, equipment and facilities – rather than continue to suffer the feast-famine conditions that have disabled domestic rail manufacturing whilst boosting foreign companies.

### **A unified railway where all its parts work together efficiently**

The railway will be defragmented, so all parts of GB Rail work together cost-effectively to achieve a common end in the most efficient way possible – rather than wasting money due to different parts of the privatised railway with different commercial interests failing to work together or disputing liabilities with one another.

### **A locally accountable railway**

For the first time, Devolved Transport Authorities will have powers to implement their aspirations to put the railway at the centre of their plans to build thriving cities, regions and nations. They will be able to use to the full the potential of railways to form the core for local economic development and to increase quality of life as part of fully integrated public transport spanning beyond rail to buses and trams.

### **A railway with simpler, better value fares**

Passengers’ journeys will be eased by simpler, less expensive fares, for both long-distance city-to-city journeys and as part of integrated multi-modal local ticketing schemes – simplicity and ease of travel which is blocked under the present rail structure by rival commercial interests and rules to protect the discredited concept of private competition on the railway. Labour’s aim is for “One network, One Timetable, One ticket” spanning all modes of public transport.

### **A not-for-profit railway in public ownership**

The railway will be dedicated to providing a public service rather than private profit, with staff who feel proud of and motivated by working to serve passengers rather than corporate shareholders. Surpluses will be reinvested in the railway – rather than handed to private shareholders or expatriated to invest in railways abroad.

We believe these changes will deliver:

- A railway with rising patronage
- A railway that is in receipt of rising investment
- A railway that cost-effectively uses public money invested in it

Jeremy Corbyn has summarised Labour’s vision for a reunified, efficient, publicly owned railway with the following pledge:<sup>25</sup>

***“There is overwhelming support from the British people for a people’s railway, better and more efficient services, proper integration and fairer fares. Labour will commit to a clear plan for a fully integrated railway in public ownership”***

This document lays out that plan.

## **2.2 A railway fit to tackle the Climate Emergency**

The Shadow Secretary of State for Transport, Andy McDonald MP, has made clear that reduction of climate damaging emissions will be the driving force behind Labour’s Department of Transport, and will determine its work priorities and spending choices:<sup>26</sup>

***“Under my leadership I will want to see the Department [of Transport] set a carbon budget consistent with the aspirations of the Paris Agreement on climate change. Moreover, I will want each of the sectors – rail, road, aviation and maritime – to have carbon reduction targets in line with that departmental budget. We will reallocate departmental spending to achieve the changes required. We will reform the regulatory structure of transport to drive these behavioural changes.”***

To tackle climate change successfully, many journeys presently made using private road vehicles have to shift to the more sustainable modes of transport – trains, buses, walking and cycling.

Whilst it is encouraging that analysis of car trip data shows a high proportion of short journeys and origin-destination pairs that could easily transfer to sustainable modes of travel, the challenge remains huge. Recent research of pathways to reach a 1.5°C climate target indicates that, even if all new cars are Ultra Low Emission Vehicles by 2035, there will also need to be at least 20% car mileage reduction and, depending on modelling assumptions, up to 60% car mileage reduction.<sup>27</sup>

Such a large and rapid shift of journeys from cars to sustainable modes of transport is only conceivable with a totally transformed public transport offer – an offer that gives people real options to travel conveniently and efficiently by other means. An essential element will be putting the railway back together so that it functions properly for passengers, as described in the previous section.

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<sup>25</sup> Independent 19 September 2015.

<sup>26</sup> Andy McDonald MP 2019 *Speech to Institute for Government* 20.03.2019.

<sup>27</sup> Hopkinson L and Sloman L 2018 *More than electric cars* Transport for Quality of Life Briefing for Friends of the Earth p.8

(<http://www.transportforqualityoflife.com/policyresearch/transportandclimatechange/>).

But much more than that is needed. The whole public transport system needs to work as an integrated whole, so that buses, trams and trains connect and complement one another, rather than running in competition as they have since buses were deregulated by the Thatcher government in 1985.

Fortunately, good models of integrated regulated public transport still exist in other countries (and also in London, which narrowly escaped the bus deregulation that decimated bus networks elsewhere). Studies of the 'Verkehrsverbünde' (Transport Associations) in Germany, Austria and Switzerland show that the per capita rate of public transport trips is 3-4 times higher than in the English Passenger Transport Executive (PTE) areas that are their equivalent.<sup>28</sup> And this high level of public transport use has been achieved despite Verkehrsverbünde covering significantly larger areas than PTEs, with generally lower population densities.

Verkehrsverbünde achieve these levels of use of public transport through comprehensive regulation and substantial public ownership, successfully integrating bus, tram, metro and rail operations. If British PTEs, in areas like Greater Manchester and West Midlands, were to achieve the same levels of public transport use as those in the Verkehrsverbünde, traffic in those areas would drop by 9%, a substantial step towards the climate target.

A key feature of these regulated, integrated public transport networks is that the 'reach' of the railway into its hinterland is greatly extended beyond that in Britain. A multi-modal integrated timetable ensures buses arrive at rail stations before trains arrive, and don't leave until after they depart. This means that even rural settlements of just a few hundred people have good services connecting reliably, time-efficiently and easily to the nearest urban centres.

In some Verkehrsverbünde, such as that covering Zurich canton, minimum service frequencies are set out, covering the rural hinterland as well as the urban centres, so that even villages of just 300 people receive hourly bus services from early in the morning to late at night. And the whole system is easy to use, with integrated fares spanning all the modes of public transport, so that the networks achieve "One network, One Timetable, One ticket".

To attain anything approaching this quality and coverage of public transport in Britain implies a wholly new culture and realignment of priorities.

Labour believes that affordable access to good levels of public transport needs to be viewed as a universal basic right, enabling people to live a high quality of life, with decent access to education, training, jobs and facilities. As well as meeting the climate crisis, extension of public transport horizons is a vital extension of life opportunities.

And Labour recognises that it is essential to stop funding transport projects that increase carbon emissions, such as schemes for new or enlarged roads, and instead provide greatly increased funding for sustainable modes of transport.

To realise our vision for public transport fit to tackle the climate emergency, Labour will invest in:

- Affordable fares on rail and other modes of public transport

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<sup>28</sup> Sloman L and Hopkinson L 2019 Transforming Public Transport Transport for Quality of Life Briefing for Friends of the Earth p.4 (<http://www.transportforqualityoflife.com/policyresearch/transportandclimatechange/>).

- Added capacity for rail and buses to achieve a multimodal comprehensive timetable
- Staffing, staff development, job security and job quality to ensure an excellent public service that is accessible, safe and secure for everyone.

And to decarbonise rail, Labour will run a programme of continuous steady rail electrification, thereby also building skills, jobs and industry capacity in electrification and cutting its costs.

## **2.3 What is the railway for? – Labour’s economic, social and environmental objectives for the railway**

Before considering the structure of the railway, it is necessary to understand what is demanded of it. The question “What is the railway for?” may at first sight seem too obvious to ask, but at this moment in the debate it is important to re-ask it. The answer fundamentally influences structural choices for the railway.

Because privatisation has rendered the railway headless – or perhaps multi-headed may be a better description – the answer to the question “What is the railway for?” has tended not to be clearly articulated. Moreover, the separation of railway functions with their own particular interests and incentives has meant that the de facto interpretation of the railway’s purpose has drifted towards the practices that best serve the various vested interest groups that the privatised railway comprises.

However, most rail passengers would answer the question ‘What is the railway for?’ in terms of the railway carrying them from their homes to education, training, jobs, shops, facilities, friends, family and holiday destinations.

Policymakers see these individual journeys and rail freight movements as essential components of a healthy society and vibrant economy.

Ultimately then, the primary aim of Britain’s railway must be framed in terms of supporting the health of the economy and society.

However, the railway is distinguished from less sustainable modes of transport that might otherwise fulfil some of these economic and social functions by its ability to simultaneously achieve vital and urgent policy objectives for the environment, including particularly reduction of climate damaging carbon emissions and reduction of toxic air pollution. This is crucial in the context of a declared Climate Emergency and ongoing breaches of air pollution laws in Britain’s towns and cities.

As well as the declared Climate Emergency, Britain is also experiencing an undeclared emergency of social inequality. The railway, with appropriate government backing, can also play an important role in addressing this, through its allocation of resources to rail infrastructure projects and provision of rail services and through a fair fares structure.

Allocation of rail resources to left-behind areas not only boosts the transport options for those who live there but can help generate a wholesale uplift in economic activity and employment opportunities. Alongside this, there is a crucial role for a switch to a progressive rail fares policy, akin to the norm in many other European countries, where there is deeper recognition that rail travellers are not the sole beneficiaries of the railway and therefore should not be expected to bear a disproportionate amount of the railway’s costs. Ironically, it was the then Conservative Transport Secretary,

Phillip Hammond MP, that most poignantly expressed the extent of the changes needed, when he said that the railway had become 'a rich man's toy'.<sup>29</sup>

The railway offers the most efficient mode of travel, and is the mode of choice, for both rapid long-distance travel and for the arteries carrying the daily lifeblood of millions of people into our major conurbations. As such, with properly regulated and coordinated operation and timetabling of other sustainable modes like buses and trams, the railway provides the framework for constructing an integrated public transport system that provides the maximum possible coverage of people and places. It is therefore central to achieving policy objectives to reduce dependency on private vehicles and reduce climate damaging emissions.

### Labour's top-level aim for the railway:

- To provide connections that support a vibrant economy and a thriving society whilst actively supporting climate stabilisation and a healthy local environment.

### Labour's objectives for the railway:

- To provide transport for our economies and communities that is environmentally sustainable, reliable, efficient, affordable, accessible, safe and secure
- To create well-integrated comprehensive networks of public transport and integration with other sustainable modes of transport
- To shift journeys from road and air to rail in order to reduce carbon emissions and improve air quality
- To enable development on a transformative scale of new jobs and houses and ensure these offer freedom to travel sustainably and avoid car dependency
- To drive development that reduces regional disparities and improves national cohesion
- To decrease social exclusion and increase social equity by services to disadvantaged communities and affordable fares to disadvantaged groups
- To contribute directly to the economy by creating good quality secure jobs on the railway
- To contribute to Labour's industrial strategy through investment in Britain's manufacturing capability, supporting diversification into new sectors, and supporting training and recruitment of high-skill personnel throughout the rail sector
- To enable cities to thrive as healthier more pleasant places with less traffic
- To grow rail freight so as to support the needs of businesses and remove HGV traffic from roads
- To support rural economies through providing the connectivity they need and through supporting sustainable tourism

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<sup>29</sup> Hammond P 2011 "Uncomfortable fact number one is that the railway is already relatively a rich man's toy – the whole railway...People who use the railway on average have significantly higher incomes than the population as a whole – simple fact." (<https://www.telegraph.co.uk/news/uknews/road-and-rail-transport/8760912/Trains-rich-mans-toy-admits-Transport-Secretary.html>).

- To decrease the environmental footprint of rail progressively so that it is an increasingly environmental travel option

Maybe the deepest ambiguity around the question “What is the railway for?” is in part cultural. Privatisation of the railway (and the fragmentation required to privatise it) has led to the idea of the railway as primarily a public service being subsumed to commercial objectives and primacy of shareholder profit.<sup>30</sup> Yes, train companies are well aware they need to please their customers. However, there are many moments in the average train traveller’s experience when they are faced with situations that would not arise if the intention behind the system design was to provide the passenger with the best possible experience and value for money.

This state of affairs shows the depth of cultural change that is needed in the railway. The railway must once again regard itself as a public service and a unified entity, rather than a vehicle for private profit by multiple interests motivated to compete rather than cooperate. The railway must become outward-looking, to focus on its passengers and freight users, rather than arguing internally about which bit of the railway is due most of its revenues and least of the blame and associated costs when things go wrong. It should seek to provide maximum value for public investment rather than maximise its claims on the taxpayer and the passenger and slough off as much financial risk as possible to the public purse.

Throughout the two decades of disruption and fragmentation that privatisation has brought to the railway, its staff have remained a constant, committed to providing the best service they can. However, staff doing jobs like track work or cleaning have found themselves being increasingly casualised and treated as throw-away labour as part of an out-sourcing culture. Railway staff should be able to build their skills and experience through a long-term career on the railway, with the opportunity to work right across a unified railway company rather than being restricted to career silos within specific private train companies and contractors. Rail staff must once again be able to be proud of and motivated by serving the public, rather than corporate shareholders. They should know that they have a stake in the future of rail and be able to work together with a unity of purpose, rather than having to cover the cracks between different competing bits of the railway.

These cultural changes have to be initiated right at the top of the railway and be pushed throughout it. The present fragmented privatised structure militates against this. Labour’s integrated railway company will provide the basis for a transformative change of culture.

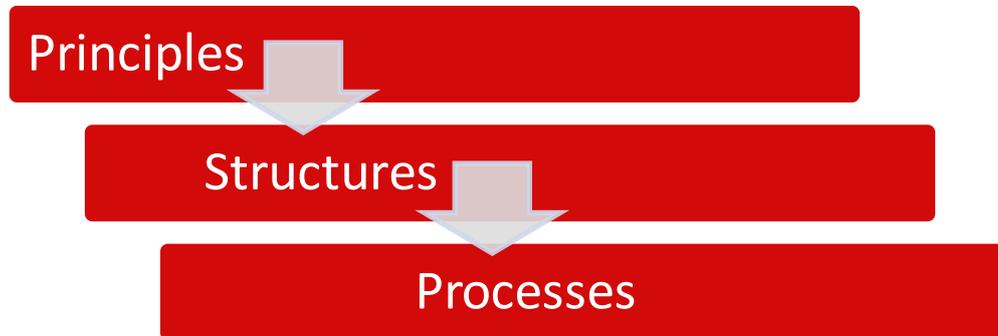
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<sup>30</sup> For example, the multiple rival rail companies put great energy into deflecting blame and financial penalties for delays and cancellations, rather than working together to improve the whole system for passengers. And at a structural level, the finances of the railway are structured around a large public grant to Network Rail, rather than requiring train operators to pay the actual costs of maintaining and renewing the infrastructure they run on. This arrangement ensures that most private train operators are in the politically acceptable position of appearing to pay money to government whilst they make their profit, rather than showing the true situation, which is that the large majority are recipients of considerable net public subsidies.

## 3 The process and principles behind Labour's GB Rail proposals

### 3.1 The approach adopted

Management and organisational structures have been derived according to the sequence:



Although processes come last in this sequence, they arguably are most important.

Organisational and managerial principles have been considered at two levels:

- 'Bottom-up' principles that provide a foundation for discussion of what would be the most functional organisational structures;
- 'Over-arching' principles that emerge from these or are required to reflect broader themes and policy objectives.

Some organisational principles fall into both categories. For a detailed discussion of the 'bottom-up' principles see Appendix 2.

One determining principle that has been adopted throughout merits highlighting:

**Whatever its ownership structure, a railway should be run by rail professionals, not politicians.**

Labour understands that there are very good reasons that government should have an arms-length relationship with the railway. Although GB Rail will be publicly owned, Labour wishes its proposed structure for the railway to deliver *more* freedom for railway professionals to run the railway than the present privatised structure.

Government should have an arms-length relationship with the railway. Because the railway is economically and socially vital, it receives large amounts of public money and must therefore ultimately be accountable to government. However, this does not mean the government should be involved in operational decisions, take responsibility for the punctuality of specific services, promote ministers' pet infrastructure projects, or clutch the purse strings so tightly that the railway's financial relationship with government forces it to operate on a short-term hand-to-mouth basis.

The Secretary of State for Transport and the Treasury should primarily be enabled to operate at the level of setting strategic aims for the railway, and deciding how much funding they are prepared to allocate to realise those aims to the extent the government desires. The proposals in this document for a rail structure and financial arrangements are designed to free the railway from ministerial interference, so that government will resume its rightful position of providing the strategic framework under which GB Rail will operate.

However, because the railway has been decapitated and chopped into pieces to facilitate privatisation, the government and civil servants in the Department for Transport have become deeply embroiled in order to try to make it work, in the absence of a professional guiding mind function with power to control the whole railway.

This situation poses a Catch-22 dilemma for putting the railway back together again. Without a professional guiding mind to guide creation of a new functional integrated structure, it is necessary for policymakers to delve further into the definition of railway structures than would be desirable. To create an organisation that can be assured to work satisfactorily at arm's length, there has to be involvement by policymakers at less than arm's length in order to redefine the system. This closer involvement should, however, be strictly time-limited to the period of defining and legislating for the renewed railway.

Labour has been mindful of this dilemma whilst developing its proposals for GB Rail, and has sought to address it by discussions with experienced rail professionals who share Labour's objectives for the railway and have kindly made themselves available. Labour is very grateful to the deeply experienced and busy railway professionals who have provided thoughts, challenge and guidance, and for colleagues in Devolved Transport Authorities and railway unions who have provided insights, ideas and comments.

## 3.2 Over-arching principles for the GB Rail structure

Some of the principles listed in the table below emerge from or overlap with the foundational ‘bottom-up’ principles discussed in detail in Appendix 2. Others are required to reflect broader themes and policy objectives.

**Table 3.1: Over-arching principles for the GB Rail structure**

| Guiding principles  | Points arising  |
|---|---|
| <p><b>A guiding mind integrating the whole railway</b></p> <p>A national vertically integrated railway overseen by a network-wide ‘guiding mind’ is essential to ensure the whole rail system operates and develops in an integrated way, with minimal fragmentation problems between its parts.</p> <p>A guiding mind for the railway is also essential for it to fulfil its potential as the core of a fully integrated public transport system connecting with buses, trams and other modes of public transport.</p>   | <p>To achieve this, a single overarching railway company is required. We term this ‘GB Rail’.</p>   |
| <p><b>A railway responsible to government but with ‘arms-length’ professional freedom</b></p> <p>The railway as a whole must ultimately be accountable to ministers and parliament, but governance of rail by the government (and devolved governance of rail) should be arms-length from professional management of the railway.</p> <p>The role of government should be to set out a vision and strategic objectives for rail, to negotiate with the Treasury to resource these, and to hold GB Rail to account for meeting the strategic objectives and progressing towards the long-term vision.</p>  | <p>GB Rail would benefit from a two-tier board structure, with a supervisory board as well as a management board, as used in European publicly owned rail companies including Deutsche Bahn.</p> <p>A supervisory board also facilitates strategic representation of a range of interests including passengers, rail staff, and Devolved Transport Authorities (DTAs).</p>                            |
| <p><b>A railway in public ownership</b></p> <p>The railway, as an essential service and a natural monopoly, should be within public ownership, following a gradual process of acquisition of franchised passenger services as they expire, or before where this would provide better value.</p> <p>Rail infrastructure management and wider railway functions require a thorough assessment of where insourcing would be feasible, fairer and more efficient.</p> <p>The whole of GB Rail should be majority owned by UK Government, but Devolved Transport Authorities (DTAs) should share ownership and local rail governance and funding should be devolved.</p> | <p>The 1993 Railways Act ban on publicly owned rail passenger services will be reversed, so rail passenger services will be operated by the public sector in future.</p> <p>A value-for-money assessment will consider whether it would be cost-efficient to purchase all or some open access passenger operators and rail freight firms.</p> <p>All Network rail outsourcing will be reassessed.</p> |

| Guiding principles  | Points arising   |
|---|--|
| <p><b>A locally accountable railway</b></p> <p>Devolved Transport Authorities (DTAs) need sufficient powers to ensure they can fulfil their rail aspirations.</p> <p>The railway structure should provide DTAs with at least the power they already exert.</p> <p>The structures of the railway and DTA areas should map to one another and should maximise the railway's potential as an engine of economic development by corresponding to geographical areas that define economically related zones for which economic development strategy should be considered as a whole.</p>   | <p>GB Rail can be structured with DTA-specific Business Units, each of which could be governed by a supervisory board operating at DTA level whilst remaining part of the single vertically integrated GB Rail company.</p> <p>Finances for the railway could flow through DTAs, and, at a minimum, all funding ring fenced for local rail services should flow via DTAs.</p>  |
| <p><b>A railway vertically integrated at national and local level</b></p> <p>Any element of rail devolution precludes total vertical integration of the railway because there will be inter-running of trains from one area into another. With rail devolution there are choices of how to achieve a high degree of effective vertical integration. Giving weight to clarity (and thereby safety), and to rail structures that mirror strategic economic areas, leads to infrastructure management by the DTA business units.</p>   | <p>It is proposed that there should be a clear straightforward geographical allocation of infrastructure management amongst the DTA business units covering Britain's constituent nations and regions of England.</p>  |
| <p><b>A railway focused on passengers and freight users, where passengers and staff help decide how it is run</b></p> <p>Rail structures and management should focus on passengers and rail freight customers as rail's users. Rail users and staff have valuable perspectives and information that should inform how the railway is run.</p>   | <p>GB Rail's national and Business Unit supervisory boards should have passenger members (or rail freight users where more appropriate) and staff members.</p>   |
| <p><b>A railway with long-term funding horizons</b></p> <p>The ability for the railway to financially plan over the long term is essential for efficient spending, for efficient operation and for the ability to efficiently and consistently develop the railway according to a strategic long term plan.</p> <p>Feast-famine funding is deeply destructive of both core rail activities and the wider rail industry supply chain and must be avoided. The present 5-year financial planning for rail infrastructure ('Control Periods') is helpful and should be retained but needs improvement to avoid end-of-period financial paralysis or sudden changes, to sit within longer term financial planning cycles, and to devolve rail spending oversight to other areas of Britain in addition to Scotland.</p> | <p>The legal duty on the Transport Secretary to provide a multi-year funding settlement for the railway, established by the 1993 Railways Act, must continue in law.</p> <p>Moreover, the associated financial Control periods should be 7 years and should be 'rolling periods', reset after 4 or 5 years to ensure several years forward visibility, within a 40-year Rail Development Vision that lays out broad spending priorities and the most major long-term projects.</p> |

| Guiding principles  | Points arising   |
|---|--|
| <p><b>A railway with sufficient government funding &amp; geographical cross-subsidy</b></p> <p>Government input to fund the railway is needed, to ensure adequate funding, economies of scale, cheapest access to borrowing, and continued cross-subsidy over the network from profitable lines to economically and socially essential lines.</p>   | <p>Most public funding for the railway will continue to come from government but DTAs could have greater powers to raise funds to invest in their local railway.</p>   |
| <p><b>A railway that owns its rolling stock</b></p> <p>New rolling stock should be in public ownership to cut out high levels of profit leakage on train rental and enable programmed rolling stock procurement that can support UK train manufacturing and can reap benefits from standardising fleets. Rolling stock specification and procurement should be by GB Rail professionals rather than by DfT civil servants.</p>                    | <p>Rolling stock purchase by GB Rail will be programmed so UK manufacturers can plan investment in skills and facilities. The case for public ownership of train manufacturing and refurbishment will be examined.</p>   |
| <p><b>A railway with safe national standards</b></p> <p>The maintenance and expansion of railway services and infrastructure must be underpinned by national safety standards.</p>  | <p>National safety standards and their application will be set by GB Rail at national level.</p>   |
| <p><b>An railway that supports Climate Emergency actions and wider environmental sustainability</b></p> <p>The railway should be at the core of a multimodal public transport system that is so well connected across trains, buses and trams that it offers travel options sufficiently attractive to shift demand from private road vehicles and reduce emissions accordingly.</p> <p>The railway itself must rapidly shift to zero carbon.</p> | <p>The railway should sit at the centre of a process of integrated multimodal strategic public transport planning and timetabling.</p> <p>A continual programme of rail electrification is required, covering both passenger services and key unelectrified freight route links.</p> |
| <p><b>A railway that meets public service priorities despite EU rail marketisation laws</b></p> <p>When a Labour Government comes to power, Brexit will give the UK Government greater latitude over railway structures and track access and over state aid for rail manufacturing.</p>   | <p>The next Labour Government will ensure that the UK is able to maximise its opportunities for state control and ownership of the railways.</p>   |

In addition to the principles adopted above, the GB Rail structure described in the following sections is based upon an approach that, to a degree, treats governance structures, financial flows and ownership arrangements separately, so as to enable balances to be struck between devolution and centralisation, fragmentation and integration.

## 4 Overview of GB Rail: A nationally integrated, publicly owned and devolved structure for Britain's railway

Labour proposes a structure for Britain's railway that can achieve Britain-wide integration within a single publicly owned railway company, 'GB Rail', whilst enabling Devolved Transport Authorities (DTAs) to control both expenditure and governance of the GB Rail operations within their areas.

The corporate governance structure and financial flows for GB Rail are shown in Figure 4.1. The diagram shows just three DTAs for the purposes of illustration.

In this proposed structure, a publicly owned network-wide railway company, GB Rail, runs both the rail infrastructure and train services as part of a single unified company (i.e. a 'vertically integrated' railway). It is the guiding mind for the whole railway.

Public ownership of the railway increases from the present level as franchises expire – or are terminated early where that offers best value for money – and as GB Rail purchases new rolling stock. Network Rail disappears as an entity and is subsumed within the GB Rail company.

Key features of the GB Rail structure and how it will work are shown in Table 4.1.

### 4.1 Business Unit structure

The GB Rail company will not have a monolithic structure. Below national level functions, the GB Rail will be made up of Business Units (BUs) that form sensible-sized Strategic Management Units (SMUs), giving clear management visibility of costs and yields, and enabling local responsiveness. To achieve operational manageability of the largest and most complex SMUs there will need to be multiple Operating Units (OUs) within them.<sup>31</sup>

The proposed structure matches the areas of the Business Units with the geography of DTAs. In addition there is a GB Rail Mainline Business Unit for mainline routes and services (i.e. approximately the former 'Intercity' network expanded to include more city-city links and high speed rail as it comes into operation), and a GB Rail Freight Business Unit for freight operations (incorporating publicly owned freight operator Direct Rail Services, DRS, and facilitating operations of remaining open access freight operators).

All Business Units will be part of the GB Rail company, not legally separate subsidiaries, and will manage both rail services and rail infrastructure, so as to facilitate maximum integration.

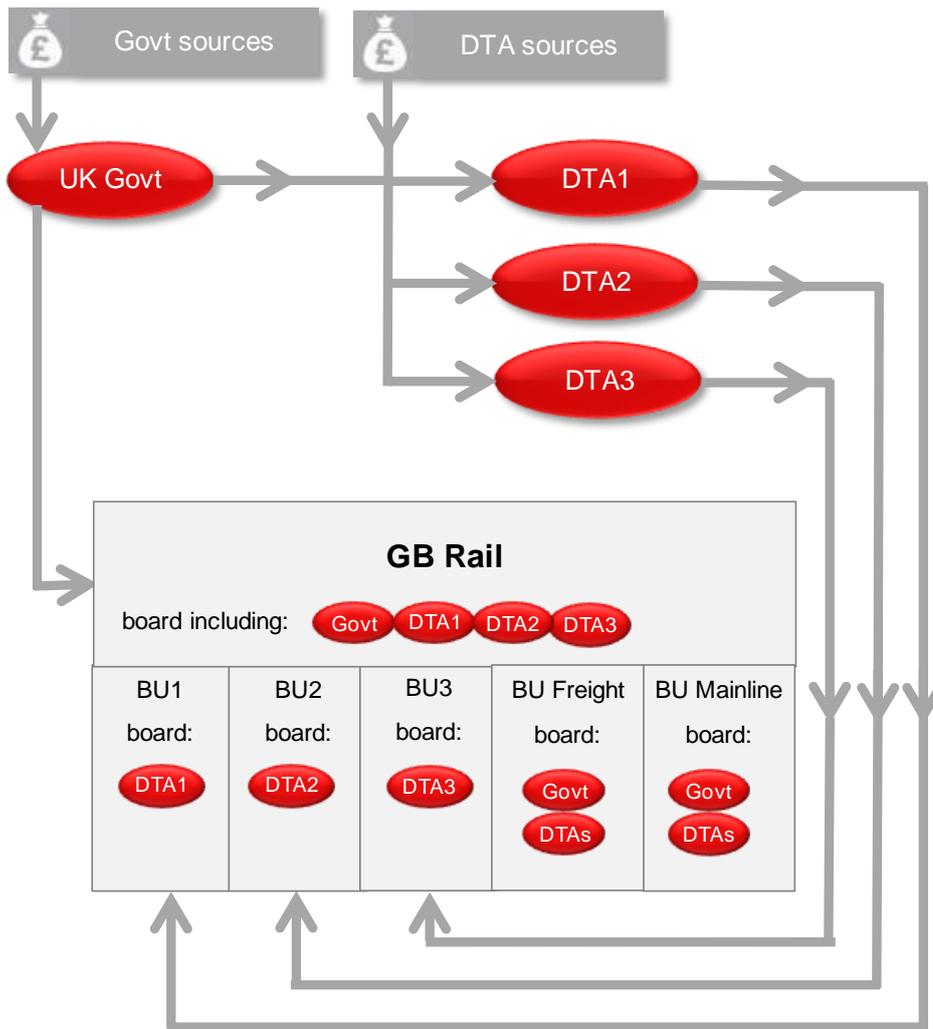
An innovative structural feature is that each of the Business Units, whilst not a separate subsidiary company, will have its own supervisory board, as well as executive management team, to enable strategic input to each Business Unit by the relevant DTA and other stakeholders relating to the Business Unit's area or function.

Figure 4.2 shows the proposed Business Unit structure based on the geographical distribution of Devolved Transport Authorities.

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<sup>31</sup> In practice, both SMUs and OUs will need most or all of the cost-yield visibility associated with the concept of a business unit. Operational considerations mean that most OUs are likely to be on approximately the scale of present franchises and in some cases would logically cover similar areas.

Figure 4.1: Financial flows, governance and structure of GB Rail



**Key to Figure1:**

**DTA** = Devolved Transport Authority representative(s) e.g. a Transport Scotland executive  
(3 only shown for illustrative purposes)

**BU** = Business Unit

**Table 4.1: Summary of key features of the GB Rail Structure**

### **In Brief: Key features of the GB Rail structure**

- Balances Britain-wide integration within a single rail company with Devolved Transport Authorities (DTAs) controlling expenditure and governance of their rail areas, underpinned by GB Rail's national standards.
- GB Rail runs both infrastructure and train services within a single overarching organisation that provides a guiding mind for the whole railway
- GB Rail company provides a single employer for all railway staff
- GB Rail is 100% publicly owned with Government holding a majority of shares and DTAs owning all the remainder.
- GB Rail has a two-tier board structure to enable stakeholders to input at a strategic level as members of a supervisory board (as used in companies in other European countries and UK third-sector and public organisations).
- The GB Rail national supervisory board has DTA members, staff members and passenger members. This board is responsible for a long-term vision and strategic plan to develop the network as an integrated whole, for ensuring network-wide integration of day-to-day working, and for network-wide standards.
- GB Rail Mainline is a Business Unit operating mainline and high speed passenger services (approximately the former 'Intercity' network plus high speed lines).
- GB Rail Freight is a Business Unit devoted to freight services.
- GB Rail is otherwise primarily structured with Business Units that geographically map to DTA areas.
- Each DTA governs the Business Unit that operates the railway in its area through control of the flow of funding and through a supervisory board at business-unit level.
- DTA Business Units have governance of train services and rail infrastructure, working to GB Rail Mainline BU specifications where appropriate.
- DTA Business Unit supervisory boards have staff and passenger members in addition to DTA members.
- Each GB Rail Business Unit will be required to provide detailed cost-revenue data to the DTA that governs it, and DTAs will have powers to set up penalty-incentive contracts with GB Rail.
- Extra powers for DTAs to raise funds for rail from local sources will be assessed, considering international examples.

Figure 4.2: GB Rail Business Unit structure

| GB Rail   |                         |                         |                         |                         |                                    |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|-------------------------|
| National Supervisory Board including: Government & all DTAs |                         |                         |                         |                         |                                    |                         |                         |
| Management Board (Senior Management Team)                   |                         |                         |                         |                         |                                    |                         |                         |
| Business Units of GB Rail                                   |                         |                         |                         |                         |                                    |                         |                         |
| GB Rail Mainline  | GB Rail Freight         | Midlands Rail           | Northern Rail           | Scotland Rail           | Southeast & London Rail            | Wales Rail              | Western Rail            |
| Supervisory Board incl:                                     | Supervisory Board incl: | Supervisory Board incl: | Supervisory Board incl: | Supervisory Board incl: | Supervisory Board incl:            | Supervisory Board incl: | Supervisory Board incl: |
| Govt & all DTAs   | Govt & all DTAs         | Midlands Connect        | Transport for the North | Transport Scotland      | DTA tbc incl. Transport for London | DTA tbc                 | Transport for Wales     |
| Management Board  | Management Board        | Management Board        | Management Board        | Management Board        | Management Board                   | Management Board        | Management Board        |

## 4.2 Central, devolved and shared railway functions

A major initial task for the National Supervisory Board will be to oversee production of a long-term 40-year Rail Development Vision, in accordance with the strategic objectives the government has set for the railway, and to agree it with government.

Thereafter, the most fundamental ongoing function of the National Supervisory Board is to be the guardian of that vision, keeping the GB Rail Management Board focused on progress towards the long-term vision, whilst ensuring that the strategic objectives for the railway are also being continuously – and efficiently – delivered in the shorter term.

Safety standards must also be set nationally, and it will be the National Supervisory Board that ensures standards are appropriate and are being met. It will carry the responsibility for ensuring that the railway as a whole takes a safe approach to its operations and development activities. There is a continued role for a safety regulator external to GB Rail, but RSSB functions will become an integral part of GB Rail (as discussed further in the section on regulation and safety functions).

Many rail functions require a national framework within which DTA Business Units and other parts of GB Rail can make their own decisions:

- The railway needs a national timetable so services in different places combine to form the best national network. But the national timetable must coordinate with local aspirations for levels of local rail services<sup>32</sup> and local plans to improve integration with buses, trams and any other public transport.
- Fares and ticketing require a nationwide approach. But DTA Business Units need the ability to mesh this into their local integrated ticketing offer that encompasses other modes of travel, including new approaches to ticketing.
- Rolling stock procurement is likely to benefit from local specification that is responsive to local users and local operational requirements. But local specifications should also be required to fit in with a national cascading strategy and a national economy-of-scale purchasing strategy. Present procurement is uncoordinated and is leading to a proliferation of small different fleets rather

<sup>32</sup> Some additional services may be supported by local funding from outside the main GB Rail funding settlement with central government, particularly if DTAs receive greater local fund-raising powers.

than maximisation of system-wide benefits and minimisation of system-wide costs.

- The relationship of rail enhancement to land development opportunities is fundamentally a local or regional issue. But this can be of national significance too in terms of network development implications and in terms of national rail spending allocations.<sup>33</sup>

### 4.3 Geographical location of functions

The DTA-specific Business Units of GB Rail will be located in those DTA areas.

GB Rail will be expected to establish its HQ outside London and the Southeast, in line with Labour's commitment to regional economic development. If this becomes a specialist centre for rail expertise and facilities it will have potential to be a significant generator of directly employed and supply chain jobs in the chosen location.<sup>34</sup>

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<sup>33</sup> For example, at the time of writing there is an ongoing debate about whether the HS2 station in Manchester should be a terminus or an underground through station. The latter is attractive to Greater Manchester Combined Authority because it liberates land that could be used to improve the city centre and its urban realm and that could support investment and jobs accessible by sustainable transport. There is wider network significance in that a through station enables higher capacity and thereby more connections to other towns and cities across the North of England and elsewhere. Both the wider network issues and level of added expenditure on a buried through station with tunnelled approaches necessitate a national level of engagement and decision-making.

<sup>34</sup> If centrality and present concentration of expertise are criteria, in addition to regional rebalancing, then York or Derby would be prime candidates.

## 5 GB Rail in detail: How the publicly owned GB Rail structure will work

As has already been noted, there is now almost universal consensus across a wide range of professional and political perspectives, that the present railway structures are not fit for purpose and that fundamental changes are required. Changes are already being implemented within Network Rail, and changes to the franchising system are expected in the wake of the Williams Review. It is encouraging to note that certain of the changes now underway within Network Rail, particularly as regards achieving a more devolved and locally accountable railway, appear to be moving in a direction that broadly aligns with Labour's plans for a fully integrated GB Rail company.

The transition nevertheless poses major challenges, and the process of change requires careful design to achieve the transition in the smoothest way possible. Development of the best process of change requires a clear view of the required destination that will enable the railway to function well as an integrated whole.

The following discussion seeks to provide clarity and sufficient detail on the destination, whilst recognising that much of the finer grained decisions must reside with GB Rail's devolved and national management teams.

### 5.1 Public ownership arrangements for GB Rail

GB Rail will be 100% publicly owned, with Government holding a majority of shares and DTAs owning all the remainder.

DTAs will each take a shareholding in GB Rail, at a nominal minority level, but with 'golden share' powers so that any attempt to reverse the public ownership structure will require unanimous agreement.

The level of ownership by DTAs will be at a sufficiently low level to ensure that DTAs will not be financially liable for the large sums involved in rail infrastructure management and debts that have been raised against railway assets.

On matters other than the public ownership structure, the Secretary of State will have a 'golden share' to ensure there remains an effective guiding mind for the railway, thereby holding ultimate authority to dissolve and reappoint the supervisory board if that should ever be required.<sup>35</sup> It will, however, be expected that the national supervisory board will function by majority or consensus decision-making and that this authority should only be exerted *in extremis*.

### 5.2 Governance at national level

GB Rail will have a two-tier board structure<sup>36</sup> at national level to enable stakeholders in the railway to input at a strategic level as members of a supervisory board. This

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<sup>35</sup> Although were that to happen, the rules laid down regarding DTA representation, union representation and passenger representation would continue to apply, so those reps could be reappointed without change if those constituencies were to insist. The DfT representative and the non-executive expert directors could however be altered by the Secretary of State.

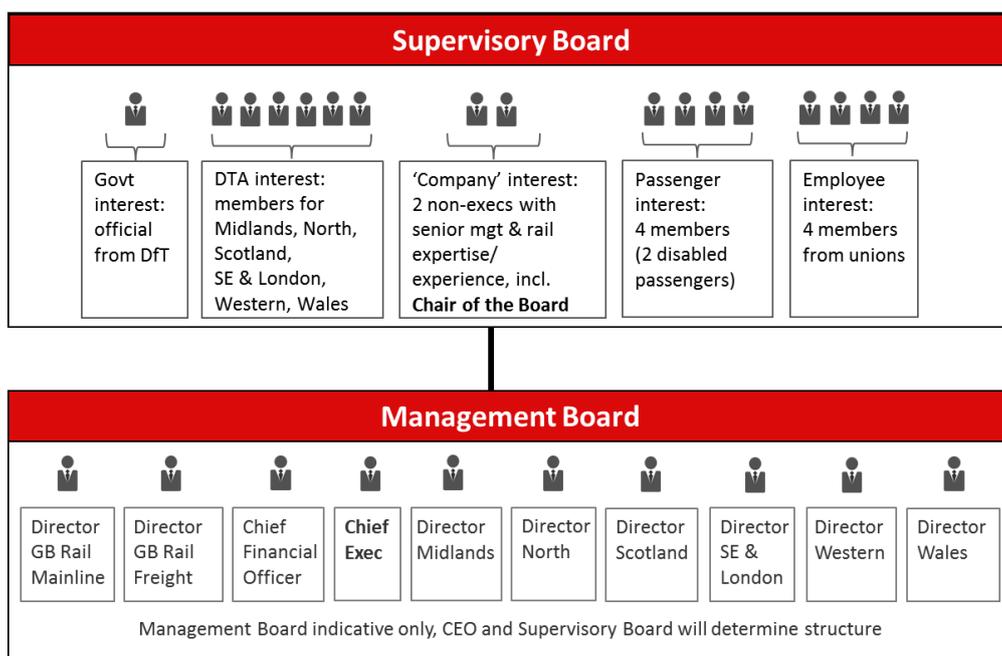
<sup>36</sup> The governance structures proposed here may change as a result of the ongoing wider consultation on possible governance arrangements for all the public services that the Labour Party intends to bring into

kind of two-tier structure is used in companies in other European countries (e.g. Deutsche Bahn) and UK third sector and public sector organisations.

The GB Rail company will have a national supervisory board with representatives of government and DTAs as board members. The national supervisory board will also have union and passenger board members and independent members appointed for their management and rail experience and expertise.<sup>37</sup> The chair will be one of the independent members appointed for their expertise.

As with all high-performing boards, it is expected that under normal circumstances the board will endeavour to operate largely through achieving consensus around a shared view of the best long-term interest of GB Rail, based on an agreed Rail Development Vision and strategic plan. Appendix 3 provides further detail on mechanisms, procedures and support required to achieve effective operation of supervisory boards.

**Figure 5.1: GB Rail Supervisory Board structure at national level**



However, when votes are necessary, there is a balance of votes on the board (Figure 5.1) such that the government and DTA representatives as the shareholders of the publicly owned company hold nearly half the votes, but require the support of the two independent expert non-executive directors, whose remit is to see the best interest of the whole company, to form a majority. Similarly, if the independent non-executive expert directors judge that the best interest of GB Rail is represented by them voting with the passenger and union representatives, then that combination

public ownership. See National Policy Forum consultation 2019 paper *Democratic Public Ownership* which formed the basis of consultation running until 30.06.2019. (<https://www.policyforum.labour.org.uk/commissions/economy/democratic-public-ownership>).

<sup>37</sup> German codetermination laws, introduced shortly after World War II, stipulate that for companies with over 2000 employees, such as Deutsche Bahn, worker representatives must constitute half of the board, but with the casting vote held by one of the independent directors representing the company/shareholder interest. For GB Rail, the proposal is that a broader representation that includes railway passengers as well as railway staff would be valuable, and that there should also be representation of the Devolved Transport Authorities in addition to the Department for Transport.

can also form a majority. The independent non-executive director who chairs the board holds a casting vote should it prove necessary.

This national supervisory board of GB Rail is responsible for ensuring there is strategic planning and operation of the entire railway network, and in particular:

- A long-term 40-year Rail Development Vision and a strategic plan that develops the railway network as an integrated whole, according to the aims and objectives laid down for the railway by government;
- A management focus on ensuring integrated day-to-day operation of the network;
- Safety and operational standards that are consistent and appropriate across the whole network.

The DTA presence at national supervisory board level provides a level of DTA control over long-distance services crossing DTA boundaries. This is a significant upgrade over present powers for DTAs, including Scotland and Wales, where the franchise system excludes them from decisions about some of the train services that are most important to their social connectivity and economic activity.

### **5.3 DTA Business Units and their governance**

At present, the extent of devolved powers over rail varies from area to area. The most significant difference is that infrastructure governance is presently devolved for Scotland (where it sets infrastructure spending plans), but other areas only hold devolved powers over provision of train services. Each of the DTA-specific Business Units shown in the proposed GB Rail structure will cover both train service provision and management of rail infrastructure (i.e. be vertically integrated). How this could work in practice is detailed further below, as part of the area-by-area discussion.

For the reasons discussed in Section 3 and Appendix 2, it is proposed that the DTA Business Units should build capacity to undertake major projects.

DTA Business Unit areas need to suit train service provision and infrastructure management, and to map to DTA areas (i.e. BU1 in Figure 1 corresponds to the area of DTA1). The correspondence between DTA and rail areas, along with local stakeholder representation on the DTA Business Unit supervisory boards, will put the DTAs in a strong position to advance the rail improvements required to meet the specific needs of their communities.

In practice, as with the existing example of Transport for the North, multiple local authorities and integrated transport authorities will need to join forces in most areas to form DTAs whose governance areas makes functional sense from a railway perspective.<sup>38</sup> The next Labour government will require local authorities in parts of England that presently lack DTAs to work together and with GB Rail to form DTAs appropriate for governance of local rail services.

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<sup>38</sup> This discussion should be part of any broader debate about Labour's potential plans for devolution in England more generally. It is clearly desirable that DTA boundaries are, wherever possible, coterminous with devolved authorities with wider powers. It is also important to consider powers over other modes of public transport, to consider the most appropriate scale of authority to govern buses so bus services better span across local authority boundaries and integrate with rail services. Consideration is also needed regarding DTA structures (as opposed to GB Rail structures) that broaden democratic involvement.

At the highest level, these DTA groupings need to map to the geographical areas for rail Strategic Management Unit areas, discussed further below. At a lower level there will be scope for DTAs or groups of DTAs mapping to Operating Units within SMUs, where such OUs are required.

Running approximately from North to South the proposed SMUs are:

- Scotland
- North (of England)
- Wales
- Midlands
- Southeast (of England), East Anglia and London
- Western

The discussion below explains the reasoning behind these geographical definitions of Strategic Management Units (and their subsidiary Operating Units), drawing on the principles compiled in Section 3 and Appendix 2. So far as possible, the approach has been to take a 'bottom-up' view based on what railway expertise and experience considers is likely to work best, recognising that no option can be perfect and that it is impossible to draw lines on the map that are not crossed by some or other railway activity.

The discussion of how geographical areas could map to Strategic Management Units is developed below in an approximately north-south order (which is also approximately the order of increasing complexity).

## Scotland

Scotland is already a relatively autonomous part of the railway, with its own financial settlements and High Level Output Specification for each 5-year Control Period. It also has taken steps towards vertical integration in the present alliancing arrangements. It makes operational sense for Scotland to be a Strategic Management Unit of GB Rail and in addition fits with the devolution settlement, so devolved governance structures within GB Rail can easily incorporate input from Transport Scotland and be responsive to the requirements of the Scottish Government.

There are (at least) two options for how devolved rail infrastructure management could relate to the East Coast and West Coast main lines within Scotland. GB Rail Mainline Strategic Management Unit will be running its services across infrastructure geographically within the Scotland Strategic Management Unit, so total vertical integration of track and train is not possible and some compromise arrangements are required.

The Scotland Strategic Management Unit could undertake all infrastructure management, working to standards set by GB Rail Mainline as the users requiring the highest spec on the line, and working to a national development strategy for the lines agreed with GB Rail Mainline Strategic Management Unit (and GB Rail as a whole). Since, for the wider reasons discussed in Appendix 2, it is considered desirable for the SMUs to build up infrastructure project capacity, this is the preferred option.

However, a hybrid option deploying centralised project capacity would be possible, and may be necessary during the period when SMUs are building up project capacity. Under this approach, the Scotland Strategic Management Unit in charge of ECML and WCML could retain the option to ask (and pay) GB Rail Mainline to

undertake selected more major or specialist projects, when that appeared the best use of available capacity and expertise.

With either approach the key would be to have clear procedures and structures that define the main line standards and strategy, allowing the mode of delivery to be flexible within that. Similar arguments to those above apply to other Strategic Management Units but are not repeated in every case below.

Sleeper services from Scotland are presently part of a separate franchise. These could be integrated to be part of a single Scotland Strategic Management Unit. However whether integration is preferred to continued separation in the form of a separate Operating Unit should be a decision for the Scotland Strategic Management Unit.

## North

The North of England is a coherent unit of the railway as regards train operations, if it is taken to comprise roughly the present Northern, Transpennine and Merseyrail franchises (whilst recognising some Transpennine services run into Scotland). Conversely, present infrastructure management splits East from West, which is also coherent – in terms of centring on the major long-distance high-speed lines to London. Rail experts divide on whether the East-West or North-South split is better. Nicola Shaw's review concluded that a Northern division ('route') of Network Rail would be best, but Network Rail rejected this.

If the railway structures were to follow the principles that it is desirable to give higher priority to devolution of rail governance, with a strong match to geographical areas defined by their related economic development requirements, and that maximum vertical integration is also desirable, then the balance of considerations favours a Strategic Management Unit for the North. This fits with regional development ambitions that depend upon achieving much better rail links across the North of England.

In certain respects a Strategic Management Unit for the North is at odds with the principle that it is beneficial to group fast long-distance lines and services, but as in Scotland, there could be options for how the practicalities of infrastructure management are allocated. Achieving a safe model of accountability for infrastructure must be central to assessing possible options.

Transport for the North already exists as a Devolved Transport Authority covering the area, with responsibilities spanning the Transpennine and Northern franchises. Its members include Liverpool City Region Combined Authority, but Merseytravel separately manages the Merseyrail franchise. It therefore seems likely that Transport for the North and Merseytravel will wish to have a discrete Operating Unit that separates costs and revenues for the operations that relate to the Merseyrail services, particularly since much of the Merseyrail operation is separate from the remainder of the rail network.<sup>39</sup>

As regards the southern boundary to a Strategic Management Unit for the North, natural choices on the West Coast Main Line and East Coast Main Line would be Crewe and Doncaster, with Sheffield on the Midlands Main Line forming a central boundary point.

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<sup>39</sup> Although Merseytravel has ambitions to expand the extent of Merseyrail services.

## Wales

Wales cannot be said to be a naturally coherent unit of the railway. Links between the north and south of Wales run through the border country on the English side, and there is greater strength of rail links and intensity of flows on the east-west links into England (to Bristol and London from south Wales; to Birmingham and London from mid-Wales; to Liverpool and Manchester from north Wales) than on the north-south Wales-Wales rail corridors.

Nevertheless, the devolution settlement for Wales provides a strong argument that, for accountability to local and regional needs, railway structures should map as closely as they can to Wales.

The franchise system sought to achieve a compromise by including some services on the English side of the border country in the Wales franchise. The equivalent compromise approach with GB Rail structures would appear to be a Wales Strategic Management Unit where its train operations, but not its infrastructure management, span into England, although there are also logical arguments in favour of the Wales SMU managing infrastructure for the Marches line where that passes through England.

Transport for Wales already exists as the DTA for Wales. Under the GB Rail structure its present responsibilities for the train operations will be extended to infrastructure management and it will gain a say in the governance of the long distance services that operate into Wales.

## Midlands

Consideration of appropriate geographies for a Strategic Management Unit for railways in the Midlands has to contend with an absence of defining physical boundaries, varying definitions of where the Midlands ends moving southwards, and assessment of where services are better considered as part of a Strategic Management Unit(s) covering the Southeast, East Anglia and London.

However, consideration of the pattern of rail services as they provide links between the midland cities Birmingham, Leicester, Peterborough, Derby, Nottingham, and Lincoln, shows that the services required to connect them are predominantly providing east-west links. The first conclusion from this observation is that the Midlands should be, from a railway operations perspective, treated as a single Strategic Management Unit rather than split into East and West Midlands.

The southern boundary of the Midlands Strategic Management Unit is discussed in more detail below as part of defining management of local and regional services centring on London, which argues for a boundary running Oxford to Cambridge then north to the Wash.

The GB Rail Midlands Business Unit covers an area where there is presently no DTA with powers over rail. However, West Midlands Rail Executive and Midlands Connect already exist and could form the basis for a DTA to govern the GB Rail Midlands Business Unit.

## Southeast, East Anglia and London

Local and regional rail services across the Southeast, East Anglia and London constitute about half the trips carried on franchised rail services. This is much too large and complex to be operated as a single Operating Unit. Multiple Operating Units are required.

However, there is a merit in grouping these Operating Units into a single Strategic Management Unit, because these lines and services have many characteristics in common, and because that assists in achieving strategic development of the railway

to serve the functioning and development of the London travel-to-work area and London itself. A single Strategic Management Unit covering the whole city-region can also help to manage and integrate into other services the increasing number of through-trains across London (Thameslink, Crossrail 1, and in future Crossrail 2) that don't fit the traditional operational divisions by London termini and the lines originally (separately) built to serve them.

A unit with this geography can also assist with the strategic choices around ambitions to enhance and 'metro-ise' more of London's orbital and radial services, as has already happened on the Overground. This structure will help Transport for London and the surrounding counties of the Southeast work together to decide where in outer London and nearby areas it is desirable and feasible to extend the Overground and upgrade rail services to 'turn-up-and-go' frequencies.

Operating Units to the south of London are most easily defined, bounded by the coastline to the south and according to approximately the franchise divisions associated with Southeastern (including the HS 'Javelin' train services running into St Pancras), South-Central, and South Western.

The success of the London Overground services argues for a continued Operating Unit of GB Rail with separate accounting of costs and revenues to align with its services.

North and west of London, multiple options exist for drawing a boundary with the Midlands Strategic Management Unit. However, if priority were to be given to the principle that the railway should align with zones of economic development, on the basis of its ultimate primary purpose as a driver and supporter of economic activity and development, that would argue for a boundary taking in the arc of major development proposed between Oxford and Cambridge. This boundary would best enable the railway to contribute to the strategy for economic development in this arc and assist in maximising the opportunities for rail-based growth along the new rail corridor proposed on that alignment.

This approach leads towards bringing the whole of the East Anglian railway into this Strategic Management Unit. Anglian services could be treated as a separate Operating Unit or could be part of a single Operating Unit extending through all of East Anglia and taking in the counties to the north and west of London.

## Western

The coasts of the West of England define much of the Strategic Management Unit of GB Rail that is required here. To the north, the best boundary with the Midlands Strategic Management Unit would probably lie at Gloucester.

The existing transport authorities in the West and Southwest will need to work together to assemble a DTA covering the area of the Western Business Unit.

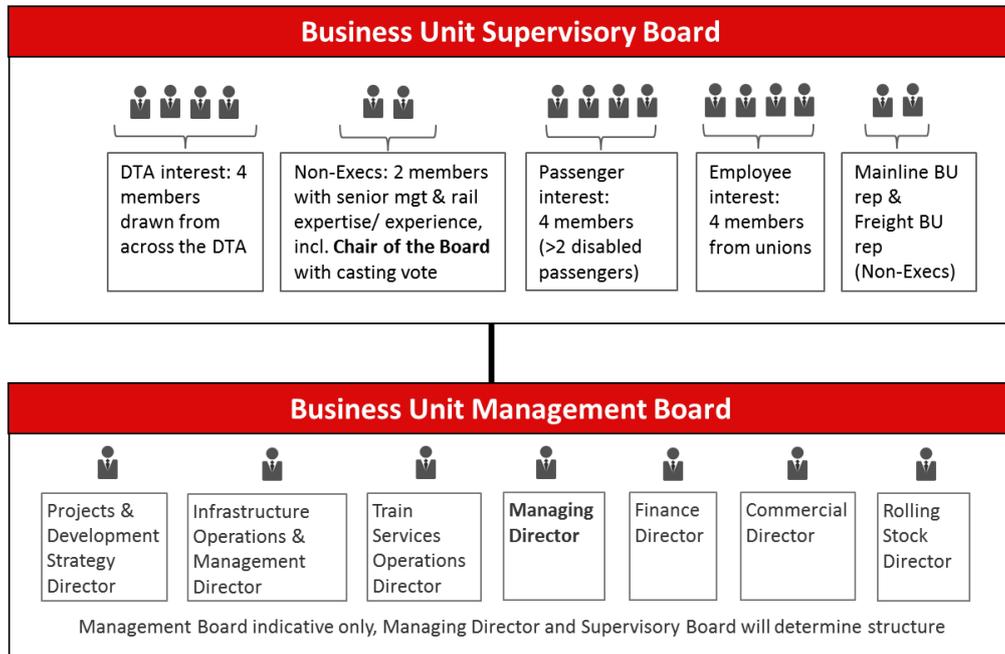
The Great Western main line and its services constitute a large portion of this part of the railway. Similar arguments to those discussed in regard to Scotland apply to the relationship with the Mainline Strategic Management Unit vis-a-vis practicalities of a joint approach to a proportion of the physical works on infrastructure.

The strategic management Business Unit structure that derives from the above discussion is shown in the previous chapter in Figure 4.2.

For DTAs (e.g. Transport for London) that presently only have franchising powers over train services, governance of infrastructure management where local services are the primary users will be a major increase in present powers. Transport Scotland will also receive increased powers over infrastructure management as a result of its direct input to the strategic management of the Scotland Rail Business Unit.

Each DTA will exert control<sup>40</sup> of the Business Unit that operates the railway in its area through a supervisory board at Business Unit level. Passenger and union staff representatives will be represented on these DTA-level supervisory boards as well as at GB Rail national board level. A Business Unit supervisory board structure, balanced on a similar basis to the national supervisory board is shown in Figure 5.2.

**Figure 5.2: Supervisory Board structure at Business Unit (DTA) level**



To facilitate mutually beneficial planning and operation, the Mainline Business Unit and the Freight Business Unit will have a seat on the supervisory board of each DTA Business Unit. These seats will be taken by expert non-executive directors. For similar reasons there will be reciprocal arrangements for DTA Business Units to attend supervisory board discussions of the Mainline and Freight Business Units when these pertain to operations in their DTA areas.

As with the national supervisory board, it is expected that the board will seek to work through a predominantly consensual approach around long term shared priorities. (See Appendix 3 for detail on proposed mechanisms, procedures and support structures to ensure the most effective operation of supervisory boards.)

However, when votes prove necessary, there is a balance of votes such that the DTAs as company shareholders representing democratic public ownership of GB Rail can form a majority if they have the agreement of the non-executive expert directors, one of whom is board chair, with a casting vote. Conversely, the passenger and staff representatives can also form a majority if some non-executive directors regard their position as representing the best way forwards for the long-term interest of GB Rail.

Each Business Unit's expenditure and income will be accounted for separately to the rest of the GB Rail company, so that each DTA supervisory board can assess and control what their funding is achieving for the railway in their area.

<sup>40</sup> Whilst retaining national safety standards and in the context of company-wide arrangements that clarify which functions are best undertaken nationally and which are best undertaken locally, and that define exactly how functions requiring both local and national inputs are shared.

DTAs will agree with GB Rail a service specification for all local services in their area and will have the power to underpin that by means of contracts or other forms of guarantee. In France, in addition to holding the budgets for regional passenger services, DTAs have powers to set up penalty-incentive contracts with the nationally-owned rail company that provides those train services, have sight of cost-revenue data broken down for each DTA area, and are backed up by an appellate body.

However, there are pros and cons to the contractual approach, particularly when it becomes necessary to change arrangements due to unforeseen circumstances. Therefore, DTAs will be able to choose whether they wish to set up legally binding agreements with GB Rail or to set up the working relationship in other more collaborative ways. DTA Business Units that choose to do so will be able to adopt arrangements that are paper-light and flexible to give maximum scope to accommodate local innovations.

Labour considers that the ability to generate comparators within the publicly owned railway, to enable assessment of the relative effectiveness of different approaches and rapidly share best practice as it emerges, is a potentially valuable feature of the GB Rail structure. This approach will be encouraged to the maximum, in association with a culture that seeks innovation and recognises the merits of 'investing for efficiency'.

The governance powers for DTAs within GB Rail will help them to take forwards their ambitions for much better multimodal integration in their areas. To assist this process, GB Rail will be tasked at a high level with accelerating participation of rail in DTA zonal pricing and smart ticketing schemes (Labour's plans for fares and ticketing are discussed in more detail in a later section and in Appendix 5), and with facilitating operations such as train-tram services where that can offer advantages.

The DTA Business Units of GB Rail will also help DTAs achieve local policy objectives (and in some cases national policy objectives) through working up plans with DTAs for better use of land-value capture to facilitate rail-centred development and better use of NR assets to realise income and generate economic activity.

## **5.4 GB Rail Mainline Business Unit**

The GB Rail Mainline Business Unit will take over the long-distance express franchises as these expire or terminate early due to failure (as has happened repeatedly) or where it can be demonstrated that it would be better value to terminate the franchise early.

This Business Unit will also have responsibility for high speed (HS) services, as these come into operation, and will be tasked with achieving maximum benefit to the wider conventional network by running HS services beyond the HS network itself. A Labour government will not regard HS2 as a stand-alone rail infrastructure project, but will see it as an opportunity to transform the wider rail network using the extra and released capacity to improve long-distance and local services, as well as taking the opportunity to transfer more freight to rail.

The 'Intercity' brand for fast long-distance services with associated high standards was established as a successful concept in Britain, but now is only used in other countries. In its stead, Britain has a confusing and ever-changing set of private brand names for its long-distance services between major cities, with management teams wastefully duplicating each other's functions and delivering differing standards,

tickets and pricing policies. GB Rail Mainline will be tasked with re-establishing a single unified Intercity<sup>41</sup> network for Britain, with better services and simpler fares.

The Intercity network could be extended beyond lines to and from London to provide new and better express services between other cities. GB Rail Mainline Business Unit will be tasked with working with DTAs to produce a plan to ramp up express services between other cities,<sup>42</sup> and will be required to show year-on-year progress implementing the plan.

As discussed in previous sections, there is a question whether, in addition to its role operating passenger services, it would be organisationally most efficient for GB Rail Mainline to have capacity to undertake some types of infrastructural work where long-distance express services are users of lines. This might relate to specialist functions relating to the specifications required (e.g. for high speed rail, where in some cases GB Rail Mainline may be the sole operator) or to the scale of project required.

The GB Rail structure requires operation of some services run by DTA Business Units onto mainline tracks and vice versa. To help facilitate this inter-running, GB Rail Mainline will hold a seat on the supervisory boards of the DTA Business Units, and each DTA Business Unit will be entitled to send a representative to attend supervisory board meetings of the GB Rail Mainline Business Unit for discussions concerning mainline services in its area.

## 5.5 GB Rail Freight Business Unit

The GB Rail structure includes a Freight Business Unit which will be charged with aims of increasing rail freight.

Labour wishes to see much more freight on rail, with maximum modal shift from the freight carried on roads by HGVs, which creates major safety, social and environmental disbenefits. The next Labour government will view rail freight as a valuable contributor to its industrial strategy and ambitions for regional economic regeneration. Labour wants to see a new era of the transportation of goods by rail, and will support opening of more freight lines and development of intermodal interchanges so that transport of goods by rail will create economic advantage and opportunity for businesses.

Labour will initiate a case-by-case review to determine the best ownership arrangements for the existing privatised rail freight operators. This value-for-money assessment will consider whether it would be cost-efficient to purchase all or some rail freight firms in order to achieve Labour's industrial and environmental ambitions for rail freight. The one existing publicly owned rail freight operator, DRS (Direct Rail Services), presently part of the Nuclear Decommissioning Authority and commercially successful, will be integrated into GB Rail and will be run by the freight Business Unit.

GB Rail as a whole and the Freight Business Unit in particular will be tasked with facilitating the efforts of all the freight operating companies (FOCs) to increase freight carriage by rail. It will work with the freight industry, whatever its ownership, to develop an improved model of freight operations across the railway.

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<sup>41</sup> Whether 'Intercity' would be the best brand name should be subjected to market analysis, however.

<sup>42</sup> Faster trains do however consume significant chunks of network capacity because of their requirement for lines to be cleared of slower trains ahead of them, so this will require due regard to stopping passenger services and freight users of the network.

For as long as private freight operators continue, there will be a need to ensure that the Freight Business Unit oversees operations impartially, and is seen to be impartial. GB Rail owned freight services cannot be provided with preferential access. This may require suitable functional separation and Chinese walls between the Freight Business Unit, as the portion of GB Rail operating freight services, and the central GB Rail functions overseeing track access agreements and functions providing the freight train paths on a day-to-day basis.<sup>43</sup>

Allocation of freight train paths vis-a-vis passenger train paths on the increasingly crowded rail network can be a fraught issue that requires strategic trade-offs, something the present fragmented railway with no guiding mind is very ill-suited to achieve. One of the guiding mind functions that will be required of GB Rail will be to produce better trade-offs to facilitate rail freight.<sup>44</sup>

The GB Rail Freight Business Unit will manage freight-only infrastructure where that exists. Consideration should also be given to whether the Freight SMU could best manage infrastructure on some or all of the small number of lines that are predominantly used by freight (of which the Felixstowe branch line would be a prime candidate).

However, most of the GB Rail Freight Business Unit functions will be cross-cutting, so it will have a member on the supervisory boards of all the other Business Units.

Reciprocal arrangements will enable DTA Business Unit staff to attend supervisory board discussions of the GB Rail Freight Business Unit when these pertain to operations in their DTA areas.

To ensure that there is a focus on freight operators as 'customers' of GB Rail, the GB Rail Freight supervisory board will include two key rail freight customers (replacing the passenger representatives on the other supervisory boards).

## **5.6 Open access passenger train operating companies**

Labour believes that the present open access passenger services should be run as part of the integrated railway rather than as discrete private enterprises with separate confusing ticketing and prices. In some cases these undermine the financial viability of franchised rail services procured by government as public service contracts.

Labour believes all rail passenger services should be in not-for-profit public ownership, and will take a case-by-case approach to assessing where it may be a cost-efficient use of public funds to buy out these profit-taking operations in order to run them under public ownership.

In the meantime arrangements will continue to provide the existing open access operators with access to the network where they do not undermine the economic viability of publicly run or publicly procured services.

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<sup>43</sup> At the time of writing, Brexit arrangements seem unlikely to result in continued applicability to Britain of a right of open access for rail freight operators under EU law. Meeting EU legislation for impartial open access for rail freight would probably require either continuation of a rail regulator external to GB Rail, as discussed further below, or strict separation within GB Rail of the 'essential functions' of management of access to the rail network and charging for track use, as discussed above.

<sup>44</sup> As noted in the GB Rail Mainline section, similar trade-offs are required between fast and stopping services.

## 5.7 Relationship of government to GB Rail

Due to the fragmentation of the railway for privatisation and the consequent lack of a guiding mind that can control the railway, government ministers and the Department for Transport (DfT) have been deeply drawn into the workings of the railway to try to sort out its failings (many of which also derive from fragmentation for privatisation). It is ironic that in some respects the railway had more commercial freedom in the era of British Rail. Conversely, British Rail suffered from very short-termist yearly financial settlements, whereas the privatised railway benefits from five-year Control Periods, which have protected the railway quite well from political short-termism until the crisis with major project overspend in Control Period 5 (CP5, 2014-2019).

Labour understands that government should have an arms-length relationship with the railway. Although GB Rail will be publicly owned, Labour wishes its proposed structure for the railway to deliver *more* freedom for railway professionals to run the railway than the present privatised structure.

The Secretary of State for Transport and the Treasury should primarily input at the level of setting strategic aims for the railway, and deciding how much funding they are prepared to allocate to realise those aims to the extent the government desires.

Labour therefore intends to keep and improve the Control Period financial settlements (discussed further below), and GB Rail's governance arrangements are designed to give the publicly owned rail company GB Rail the freedom to plan and operate strategically according to its best expert judgement. As a company spanning the whole railway, GB Rail will be able to exercise the guiding mind function that the railway has been lacking since privatisation.

The government's main channel of input to rail strategy will be through the presence of a representative of the Secretary of State for Transport (i.e. a senior Department for Transport official) on the national supervisory board of GB Rail.

Comparison with the supervisory board of Germany's Deutsche Bahn, where there is also a representative of the Treasury, raises the question of whether the supervisory structure could enable input from other ministries to support Labour's aims and objectives for rail that span beyond transport. Such representation might, for example, justifiably include: the Ministry of Housing, Communities and Local Government, in relation to Labour's objectives for rail-based land-use planning of new developments; the Department for Business, Energy and Industrial Strategy in regard to Labour's objectives for the railway to support Labour's industrial strategy; as well as the Treasury, in light of Labour's economic objectives for the railway.

However, the added value of these inputs from other government departments needs to be weighed against the disadvantages of a larger more ungainly supervisory board. The Deutsche Bahn model only includes staff representation, whereas it is also a Labour priority to achieve passenger representation and regional government representation on the Supervisory Board of GB Rail. In the interests of board functionality, it is therefore probably preferable to have government representation by DfT only, as shown in Figure 5.1.

The chair of the board should be one of the board members appointed for their management and rail expertise, rather than a government representative. Under normal circumstances the casting vote, if required, will rest with the chair to ensure a degree of arms-length management from government. This arrangement is broadly comparable to the Deutsche Bahn supervisory board.

However, government as majority shareholder will always retain an ultimate power to dismiss and reappoint the supervisory board, should that ever be deemed necessary (whilst respecting that a new board must respect the necessary representation of DTAs, staff and passengers).

Many of the railway functions presently undertaken by DfT will transfer into GB Rail, leaving only functions pertaining to setting and assessing progress against government's high-level aim and objectives for the railway. Those functions at DfT which duplicate or double-check on functions within the railway will be disbanded.

In practice, because parts of the railway will remain in private hands for at least an interim period, GB Rail will take over some DfT functions managing private rail operations. How the present railway structures can best be used as a basis to accommodate these functions within GB Rail is discussed further in Chapter 5.

## **5.8 Financial flows**

Government funds for the DTA-specific Business Units of GB Rail will flow via the DTAs, as shown in the model in Figure 4.1, supplemented by whatever funding DTAs themselves raise for the railway in their areas.

The government will continue to make direct grants to GB Rail to pay for mainline infrastructure and services, and development projects of national significance (e.g. major electrification projects or mainline rolling stock fleets). GB Rail centrally (within the Mainline Business Unit) will at least initially retain capacity to undertake major infrastructure projects, but the DTA business units will build capacity to implement some or all major infrastructure projects. The flow of funding will reflect the relative division of project work. In the short term, more projects may need to be undertaken centrally rather than in DTA business units due to skills shortages in key disciplines, but the longer term objective, as discussed in principle in Appendix 2, should be to build up these skills in the business units that will apply them on the ground.

Major projects will be scheduled to ensure that enhancement work is sustained at a reasonably constant level, so far as is possible. The culture of feast and famine funding will be ended, along with the inefficiency and wastage it entails.

Labour considers that, regardless of greater devolved control of rail financial flows, it is vital to retain the principle of cross-subsidy across the rail network to support areas where the railway is socially and economically valuable but where costs are higher relative to potential fare income.

The next Labour Government will seek to redress the imbalance between the funding directed to different areas. It will modify the present geographical financial allocations by a mechanism that addresses Labour's objectives for the railway to achieve social improvements as well as economic improvements. Any distributive formula will not only consider the relationships between costs and revenues in each DTA area and the need to maintain a safe and efficient railway in each DTA area, but will also factor in social considerations by means of factors such as the index of multiple deprivation, so as to enable the railway to maximise its potential to help regenerate areas that are less wealthy. This process will be supported by agreeing with DTAs a set of minimum standards of facilities and services. These standards will be nationally recognised whilst being locally suitable and proportionate.

## **5.9 Retention and improvement of multi-year financial planning and a long-term strategic approach to rail enhancements**

Labour fully recognises the great importance of multi-year financial settlements for the railway. The system of 5-year 'Control Periods' has provided the privatised railway with a degree of security of funding never enjoyed by the pre-privatisation railway, which suffered continual uncertainties and limited forward planning visibility due to yearly funding settlements. Although concern has been expressed that public ownership somehow implies a return to one-year funding settlements for the railway,

there is no reason that this should be the case. Labour believes it is essential for the success of the railway under public ownership that multi-year funding settlements for the railway should continue once GB Rail is established.

The next Labour government will, therefore, ensure that its legislation to create a fully integrated publicly owned railway contains similar legal requirements to those that form the basis of the present Control Periods. In particular, this legislation will perpetuate the present requirement<sup>45</sup> that the Secretary of State for Transport must, for each Control Period, publish a Statement of Funds Available (SOFA) and a High Level Output Specification (HLOS) which those funds are required to fulfil.

The present processes entail a major role for the Office of Rail and Road (ORR). However, its economic regulation role appears to have been ineffectual, and under integrated public ownership the railway will not be run primarily according to the market-based ethos that ORR exists to promulgate. It is therefore proposed that the GB Rail company itself should undertake the technical and value-for-money assessments that are required to align the SOFA and the HLOS.

However, the Control Period system remains far from perfect. The Rail Industry Association has estimated that stop-start funding continues to add up to 30% to costs<sup>46</sup> by preventing development and retention of facilities, equipment and staff teams with suitable skills.

Amongst other issues, fixed Control Periods have tended to cause uncertainty and a degree of 'paralysis' as they come to an end, a problem with previous Control Periods that was badly exacerbated in Control Period 5 by the government failing to foresee the consequences of suddenly shutting off renewals and enhancement funding in reaction to major project overspend.

The next Labour government will therefore extend Control Periods to 7 years, and will also move to a system of rolling Control Periods. Under this rolling system, negotiations for the forthcoming Control Period will be completed by the end of the fourth or fifth year of the previous Control Period, so that the shortest forward funding visibility is 2-3 years, and for most of the funding cycle, is more than that.

Labour will also ensure that there is a sustained, programmed approach to renewals and enhancements (and will, as discussed in other sections, ensure that there is a long-term view of enhancement strategy so that maintenance and renewals operations can efficiently contribute to that enhancement strategy as and when opportunities arise).

This approach will include the next Labour government instigating a rolling programme to steadily electrify the railway, which the Rail Industry Association has recently shown will enable very substantial cost reductions to the electrification process. RIA's work shows that moving from the present stop-start approach to electrification to a continuous programme that builds skills, knowledge and capacity can reduce costs by 33-50%.<sup>47</sup>

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<sup>45</sup> For example, the Railways Act 2005 (amending the Railways Act 2003), Schedule 4A, Paragraphs 1D, specifies that *'The Secretary of State...must provide...(a) information about what he wants to be achieved by railway activities in Great Britain as a whole during the review period [this is provided as the HLOS]; and (b) such information as it is reasonable for him to provide about the public financial resources that are or are likely to become available to be applied during the review period'* [This is provided as the SOFA].

<sup>46</sup> Railway Industry Association 2019 *Government needs to stop the 'boom and bust' approach to rail funding* (<https://www.politicshome.com/news/uk/transport/rail-transport/opinion/railway-industry-association/89138/government-needs-stop>).

<sup>47</sup> Railway Industry Association 2019 RIA *Electrification Cost Challenge*.

The Conservative government decided in 2017 to halt electrification to cut immediate bills by a few hundred million pounds. This short-sighted decision has not only pushed up the long-term cost of electrification but has also led to considerable added expenditure on dual-use electric/diesel trains. Although these bi-mode trains can run on different sorts of power, they are slower, heavier, dirtier, less reliable and more damaging to the tracks, whilst costing more to purchase and to operate.

The sudden famine in electrification work has also undermined business investment and led to labour instability. Labour believes that electrification makes financial and operational sense and is vital to decarbonise rail to help meet Britain's climate change objectives.

Labour will also extend the Control Period system to cover the rail services operated by GB Rail so that security of funding applies to both train services and infrastructure.

Labour will place this 7 year funding cycle of Control Periods within a much longer-term strategic view of railway development. The present rail structure fails even to achieve the glaringly obvious requirement that rail infrastructure should be planned in conjunction with the rolling stock that will use it.

For coherent planning of the railway as a whole, the whole-system view of railway development should extend at least as far as the 40 year lifetime of rolling stock. There has never been such a long-term framework for rail development in Britain, so this represents a high ambition. However, Labour's intention to achieve a re-integrated railway with an overall guiding mind brings it within range.

GB Rail will agree with government a Rail Development Vision looking forward at least 40 years. A Labour government will back this with indicative long-term funding settlements. This will enable the whole railway supply chain to draw up forecasts around a predicted pipeline of work confidently and invest accordingly in workforce recruitment, retention and skills development.

Regardless of who owns and operates the railway, so long as the bulk of funding for rail enhancements comes from the public purse, there is a size of project and spending commitment that is liable to become politicised. This is legitimate to ensure accountable use of public money, but it is very unhealthy for the railway if projects are chosen on their political merits (whether local or national) rather than what offers the best outcomes for the railway as a whole.

This danger has been much exacerbated by the government decision to remove enhancements from the Control Period funding process (HLOS) and give go-ahead on a case-by-case basis. This has been described by one rail expert as a recipe for 'politicians' pet projects'.

Although major enhancements requiring multiple years to complete will inevitably tend to run across Control Periods, it is proposed that they should, as far as is possible be brought back into the High Level Output Specifications.

The long-term Rail Development Vision will greatly help in framing the choice of rail enhancements in a way that reduces the opportunities for undue political interference.

Labour will also establish a set of criteria for what it wants enhancements to achieve (i.e. outcomes from enhancements) to help ensure that projects are chosen on their relative merits.

These criteria will be used to develop a list of the most worthwhile rail enhancements and choose which should be undertaken first. The criteria will be strongly informed by the aim and objectives for the railway laid out earlier in this document.

## 5.10 Additional powers for DTAs to finance rail

Compared with counterparts in other countries, DTAs in Britain have only very limited powers to raise revenue and capital for rail (and other public transport). The next Labour government will assess the full range of powers available to equivalent authorities internationally, with an eye to increasing the ability of DTAs to invest in their local rail infrastructure and services.

With regard to use of the railway estate to raise funds for the railway, whether at national or DTA level, Labour's position is that public assets should only be redeployed for clear public benefit.<sup>48</sup>

## 5.11 Rolling stock

The creation of a 40-year Rail Development Vision will enable GB Rail to plan a coordinated long-term programme of rolling stock procurement. This unified rolling stock strategy under the nationwide oversight of GB Rail will enable rolling stock assets to be specified, manufactured, deployed and maintained with maximum efficiency for the whole railway. Rolling stock procurement under this system will be undertaken by GB Rail expert staff rather than by civil servants in DfT.

The resulting long-term pipeline of rolling stock requirements will enable train manufacturers to tool up, skill up, and run production facilities efficiently with the certainty of a steady flow of orders.

DTAs will contribute their local knowledge and requirements for rolling stock specification, within a national framework that prevents undue proliferation of different stock and that enables efficient cascading of stock to other parts of the network as older trains are displaced by newer.

A large majority of railway rolling stock is presently privately owned, with the rolling stock companies (ROSCOs) obtaining high profits from renting their stock at excessive rates to train operators within a highly defective market. This approach has led to excess costs from multiple sources:

- Profit taking at high levels by ROSCOs;
- ROSCO financing costs at commercial rates considerably above those obtainable through direct public sector borrowing;
- Excessive manufacturing and maintenance costs, with uncoordinated procurement causing proliferation of rolling stock designs, shorter production runs and 'feast' and 'famine' periods rather than a steady order pipeline, thereby destroying train manufacturers' ability to invest efficiently in facilities, skills and staff to undertake both manufacture and refurbishment.

The next Labour government will enable GB Rail to draw on its National Transformation Fund to purchase new trains at the highly efficient financing rates available to government, rather than continuing the profit leakage and excessive financing costs created by the present system of hiring trains ad infinitum from private companies.

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<sup>48</sup> For example, Labour does not believe that disposal of railway assets for short-term capital yield should take priority over potential longer-term revenue yields, as has happened with recent disposals of parts of the railway estate such as railway arches properties.

For existing rolling stock that remains outside public ownership a Labour government will introduce measures for regulatory action to curtail excessive ROSCO profits and ensure that older rolling stock is provided more cheaply. Labour will also explore the value of public ownership of train manufacturing and refurbishment capabilities.

## 5.12 Rail regulatory and safety functions

Some of the functions of the rail regulator, the Office of Rail and Road (ORR), derive from the privatisation obsession that there should be an open 'market' for passenger rail services. The next Labour government will not allow private rail operators to cherry pick the most profitable bits of the rail passenger market at the expense of publicly procured services, so most of these functions will become unnecessary.

However, at least in the interim, when there is a 'hybrid' railway only partly in public ownership, some functions of the regulator overseeing network access will remain necessary, although it will be possible to slim these down.

As discussed previously, a continued regulatory function to ensure sufficient access to the rail network at reasonable cost is also important to the freight sector, so a continued role for ORR will persist in this regard too.

Labour also recognises the rationale for an external safety auditing function to continue for the long term, independently of GB Rail, even when a fully publicly owned railway has been achieved. It is proposed that this function could remain with ORR.

Current EU rules stipulate that there should also be a separate rail investigatory body to the rail safety authority, and although the railway is unlikely to remain subject to these rules after Brexit, Labour recognises the value in the ability of the Rail Accident Investigation Branch (RAIB) to investigate accidents without responsibility to apportion blame, whilst the Office of Rail and Road (ORR) separately holds enforcing and prosecuting powers.

The rail industry body, the Rail Safety and Standards Board (RSSB), undoubtedly plays a valuable role in establishing and maintaining safe standards and procedures on the railway. It is the repository of an invaluable store of monitoring data and other information regarding how to keep the railway safe. However, this information should be central to senior rail management decision-making and would ideally be an integral part of rail management structures and procedures. It is proposed therefore that RSSB functions should reside within the integrated railway company, GB Rail. During the inevitable interim period, with a hybrid railway spanning both public and private passenger services, this function within GB Rail will need to play a coordinating and communicating role across the industry, as RSSB does at present. In the longer term its operations will increasingly become internal to GB Rail.

Labour considers that the current 'economic' functions of the rail regulator, ORR, overseeing the efficiency of the railway, pose a conflict of interest with its safety responsibilities. It also appears that the 'economic functions' of ORR have manifestly failed to produce a cost-efficient railway. ORR have promoted the competitive aspects of the railway at the expense of important coordination and collaboration functions, have given open access passenger operations permission to operate even where it damages the finances of publicly contracted passenger operations, and have failed to take a strategic long-term overview of how rail spending should be prioritised. Some of its interventions have militated against future strategic

development of the railway.<sup>49</sup> ORR now intends to financially assess Network Rail on a devolved basis as it devolves its route structure. Yet this kind of internal benchmarking and assessment of cost-effectiveness should be a core function of a railway management team focused on achieving the best services at the best cost.

GB Rail, as a company overseeing the whole railway, will be in a position to plan, implement and monitor efficiencies that are presently unattainable to railway managers. Labour does not believe it is sensible or efficient for GB Rail's drive for efficiency to be second-guessed by a separate organisation.<sup>50</sup> It is therefore proposed that the economic functions of ORR be removed.

Labour would like to see a fully-empowered one-stop-shop for passengers that have experienced problems, and accepts that this function may appropriately sit outside GB Rail to avoid conflicts of interest. At present, passenger rights activities are vested in both ORR and Transport Focus, with, in addition, a rail ombudsman operating under the auspices of the Rail Delivery Group. These functions should all be within a single organisation, as discussed in the following section, and this should not be ORR, which is institutionally unsuited to the role.

### **5.13 A genuinely representative passenger rights body: Passenger Voice**

The present system for passenger complaints, to provide a passenger 'voice' and to represent passengers within railway structures is fragmented and confusing.

The proposed passenger rights body, Passenger Voice, will be more representative of and accountable to passengers, with a funding stream fully independent of government.

All rail passengers will automatically become members of Passenger Voice upon purchase of a ticket. Passenger Voice could be guaranteed independent funding by receiving an entitlement to 0.05% of ticket sales. This does not entail extra costs or higher ticket prices – it is a revenue-neutral shifting of the present government funding of Transport Focus so as to ensure genuine independence for Passenger Voice.

Passenger Voice will provide one place for passengers to take complaints not directly resolved by the railway itself:

- It will take over from Transport Focus as the appeals body for passenger complaints not adequately resolved by GB Rail.
- It should take over the newly established Rail Ombudsman function and its binding arbitration powers.
- It should take over some of the Office of Rail and Road powers regarding passenger service standards, including services for disabled travellers.
- It should be a devolved organisation, operating either with devolved departments, or as a federation of Passenger Voice organisations mapping to

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<sup>49</sup> For example, ORR has opposed Network Rail spending to upgrade Merseyrail power supplies, yet this upgrade is essential to enable the new fleet being procured by Merseyrail to function effectively and improve services. ORR's approach to approving allocation of network capacity has also been criticised by experts for precluding the most strategic use of future HS2 services.

<sup>50</sup> Particularly since the National Audit Office will continue its oversight of the use of public finances on the railway under GB Rail.

the Strategic Management Business Units of GB Rail. London Travelwatch would become one of these organisations or departments.<sup>51</sup>

- It should continue similar lines of passenger research and consultative engagement to those presently undertaken by Transport Focus.<sup>52</sup> Some of this work could be at the behest of passenger reps on GB Rail supervisory boards.

Beyond this, Passenger Voice will play an entirely new role as part of democratic governance of the railway:<sup>53</sup>

- The entire membership will be eligible to vote in elections of passenger representatives to the national supervisory board of GB Rail.
- The memberships in Britain's constituent nations and regions of England will elect passenger representatives to the supervisory boards of the Strategic Management Business Units of GB Rail covering their areas.

These elections will work within the requirement for 50% of passenger representatives to the supervisory boards of GB Rail to be bring personal experience as disabled travellers. There will also be proactive processes to make the long list as representative as possible of the passenger population in other respects, including gender and ethnicity.

The passenger body represents the whole of society, so these elections also offer useful scope to select people who can, in addition to their perspective as a passenger, contribute valuable professional experience to the supervisory boards' crucial functions of strategically steering, supporting, challenging and overseeing GB Rail. Specific supervisory board skill requirements that passenger reps could help meet are discussed further in Appendix 3.

The passenger representatives on GB Rail's supervisory boards should be supported by Passenger Voice through:

- a) training in board-level skills and railway operational knowledge;
- b) help with making connections to the passenger body (i.e. to the Passenger Voice membership), including social media management, surveys, consultations and votes.

Passenger Voice is also likely to be the most appropriate organisation to convene a citizens' body to scrutinise whether GB Rail is achieving its wider social, economic and environmental objectives. If this body were to follow the example of the 'Observatory' that holds Paris's publicly owned water company to account, it would convene a wide range of consumer, environmental and other civic organisations in addition to rail passengers.

Appendix 4 provides further detail on the operation of Passenger Voice and of a Rail Observatory.

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<sup>51</sup> Following due discussion with its present funding body, the Greater London Assembly.

<sup>52</sup> In many cases these are in fact commissioned by Transport Focus from external engagement organisations.

<sup>53</sup> The governance structures proposed here may change as a result of the ongoing wider consultation on possible governance arrangements for all the services that the Labour Party intends to bring into public ownership. See National Policy Forum consultation 2019 paper *Democratic Public Ownership* which forms the basis of consultation running until 30.06.2019.

## 5.14 A High Level Industrial Relations Strategy for the railway

The privatised railway has created a high level of industrial conflict. The government's franchise contracts encourage the private rail companies to force aggressive policies on staff and not to settle disputes by declaring strikes 'force majeure' or using indemnification clauses. The train operators under management contracts are also largely held harmless for revenue losses from strikes.

This approach is against the public interest. It is short-sighted, destroying trust and management-staff working relationships, despite both parties sharing longer-term interests. Both staff and management (and passengers) want to see a railway that is successful, with growing patronage, growing income and a cost-base that is sustainable (i.e. affordable to passengers and the public purse).

Labour views railway staff as public servants providing a valuable public service. This extends to staffing to provide the full breadth of services that the public needs.

Labour will put in place structures and procedures that enable a forward-looking approach to industrial relations, including the difficult issues of technology change, so there can be industrial relations planning capable of realising the shared benefits to all parties from taking a 'long-view' – a High Level Industrial Relations Strategy.

This multi-year approach should span at least the period of the High Level Output Specifications for the railway (i.e. Control Periods, which Labour will extend to seven years, as discussed below).

The High Level Industrial Relations Strategy will be facilitated by all rail staff being employed by the single rail company GB Rail, for which its founding legislation will stipulate that pay, terms and conditions and working arrangements will be negotiated and set at GB Rail national level. This will prevent any tendency for DTA Business Units (including those which may not be relating to Labour administrations) to seek to drive down costs by putting local pressure on pay, terms and conditions.

Labour will end the fragmentation of labour and will bring the workforce together, into the heart of the railways, including its decision making processes. We recognise the benefits that co-production with the workforce brings, as shown by the German model of industrial relations and the improved productivity and added value that brings to the workforce.

## 5.15 Timetabling

Timetabling has become a high profile issue since the disruption caused by the introduction of the May 2018 timetable. Yet, despite several enquiries, there has been no recognition that the entire process is dysfunctional and is in many respects operating upside down.

The fragmentation caused by the privatisation of the railway has resulted in a system whereby the infrastructure provider receives bids for train times from multiple operators and then tries its best to fit them all together. Network Rail holds no responsibility to mesh the disparate requirements of the train operators into the most operationally-efficient plan, let alone a single attractive offer to travellers. And were it to try to operate in this way, it might receive legal challenges about access rights from train operators or the Office of Rail and Road (parties which also hold no responsibility to achieve the best overall solution).

Exacerbating this is the problem that specifications for each franchise have been made in isolation and with little or no consultation with the infrastructure provider, so

that they preclude a system-wide approach to timetabling and in some cases have turned out to be unworkable.

An overall timetabling vision is completely lacking. There are no national standards for desirable speeds or frequencies, and no policies regarding connections between services. This situation is deeply unstrategic and has contributed to the disappearance from the network of many services timed to provide connections. The result has been the loss of a public sense of a convenient and extensive national network. As one expert has put it, “At its worst it leads to route diagrams presenting a franchisee’s sub-network as an isolated island with no reference to links with the national system”.

There is a strong case that the timetabling system should start with a high-level strategic view taking a whole-system perspective of how to maximise overall benefit. Although nationwide, this view must also be bottom-up in so far as it must seek to maximise local service frequencies in conjunction with consideration of longer-distance services. There is a glaring need for a guiding mind empowered to lead the planning of the timetable and able to resolve constructively the inevitable questions of priorities.

GB Rail will be able to take this role. It will be tasked with providing a vision for an overall timetable offer that integrates with other modes of public transport to provide a coherent and comprehensive structure of coordinated services, with the aim of achieving a high modal share and the economic, social and environmental gains that go with that. GB Rail will be required to put in place standards and processes that ensure operationalisation of its timetable vision and continual improvement towards its eventual aim.

Switzerland is acknowledged to have achieved the world’s best integration of its timetabling (the Taktfahrplan),<sup>54</sup> meshing all other modes of local public transport with nation-wide coordination of train services. Although Switzerland’s rail network is smaller than Britain’s, it has to contend with many more services running from other countries, multiple small railways and trans-Alpine freight.<sup>55</sup> Its timetable nevertheless succeeds in incorporating all these, and in addition takes in lake ship services and bus services. Its comprehensiveness, connectedness and reliability are legendary.

GB Rail, as a fully integrated rail company, will be in a position to examine how far it may be possible to give every citizen in Britain Swiss-style freedom to travel conveniently by public transport between any two places bigger than a small village. It is notable that the German Government announced in 2018 that the whole German railway will move to a Taktfahrplan system.<sup>56</sup>

Planning of similar improvements to the British timetable could start immediately but implementation would require some time. Switzerland adopted its Taktfahrplan in 1982 and has been incrementally improving it ever since, prioritising its infrastructure enhancement programme to achieve that end. Deutsche Bahn is working to a timeline of 2030 to achieve a full Taktfahrplan. GB Rail will need to undertake feasibility and development studies, then pilot trials on suitable parts of the network.

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<sup>54</sup> Taktfahrplan literally translates as ‘clock timetable’, indicating the hourly rhythm of services which is a central feature and strength of this approach.

<sup>55</sup> SBB runs more trains per unit of track than the British system (Jonathan Tyler, personal communication, 14.06.2019).

<sup>56</sup> <https://www.bmvi.de/SharedDocs/DE/Pressemitteilungen/2018/080-scheuer-deutschlandtakt.html>

## 5.16 Growing the railway through better fares and simplified ticketing

In recent years the privatised railway finally appears to have realised that its proliferation of baffling fares and rules for ticketing is deeply damaging to the railway. Short-term perceived advantages to individual TOCs from perpetual ticketing variation have led to actions that have, collectively, undermined the longer-term attractiveness and reputation of the railway, particularly when passengers attempt longer cross-network journeys beyond everyday commutes.

Although it has finally focused on the issue, the fragmented privatised railway has failed to move forwards on the simplification of ticketing and fares, with its pilot schemes failing to start or falling flat.

Meanwhile, there are alarming signs that passengers are now being driven away from the railway by the government's determination to load ever-more of the railway costs onto the farebox.

For many years, the privatised railway has taken advantage of the railway's relatively low short-run elasticities to price, resulting from its largely captive commuter markets. This means it has been possible to raise prices and bring in more revenue than has been lost by passengers being deterred by the higher fares.

There are now, however, signs emerging that year after year of rail pricing above wage inflation rail is starting to bring into play much higher long-run elasticities to price, as the apparently endless prospect of evermore expensive fares drives longer-term life decisions that can enable people to use rail less, such as buying a vehicle or moving house. Many factors are at play here, including demographic shifts, changed working practices, new communications technologies and recent disruption to services. Nevertheless, it should be deeply worrying for those that care about the railway that its pricing policies may be driving passengers away from use of rail.

Labour believes that the present approach that is driving customers away from the railway by overpricing is stripping the railway of one of its most important assets – its loyal passengers.

Instead of this, a 'long view' is needed – a view that looks to attract more people to the railway by pricing that is more competitive with other modes of travel. In the long view, an expansion of the number of people using the railway and paying rail fares is a more sustainable approach than pushing people off the railway whilst squeezing more income out of those who can afford to keep using it (or have no other option).

This sustainable approach is needed not just for the benefit of the railway, but to help social inclusion, to curtail climate changing transport emissions, to enable our cities to have clean air and more pleasant streets with less traffic, and to facilitate uncongested movement of road traffic that cannot transfer to rail.

Labour wants to see the railway maximising the opportunity for economic growth and social mobility, both of which are undermined by rising fares. Labour recognises that this approach implies increased investment in capacity of the railway to enable the expansion of rail patronage, but believes that the social, economic and environmental benefits on offer are well worthwhile.

Tackling the linked issues of simplification and affordability will remain complex even within a defragmented railway structure. However, unification of the railway under a single command structure, including GB Rail taking over DfT responsibilities regarding fares and ticketing, will give much greater scope to act decisively and achieve the necessary regulatory and industry reforms.

Labour is committed to making rail fares simpler and more affordable. Our vision is to deliver an integrated system covering all modes of public transport that offers travellers the ease and simplicity of “One Network, One Timetable, One Ticket”.

Labour believes this means wholesale reform of fares and ticketing, replacing the current system with a simple, London-style ticketing system across the nation, delivering contactless payments and creating zonal rail fares that will apply across all modes of public transport.

We will create rail fares that are simple, fair, affordable and transparent. We will work with local transport authorities to define ‘islands’ within which zonal rail fares apply across all modes of public transport, with an affordable daily price cap so travellers can Pay-As-You-Go using bank cards or mobile phones.

Longer distance rail journeys will form ‘bridges’ between the islands, for trips where passengers need to know the price in advance to judge whether to flex their journey time to get off-peak rates. Fares for these journeys will become simple and transparent, with mainly distance-related, ‘single-leg’ pricing, where the return price is always the combined outward and return leg prices. Apart from higher ‘peak’ prices other complexities will be wiped out.

As part of the reforms, Labour will guarantee fair rail fares for part-time workers by ensuring they don’t pay more per trip than holders of weekly season tickets.

Appendix 5 gives details of Labour’s ambitions for reform of fares and ticketing.

## 6 The transition to GB Rail from present structures

One of the reasons that Labour is producing its plans for bringing the railway into public ownership with this level of detail is so that we can ensure Labour's plans for government are widely understood by all parts of the rail industry and all other stakeholders in the railway. Remaining ambiguities and issues can then be addressed at this pre-implementation stage and all parties can start to engage in how best to achieve the transition process.

Labour recognises that it is critical that the organisational end point for its reform of the railway is clearly defined from the outset, particularly when, as in this case, some of the changes require time to work through (e.g. as franchises expire) and there may be unforeseen events (e.g. franchises fail because they cannot meet their contractual terms, or owning groups make decisions like Deutsche Bahn's sell off of its Arriva subsidiary).

Labour also recognises that organisational change to the railway requires investment of staff time and resources to plan and coordinate the transition so that it is as quick and smooth as possible.

When the next Labour government comes into office, it will be implementing structural change following an extended period of change to the railway, particularly reforms to Network Rail (NR), but also multiple changes to the franchising system. It is helpful therefore to consider how the proposed GB Rail structure maps onto the old structure to assess how the transition can be as easy as possible, and so that the system functions effectively during the period whilst there is a 'hybrid' railway with some franchises remaining in private operation.

### 6.1 Advantages and limitations of recent Network Rail reforms

Network Rail is the largest part of the railway, with possession of the great majority of the railway's static assets and is already within public ownership. However, NR has been subject to severe criticism for inadequate project cost planning and control, for other inefficiencies, and for lack of responsiveness to rail stakeholders ranging across DTAs, the railway supply industry and train operators.

The arrival at NR in 2018 of a new chief executive, with a background that includes passenger train service delivery, has resulted in a widely welcomed admission of these systemic failings and a stated determination to change both the NR culture and structures to address them. The name of the resulting programme of change – 'Putting Passengers First' – clearly signals what the cultural change and structural changes are intended to achieve.<sup>57</sup>

The key cultural elements of the programme of change are to 'embed a customer service mindset' and 'focus on performance'.

The key structural elements are geographical changes to the NR structure to 'better align with train operators' and organisational changes to 'cut red tape' and 'make decision making more localised'. The first phase of change has already taken place,

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<sup>57</sup> <https://www.networkrail.co.uk/putting-passengers-first/>

including significant devolution of operations, maintenance, renewals and enhancements.<sup>58</sup>

It is yet to be seen how far the ongoing structural changes to NR will succeed in reforming the organisational culture and whether the devolution will deliver the intended efficiencies and responsiveness, and whether there will be some adverse unintended consequences.

Nevertheless, Labour supports the idea that greater decision-making powers at a sub-national level within NR are likely to lead to more agility to suit local circumstances and meet the needs of a range of rail stakeholders. Labour also supports the idea that a degree of devolution, if the new structures create coherent and better-integrated 'command-and-control' railway management units, may help tackle the accountability deficit in NR.

In addition, Labour appreciates the cost-control benefits likely to result from previous changes made in response to cost over-runs during Control Period 5, to ensure that there is more detailed project planning to pin down costs before projects receive go-ahead.<sup>59</sup>

The ongoing programme of changes within NR seeks to decrease what appears to be a problematic degree of centralisation and to increase devolved authority. As is inevitable with all devolution, including the devolution proposed in Labour's GB Rail structure, the NR plans involve balancing central authority against devolved authority.

Labour is opposed to any idea that the NR reforms may be used as a basis to carve up the rail infrastructure so that projects and portions of the railway can be sold off to private business (and it remains to be seen to what extent the ongoing Williams Review of franchising recommends that course of action).

It is nevertheless fair to note that two of the other stated motivations for NR's reforms – responsiveness to railway users and overall efficiencies – are concerns Labour wishes to address. It is therefore not entirely surprising that there appear to be some parallels between ongoing NR reforms and the GB Rail structure.

However, NR's management is hamstrung in achieving responsiveness and efficiency by the legal requirements that train services must be severed from infrastructure management and run by separate organisations with motivations and profit incentives that do not align with NR.

## **6.2 How GB Rail will propel much deep change beyond Network Rail's reforms**

The GB Rail structure goes far beyond what the NR reforms can accomplish by putting in place a guiding mind at the top of the whole railway, spanning operation of rail services as well as management of rail infrastructure and providing a new ability to plan for the long term.

GB Rail must function in an entirely different way to NR, on a completely integrated basis. As well as integrating train operations with infrastructure management, it must succeed in overcoming the damaging split that is evident *within* infrastructure management, between infrastructure projects and infrastructure operation.

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<sup>58</sup> Although enhancements will not be devolved, it would appear, at least not as yet.

<sup>59</sup> Labour also recognises that this entails a greater commitment to early stage project funding.

This requires a major culture change and shift of focus. The GB Rail national supervisory board will work with its executive management team to drive this change throughout the organisation.

The organisation will, from top to bottom, be required to apply itself to the aims and objectives set for the railway, and it will be the job of the national supervisory board to ensure that progress towards those objectives is monitored and achieved. The 40-year Rail Development Vision, once agreed and adopted, will be propagated through the organisation so that it is 'owned' at all levels and that all staff can see how they are contributing to it.

There will be a thoroughgoing assessment, inviting input from staff at all levels, on ways that the newly integrated operations of train services and infrastructure could achieve better operation, efficiency and effectiveness – removing processes that cease to be necessary once private operators are removed, or processes that are presently duplicated between different competing fragments of the railway, and improving processes that the splits in the railway have made cumbersome or completely dysfunctional.

There is universal agreement that NR is far less efficient than it should be. GB Rail will take a completely new approach. Its approach to creating an efficient railway will include:

- Emphasis on a culture of rail professionalism and public service and investment in achieving those attributes.
- Attention to and adherence to international best practice.
- Benchmarking against external UK and international comparators and acting to achieve according improvements.
- Development of internal comparators between similar functions in different areas – including between GB Rail's SMUs and OUs – and between different functions where good practice could cross-over.
- 'Investment for efficiency' - e.g. new trains can save excessive maintenance as trains get too old; digital signalling into train cabs can save spend on trackside signalling; steady spend on infrastructure maintenance may save more expensive repairs or renewals.
- 'Innovation for efficiency' – encouraging an internal innovation culture and building internal innovation capacity.
- Investment in in-house expertise – training people up in-house, rewarding them for loyalty, creating an organisation whose professional achievements and opportunities make people want to stay, backed by suitable pay scales to recruit and retain expertise. A rail leadership programme and dedicated academy are key requirements. Cross-disciplinary management training will be vital to extract people from their current silos, one of the industry's problems.
- Clear lines of responsibility and command, with according accountability.
- An 'efficiency culture' from the top-down and from the bottom-up – to create an organisation that doesn't drift into a financial crisis and then find it has to institute sudden and damaging cuts.
- Investment in monitoring, evaluation and enforcement of efficiency measures.

- Efficiency metrics at multiple levels – from targets for departments right down to task-specific efficiency studies.
- Focus on management visibility of costs and yields.
- Reversal of the present perverse incentives that focus effort on blaming other bits of the railway for problems rather than working collaboratively to identify the root problem and find ways to prevent it recurring.
- Adoption of a broader definition of efficiency to include long-term financial benefits and to include desirable non-monetary yields – whether social, environmental, or to the wider economy.

### 6.3 Bringing more infrastructure functions in-house

One of the culture changes required within NR is its failure to value and build in-house expertise. Major progress has been made compared with the attitude adopted by NR's predecessor, Railtrack, an organisation that largely refused to recognise a role for in-house expertise and presumed running the railway infrastructure could be reduced to procurement and management of contracts.

However, it appears that NR still defaults to a position that regards it as better to have webs of contracts and multiple tiers of contractors, rather than undertake work in house. In the course of compiling this document we have heard many verbal reports of issues arising from the resulting complexity, difficulties of suppliers working together (or not working together) and inflexibility from legal contractual arrangements that turn out not to be capable of adaptation to meet emerging requirements without excessive cost.

Maintenance activity has substantially been brought in house, but the great majority of renewals and enhancement work remains contracted out. This level of outsourcing continues despite evidence that bringing such functions in house can deliver substantial efficiencies and savings. It is not possible to put an exact figure on the remaining wastage from outsourcing, but it is notable that NR estimated that it saved £400m per year by bringing maintenance back in-house, of which over £100m per year was the result of reduced interface costs.<sup>60</sup>

It is evident that further insourcing could:

- Avoid (multiple layers of) profit leakage
- Avoid inefficiencies at interfaces with/between contractors
- Avoid added expense and inefficiency due to inflexibility in contracts
- Enable long-term investment in skills and expertise

Labour believes there could be major gains from a significant rebalancing towards building much greater in-house expertise and capacity within GB Rail. In particular, Labour considers that there is a set of core railway functions that should be in-house, including project management. Labour also wishes to see an end to the outsourcing of functions such as cleaning and maintenance, whether by NR or by TOCs, where jobs have been casualised and employment terms and conditions have been degraded.

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<sup>60</sup> DfT & ORR 2010 *Rail Value for Money: Scoping study report*, Version 1.1. para 3.4 p 22.

Labour does, nevertheless, also recognise the value of many aspects of the railway supply chain, which includes specialist functions and production that have always been provided by external companies and sensibly will continue to be supplied in that way. Labour will ensure that its increased spend on rail infrastructure is steadily programmed to nurture those elements of the supply chain and enable them to securely plan and invest.

## **6.4 Changing geographical divisions of the railway to the GB Rail Business Unit structure**

The GB Rail structure is similar to NR in its Business Unit structure being largely geographically defined. It differs, however, in its choice of some of the geographical boundaries. This arises from giving priority to the principle that there should be a better match to geographical areas defined by their shared economic development potential – areas that, as a result, are also generally defined by the boundaries of Devolved Transport Authorities that already have, or can in future take a rail governance role.

Matching GB Rail structures with DTAs means they will be best able to drive forwards local aspirations for better rail services and infrastructure in order to help the economic development of their areas.

Two of the DTA Business Unit areas (Scotland and Wales) map directly to existing NR route areas.

Within England, greater change will be required to match the DTA business areas proposed.

Although it was not implemented, it is notable that the Shaw report into Network Rail proposed that there should be a Northern route, which would have matched the proposed GB Rail DTA Business Unit for the North of England.

## **6.5 Transferring franchise train operations into GB Rail management**

The changes to NR are predicated on a recognition that, whilst more local responsiveness is desirable, certain cross-cutting operations and organisation-wide functions require central control. This has led to a 'matrix' structure where the set of devolved NR regions and 'routes'<sup>61</sup> with their own management structures function in association with a set of cross-cutting corporate units. The cross-cutting units include (inter alia) a unit termed 'The System Operator', charged with 'coordination of those activities required to optimise the overall use of the national network for the benefit of all users'.

At the point where the next Labour Government comes into office and brings GB Rail into being, administration of the commercial franchises not already devolved to DTAs will shift from DfT to be managed by GB Rail. Given its span across the organisation, this work might be a fairly natural fit to sit within what is presently the System Operator unit of NR. Where there are already DTAs overseeing franchise arrangements, these responsibilities will continue until those franchises are ended.

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<sup>61</sup> Rather confusingly, Network Rail's use of the term 'route' looks more like a geographical area than what members of the public might think is a 'route' – for example, Scotland and Wales are 'routes'.

Meanwhile, GB Rail will work to build up a publicly owned passenger train operating capability, ready to take over as franchises expire (or fail). This process could sensibly draw upon the functions presently undertaken by the DfT-owned company that provides an ‘operator of last resort’, and that is presently running the East Coast Main Line under the brand London North Eastern Railway (LNER). If this approach were taken, however, the management should be brought in-house within GB Rail rather than relying on private consultancies, as is presently the situation.

The operator of last resort is already standing ready to intervene if necessary for various franchises that have not been performing adequately. It has experience of taking over franchise operations and it would be well within its capabilities to undertake the necessary processes to take over franchises as they become available.<sup>62</sup>

This work of preparing to run the franchise operations within GB Rail might most efficiently be positioned under the GB Rail Mainline Business Unit, which could temporarily expand its remit beyond reclaiming the main line franchises to assist local DTA Business Units with preparation of teams to run their local train operations, once those franchises expire or are otherwise brought in-house.

Those teams would then work with the DTAs who will control their financial support to establish service agreements for the rail services to be provided by GB Rail. They will also work alongside the System Operator team that is overseeing the remaining franchises to ensure a smooth transfer of franchised train operations as they become available to bring in house. Over time, the franchising management function of the System Operator will reduce to zero as franchises disappear.

## **6.6 Development from the present DTA roles**

DTAs with existing devolved powers over their local train services are presently obliged, under British law, to let those services under a franchise competition process. In the event of an incoming Labour Government, those laws requiring DTAs to let train services to commercial profit-taking companies will be rescinded and replaced by rules requiring that train services be obtained from GB Rail as a not-for-dividend nationally-owned rail company.

DTAs will then undertake two processes in parallel:

- 1) Actions to terminate existing franchises at any forthcoming break points or in case those franchises fail to meet contractual conditions, or if it appears that it would be better value to terminate those franchises earlier;
- 2) Actions to set up governance structures, including a supervisory board, with the Business Unit of GB Rail that covers the DTA area, and to agree the train operations and infrastructure management that GB Rail must deliver for the funds available (through a legally-binding contract if that is deemed necessary).

A ‘shadow management team’ will need to be established by the supervisory board ready to take over the franchise or franchises that fall within the DTA area. In practice, even quite senior staff may be available to transfer from the franchise into GB Rail under standard TUPE<sup>63</sup> arrangements, so the processes should be such that they can both draw upon this potential resource whilst reducing unnecessary

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<sup>62</sup> And has done so rapidly at short notice, as happened with the sudden LNER decision.

<sup>63</sup> Transfer of Undertakings (Protection of Employment) Regulations 2006.

duplication and directorial salary costs where amalgamations of present operations may be sensible.

DTAs will work closely with GB Rail's national team in charge of undeveloped franchises (logically this may be the present 'System Operator' as discussed above) and with the GB Mainline Team that will take over running long-distance train operations, to ensure good and consistent coordination with TOCs, so that their services can be smoothly brought in-house.

Each DTA will also appoint an appropriate person to take up its position on the national supervisory board of GB Rail (who should also be a serving member of the supervisory board of the DTA Business Unit of GB Rail), and put in place an appropriate administrative and legal structure to oversee its role as a minority owner of GB Rail.

The task with most significant long-term implications for DTAs will be to develop their vision for their local railways in discussion with the GB Rail Business Unit they govern, and to discuss with GB Rail nationally and national government how that should fit within the national Rail Development Vision. As discussed previously, developing and prioritising a list of enhancements for the railway cannot avoid a degree of politicisation above a certain size of project and spending commitment, but Labour will establish a set of criteria for what it wants enhancements to achieve that will help to ensure that projects are chosen on their relative merits.

## **6.7 Drawing on expertise from existing 'supervisory boards'**

The concept of supervisory boards for a publicly owned railway, initially discussed in the *Rebuilding Rail* report (Transport for Quality of Life 2012), has been adopted as part of NR reforms for more accountability at its route level. However, these have been watered down so that they have no structural power. They also exclude railway staff representatives, and rely entirely on Transport Focus for input on passengers' behalf, rather than including passenger organisations that are not beholden to government for their funding and may be more outspoken and more directly connected to rail users.

GB Rail's supervisory boards will hold structural power and will be substantially different to the present NR boards.

However, useful experience may have been accumulated by the existing supervisory boards and it seems likely that some board members may continue to have a valuable role to play.

## 7 Conclusions

Labour believes the rail structure proposed in this document will deliver a railway that can go from strength to strength, and fulfil Labour's vision for a railway that enables everyone to travel easily and affordably right across Britain, as part of a completely accessible sustainable transport system, fully connected with buses, trams and other public transport.

The key features of the new public railway will be:

### **A guiding mind for the whole railway**

For the first time in decades, the railway will operate and develop as a coherent whole, making it easy for passengers to use from one side of the network to the other. This unified railway will take responsibility to get passengers to the end of their journey when problems arise – rather than abandoning them between different commercial operators.

### **A railway in not-for-profit public ownership**

The railway will be dedicated to providing a public service rather than private profit, with staff who feel proud of and motivated by working to serve passengers rather than corporate shareholders. Surpluses will be reinvested in the railway – rather than handed to private shareholders or expatriated to invest in railways abroad.

### **A unified railway where all its parts work together efficiently**

The railway will be defragmented, so all parts of GB Rail work together cost-effectively to achieve a common end in the most efficient way possible – rather than wasting money due to different parts of the privatised railway with different commercial interests failing to work together or disputing liabilities with one another.

### **A railway with simpler, better value fares**

Passengers' journeys will be eased by simpler, less expensive fares, for both long-distance city-to-city journeys and as part of integrated multi-modal local ticketing schemes – simplicity and ease of travel which is blocked under the present rail structure by rival commercial interests and rules to protect the discredited concept of private competition on the railway. Labour's aim is for "One network, One Timetable, One ticket" spanning all modes of public transport.

### **A railway responsible to government but with 'arms-length' professional freedom**

Rail experts will have the latitude to use their knowledge and experience to run the railway in the best way to achieve the strategic aims that the government sets out for the railway – rather than government interfering to organise a railway that has been rendered headless in order to create a market for private rail services.

### **A locally accountable railway**

For the first time, Devolved Transport Authorities will have powers to implement their aspirations to put the railway at the centre of their plans to build thriving cities, regions and nations. They will be able to use to the full the potential of railways to form the core for local economic development and to increase quality of life as part of fully integrated public transport spanning beyond rail to buses and trams.

### **A railway with long-term funding horizons and steady public investment**

The railway and its supply industry will be able to securely plan strategically and invest in skills, equipment and facilities – rather than continue to suffer the feast-famine conditions that have disabled domestic rail manufacturing whilst boosting foreign companies.

We believe this will deliver:

- **A railway with rising patronage**
- **A railway that is in receipt of rising investment**
- **A railway that cost-effectively uses public money invested in it**

We invite all stakeholders, from all sides of the debate, to join with us to support this endeavour.

# Appendix 1: Research into the problems fragmentation of the railway causes for passengers, frontline staff and senior management

## The passenger perspective of fragmentation

Over 18,000 rail passengers throughout Britain were contacted to understand how they are affected by fragmentation in the railway system.<sup>64</sup> The survey asked rail travellers to relate their experiences in their own words, with multiple-choice questions to enable easier input from those who did not wish to provide personal comments. 2600 people responded, of whom 700 provided personal comments, amounting to over 1600 comments on the different questions.

About a third of respondents appear to experience no significant problems from fragmentation, because their rail journeys are restricted to repeated simple trips within the area of one operator that essentially operates a monopoly service, for which they are acquainted with the travel options and ticket variants. However, a litany of problems was described by those who make journeys across boundaries between train operators, or on parts of the network where multiple train companies operate. The overall impression was of an outpouring of anguish, confusion and frustration. Comments were highly consistent and can largely be summarised by the six big themes described in the box below.

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<sup>64</sup> Transport for Quality of Life 2016 research, published as part of article in *Rail Review* Q4 2017 issue.

## The six main fragmentation issues experienced by passengers

### 1. Myriad ticket variants instead of ease-of-use and simplicity

*"It's very, very confusing and shows that profit is more important to the companies than we, the passengers, are."*

RESULT: Passengers waste hours trying to work out the best ticket, feel frustrated at the end of it all, often feel they still haven't got the best ticket, resent the system making it so hard, and feel it is designed for the train companies rather than the passengers. Many give up and travel by other means.

### 2. Different rules (e.g. peak/off-peak) on different parts of the railway

RESULT: Passengers are often caught out and treated as criminals. Some get very anxious. Some therefore avoid making train journeys because they fear getting it wrong or find it all too stressful.

### 3. Misinformation or lack of information due to breaks in the system or complexity

RESULT: Passengers waste time and energy trying to find information (often the information requirement itself arising from complexity of the system). They find their journey stressful as a result, and when they find information about one part of the system cannot be provided by another part, or find that information is wrong, feel upset and aggrieved.

### 4. Failure of the railway to take a responsibility for getting the passenger to their final destination

*"My assistance failed at Newcastle on both outbound and return journeys. I wanted to know why Cross Country could not have checked on me at my point of leaving the train and put down the train ramp. However, they just insist the problem is with Virgin East Coast."*

RESULT: When journeys don't go according to plan passengers feel abandoned, let-down, charged for bad service, and in some instances see that alternative capacity on the rail system is not being used to help them (or is explicitly forbidden to them). Some feel inclined (or forced) to switch to other modes of transport. Disabled passengers have a horrendous time when bits of the system supposed to assist them fail to link up.

### 5. Trains that could easily be held to connect with slightly late-running services rarely wait

RESULT: Passengers have increased journey times, in some instances pay more to take an alternative train company's service for the continued trip, and some lament not travelling by car or coach.

### 6. When passengers seek redress they fall between parts of the railway that blame one another

RESULT: Insult is added to injury, with the consequence that passengers feel under-valued and exploited.

*"Trying to get a cheaper ticket to get from the North West to the West Country is a nightmare. The only way is to break the journey into bits and buy a series of tickets and hope, desperately hope, that the trains run on time to get the connections as the cheaper tickets are for set trains."*

*"A power failure meant all electric services from Crewe were stopped. We transferred (as advised by station announcer) for the Arriva diesel train to Manchester. As the train pulled out of the station, the train manager announced that Virgin tickets would not be accepted."*

*"If the Grand Central train to Halifax is just a few minutes late we miss our connection to Northern trains and are faced with a wait of up to an hour."*

*"I spent hours trying to work out a cheaper way to get from Newcastle to Derby."*



*"Disability assistance is a nightmare. Every company has different rules and procedures."*

*"Sometimes when you ask a member of staff of one company, they state that they do not have information about another company."*

*"When going to the airport I bought the cheaper Thameslink only ticket. However that train was cancelled and the next train that took me there on time was Southern so I had to get another ticket."*

*"The train companies constantly blame each other for delays. It once took me 4 months to get delay repay for a 1.5 hour delay because the companies couldn't decide which one was responsible."*

Rail users' answers to the multiple choice questions give an impression of the prevalence of the different fragmentation issues.

### Proportions of passengers suffering different surveyed issues

**63%** have spent a long time at a ticket office or online trying to work out an economical way to make a rail journey involving more than one train company

*"My abiding feeling is of how complicated and inconvenient the current ticket purchase system is because of so many different companies and so many different tariffs depending on so many different criteria."*

**56%** have had a long wait after a delayed train just missed a connection with a train that apparently was not held because it was run by a different operator

**53%** make journeys on a route where the timetabling just misses a connection that would make the trip much better

**53%** have had to buy several tickets to get to and from their destination at a better price than one simple ticket

**43%** have had difficulties finding out whether their ticket was valid because different train companies operate different peak and off-peak rules.

*"I find the whole process complicated, confusing and even a bit frightening. I have organised a trip only to find that had I organised it a bit differently I would have saved lots of money. It has put me off rail travel other than local travel altogether."*

**43%** have been unable to travel back by a possible alternative route because their tickets tied them to a particular train company

**36%** have had to miss the first available train because their tickets were only valid on another train company

**33%** have found National Rail Enquiries website failed to transfer essential ticket details to a train company's website and have had to restart from scratch using that company's website

**28%** have been told they had to talk to staff of another train company when they wanted information

**27%** have found staff of one train company have been unable to advise on times or routes that their ticket would be valid on another train company

**24%** have been charged extra or had to buy another ticket because unforeseen circumstances required them to travel on a different train company

**19%** have not been allowed to transfer on their existing tickets to another train company, despite disruption to trains

**16%** have been refused compensation for delays due to one train company blaming another train company (or another part of the railway)

Although no single issue had been a problem for all respondents, **92% considered that the railway would work better rather than worse if it was reunited in a single organisation.**

## The operational staff perspective of fragmentation

Railway staff were surveyed with the assistance of the rail unions. Nearly 100 staff responded, most of whom work in 'front line' operational roles. The survey asked for examples of how the different parts of the railway fail to work together and also asked how the different parts of the railway do successfully work together.

Some answers add professional insights to the six big fragmentation issues raised in the passenger survey, as shown by the examples in the box below.

### Staff comments relating to passengers' fragmentation issues

#### 1. Myriad ticket variants preclude ease-of-use and simplicity

*"We are unfamiliar with other TOCs' services, including ticketing policy". [Train Despatch Supervisor] "All the franchises seem to have different information. Sometimes, a clerk is unable to give the correct travel info." [Booking Office Staff]*

#### 2. Different rules across the railway make the system hard to use

*"You can have two customers with tickets issued by two different companies having two different set of rules. Try explaining this to already irate customers." [Platform Staff]*

#### 3. Flow of information fails at fragmentation interfaces

*"During service disruption and maintenance vital information fails to get communicated through so many companies being involved. Not only does it leave the passenger without the correct information; it makes staff look unprofessional." [Sales Supervisor]*

#### 4. The railway fails to take responsibility for the passenger's whole journey

*Train companies will not accept each other's tickets if there has been disruption. Have to charge passengers for a new ticket even though I don't think it is fair." [Guard]*

#### 5. Trains are rarely held to connect with slightly late-running services

*"Often this [delay so a connection will be missed] means phoning my control and asking them to phone another TOC's control to hold a train. If it is not the last one it is rarely held and this potentially causes bad feeling and conflict from passengers." [Train Manager]*

#### 6. Passengers fall between parts of the railway that blame one another

*"There is a huge culture of blame dispersing and unwillingness to accept responsibility for delay. This happens at the expense of conversing with other areas/TOCs/NR to co-ordinate and thus minimise delays." [Conductor]*

Other staff responses raised operational and technical issues that may seriously affect the functioning of the railway but are only obvious to rail professionals:

### Professional fragmentation issues raised by staff

- Company-specific careers mean lack of understanding between roles
- Proliferation of rolling stock types means loss of in-depth engineering know-how
- Companies operating similar rolling stock fail to share useful knowledge
- Rolling stock shortages cannot be covered by other TOCs' rolling stock
- Disputed responsibility for station maintenance delays repairs and wastes effort
- Outsourcing functions to contractors leads to delays in repairs to facilities
- Functions are duplicated between different companies

*"I despatch a train whilst alongside me is a London Midlands dispatcher doing the same." [Train Despatch Supervisor]*

- Some rail activities are in a constant state of flux as multiple companies change
- Stations operate to different procedures providing inconsistent service
- NR-TOC disputes over blockades hinder timeliness of infrastructure work
- Rail infrastructure work is complicated by involvement of multiple companies
- Solo procurement by each company loses scale economies and adds waste

*"Each company developing their own supply chain without having a joint approach. Suppliers can duplicate work and charge NR and TOCs." [Procurement Officer]*

- Long-term thinking is destroyed by planning constrained by franchise terms
- Drivers with TOC-specific training are unable to work available diversion routes
- Trains are delayed or cancelled when drivers from other TOCs are available
- Information provision at some stations only covers the TOC that runs the station

Few respondents were able to offer examples of different parts of the railway working together successfully, with most explicitly stating they could think of none in response to a question seeking such examples. However, some traffic control staff noted that co-location of Network Rail and Train Operating Company controllers had brought benefits because it "improves the flow of communications".

Taken overall, comments from staff give an impression of railway staff who care about passengers and the railway, who are frustrated that its present structure tends to undermine their professionalism, and who are doing their best to make the railway work for passengers in spite of its fragmented structure. There were multiple replies that spoke of staff developing informal systems to try to overcome the fractures. For example, "Informally, we often ignore the fact that we are supposed to be working for competing businesses, and just do what is best for the passengers anyway. Ignoring the fact that we are supposed to be in competition makes my job [Guard] a lot easier because I am able to give passengers a much better service."

## The strategic management perspective of fragmentation

Two official reports precipitated by failures of cost control in the British railway – the McNulty Report and the Bowe Report – compiled evidence showing how fragmentation resulting from the privatised railway structure impairs strategic management and everyday operation of the railway. The most relevant fragmentation issues raised are shown in the table below. A third report, by Shaw, into the ‘future shape and financing’ of Network Rail, mainly focused on other matters but did recognise that “The railway needs to function as an interoperable system” and explicitly noted that there is a need to “balance devolution with national system operation”.

| Strategic fragmentation issue   | Bowe & McNulty report quotes   |
|---|--|
| <p>There is a lack of a guiding mind that considers how to get the whole of the railway to improve and develop.</p>   | <p><i>“I have noted the lack of “whole system thinking”, in both planning and in delivery, as a contributory factor to cost escalation and delay.”</i></p> <p>[Bowe p.37]</p> <p><i>“The split of responsibilities between train operators... and Network Rail...means that there can be a lack of a whole-system approach to planning and decision-making. ... Planning activity is dispersed across many different industry parties”</i></p> <p>[McNulty p.79]</p> |
| <p>As a result of the lack of a guiding mind, strategic planning of infrastructure improvements has been split from planning of rolling stock improvements and planning of improvements to train services, leading to sub-optimal outcomes and increased costs.</p> | <p><i>“For large, lengthy, or complex enhancement programmes such as electrification...infrastructure upgrades took place in isolation from decisions about the wider system or due regard to interdependencies, meaning ... greater [financial] risk”</i></p> <p>[Bowe p.27]</p>  |
| <p>No one takes overall responsibility to provide a good service for passengers.</p>  | <p><i>“I have been struck...by the lack of any clear view about who is responsible for articulating the specific interests of users of the rail system and in particular passengers.”</i></p> <p>[Bowe p.33]</p>   |
| <p>Effective delivery of enhancement projects is hampered by the difficulty of managing the involvement of many parts of the railway that are structurally independent.</p>   | <p><i>“Interface management has been raised as an issue hampering effective delivery. Enhancement projects ... usually involve both the Route and the Infrastructure Projects Directorate of Network Rail, passenger and freight operators, the Department [for Transport], multiple supplier contractors and, in many instances, other local stakeholders.”</i></p> <p>[Bowe p.32]</p>  |

|   |   |
|---|---|
| <p>The fragmentation between one franchise and the next, combined with the commercial and competitive basis of franchising, means TOCs focus on their own short-term self-interest rather than what would be best for the whole railway in the longer term.</p> | <p><i>“TOCs ... not infrequently, take positions that seek to exploit contractual positions to the maximum, or which reflect a short-term view, when the real interests of the railway would be better served by a longer-term view or a more co-operative approach.”</i></p> <p>[McNulty p.91]</p>   |
| <p>Chopping rail services up into franchises comes at a cost to economies of scale, service integration and service provision when problems arise.</p>  | <p><i>“There is also some evidence that the current size and alignment of franchises might, in itself, present a barrier to efficiency – by hampering economies of scale, reducing resilience and/or reducing the opportunity to offer more integrated service patterns.”</i></p> <p>[McNulty p.59]</p>   |
| <p>Innovation to achieve modern ticketing technology is inhibited by the fragmented railway.</p>  | <p><i>“Lack of co-ordinated cross-industry action and leadership constrains the adoption of new ticketing technology.”</i></p> <p>[McNulty p.133]</p>   |
| <p>The multiplicity of fares makes rail less attractive to potential users.</p>   | <p><i>“There is clear evidence that the complexity of fares... makes rail a less attractive proposition.”</i></p> <p>[McNulty p.117]</p>  |
| <p>Splitting the railway into franchises has caused proliferation of types of rail vehicle and reduced economies of scale.</p>  | <p><i>“Multiple franchises and low procurement volumes... have driven a high level of diversity in vehicle and sub-system types. This increases development, maintenance and spares costs.”</i></p> <p>[McNulty p.236]</p>  |
| <p>The lack of a nationally coordinated long-term procurement programme makes new trains more costly and puts train manufacturers at risk when orders dry up.</p>   | <p><i>“Costs per vehicle can be between 20% and 60% higher for orders of less than 200 vehicles because of non-recurring costs.”</i></p> <p>[McNulty p.235]</p>   |
| <p>Tasks are duplicated between different rail organisations.</p>   | <p><i>“Companies... work in silos and... have minimal regard for overall system benefits... This leads to the duplication of activities that could be done better in a single place.”</i></p> <p>[McNulty p.199]</p>  |
| <p>Information provision to the customer is hampered by an information chain that involves different railway organisations.</p>   | <p><i>“Information systems, processes, staff and co-ordinators of service information are not directly employed by the TOCs and FOCs... Effective dissemination and delivery of information will only happen when there is a more effective integration of NR and TOC activities ... and a more integrated control structure.”</i></p> <p>[McNulty p.269]</p> |

Many of these issues can be seen to relate closely to the types of adverse experience described by passengers and staff.

## Appendix 2: Foundational rail management and organisational principles

### General principles

- Railway structures and processes should be based on what works best on the ground, rather than derive from top-down agendas, whether those be motivated by profit or by politics.
- The railway is a complex system that functions best with as much integration as possible. Presently there is a damaging 3-way split. The aim should be to reduce, as far as possible: a) the present split between track and trains; b) the present split within Network Rail between project management and infrastructure operation.
- Disruption is undesirable. It is important to build on what is there now. However, it must be recognised that major cultural change is needed and that some of the major flaws in Network Rail run so deep that disruption of some present structures and procedures is essential (and even desirable).
- Accountability is critical. Present structures always allow blame to be displaced. Devolution of management must go with accountability for devolved managers. This requires suitable monitoring processes. These are likely to pay for themselves in efficiency gains, and unification across interfaces where there is presently separation will allow better monitoring to be achieved with less than the present resource dedicated to it.
- Devolution of rail governance and management, on present evidence, appears worth backing for its delivery of three-fold benefits: 1) improved operational outcomes (e.g. punctuality, reliability, safety, cleanliness); 2) responsiveness to local/regional requirements; 3) financial efficiency (due to manageable scale and local know-how).
- In addition, there is a case for giving higher status to the large majority of rail journeys that are local or regional journeys linking people to their nearest cities and that are integral to the economies of those cities. Although the fastest longest distance journeys have traditionally held the highest status in the railway hierarchy, and do provide the railway with its highest profits, these are a minority of rail trips and not the most economically important.<sup>65</sup> In these respects, connectivity is a more valuable measure than speed alone, which is just one of its elements.
- Information on performance must flow to the people who can act on it. The present performance monitoring processes are required, and may themselves be good processes. However, they fail to provide the right flows of information and outcomes (i.e. performance improvements). This arises because each of the separate commercial train operating companies and Network Rail (and each of its many contractors) have more interest in denying or obscuring

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<sup>65</sup> Devolved Transport Authorities have produced various plans arguing for better intra-regional rail connections on economic grounds. Further economic analysis/modelling may be required to assess the economic benefits of specific connections or the cumulative effect of multiple improvements.

responsibility than in seeking out the root causes that are within their control and sorting them out.

## **Principles for railway projects**

- Project management should keep a continual focus on the fact that the outcome required is to deliver an operational railway afterwards. This should be obvious, but appears to sometimes get lost.
- It is far better if the eventual users that will operate the network have a close involvement in infrastructure projects. They are the ones that have to make it work.
- Expertise should be placed where it is of most value. It is considered that this implies devolution, so that GB Rail Business Units contain major project specialisms and have capacity to deliver major projects. Centralisation of expertise may be sensible and necessary for specialisms in short supply, but the long-term aim for all specialisms regularly required at Business Unit level should be to train up more capacity.
- Size of project is a differentiator. A major route upgrade or new build to high speeds, for example, probably does require a special project given the present distribution and availability of skills. However, scarcity of expertise should only be a short term reason for central project design and management. There needs to be emphasis on building resource where it is scarce. In this regard management and technical training, for example through a rail leadership programme and dedicated academy, are key requirements. Management training will also be vital to extract people from their current silos, one of the industry's problems.

## **Principles regarding Business Units (Strategic Management Units and Operating Units) of GB Rail**

- Although both vertical and horizontal integration are desirable, GB Rail cannot be efficiently operated as a monolithic enterprise. It should be structured with Business Units (BUs) that provide clear separate definition and visibility of costs and yields to dedicated management teams with devolved responsibility and accountability. The Business Units (BUs) that form the first unit of subdivision of GB Rail have been termed Strategic Management Units (SMUs). To achieve operational manageability of the largest and most complex Strategic Management Units, there will need to be multiple Operating Units (OUs) within them. Both SMUs and OUs will need most or all of the cost-yield visibility associated with the concept of a business unit.
- Strategic Management Units and Operating Units of GB Rail should be vertically integrated as far as that is possible, incorporating both train service operations and infrastructure management. Compromise is required where an SMU in charge of one geographical area runs services into the area of another SMU, or for SMUs that do not have a geographical area of their own (see below for discussion of the Mainline SMU and Freight SMU in this regard).
- For local and regional train operations it makes operational sense to have Operating Units of the railway at approximately the size of the present franchises (using size to refer to the level of activity and amount of complexity involved) although some of the present boundaries can be improved or removed. The issues that have arisen with the Thameslink-Southern-Great Northern mega-franchise seem to point to at least a degree of unmanageability.

Operating Units on the scale of other franchises are likely to function better. This approach would also accord with evidence regarding the functioning of vertically-integrated Operating Units during the pre-privatisation history of the railway.

- For strategic management of the railway it is best to group some of these franchise-size areas together on a geographically larger scale, at approximately the level of Britain's constituent nations and regions of England. This is important to achieve strategic manageability of the railway. This approach can help to produce a railway with local accountability and responsiveness, in so far as SMUs can be organised so that they both make operational sense and are co-terminous with devolved structures of government.
- To maximise the railway's potential as an engine of economic development it is advantageous for Strategic Management Units of the railway to relate to geographical areas that define economically related zones for which economic development strategy should be considered as a whole. This principle remains important (or arguably is especially important) where devolved structures of government are presently absent or unclear.
- Both Operating Units and Strategic Management Units should be defined so it is possible to resolve trade-offs internally (i.e. without escalation to higher corporate levels with the consequent potential for loss of accountability, bureaucracy and paralysis). This means fitting, so far as is possible, the Operating Units and Strategic Management Units with the operational practicalities of running the railway, especially with regard to sorting out the compromises needed in timetable planning and allocation of infrastructure capacity.
- Project management capacity sits best at the Strategic Management Unit level, giving a compromise between localness and sufficient size to cover the capacity and specialisms required.
- Strategic Management Unit functions need to cover both the day-to-day running of the railway and the development of the railway for the future. Day-to-day running covers five types of activity: 1) Commercial activities (ticketing, sales, customer services, retailing, maybe with on-train services fitting here too); 2) Financial accountability; 3) Operations to run trains; 4) Infrastructure maintenance; 5) Rolling stock maintenance. Activities to provide expanded rail capacity for the future require project management roles and strategic development roles.
- These functions are likely to be mirrored in the structure of management teams of Strategic Management Units – i.e. the executive team in each case is likely to need to comprise a Managing Director, Commercial Director, Financial Director, Train Services Operations Director, Rolling Stock Director, Infrastructure Operations and Management Director, Projects and Development Strategy Director. Some, but not necessarily all of these functions will also be required by management teams of Operating Units, where Strategic Management Units are too big and complex to operate as a single Operating Unit. There is nevertheless scope for significant management team efficiencies compared with present arrangements.
- There is potential within a devolved Strategic Management Unit to achieve efficiencies so that maintenance (and renewals) operations are integrated into an enhancement strategy that enables both maintenance and enhancements to be undertaken more cost-effectively. Synergies between maintenance and enhancement programmes should be exploited, under a 'long view' approach that ensures maximum overall benefit is achieved whenever programmes are

undertaken. On the other hand, there will be requirements for specific project management capacity to address the biggest major projects.

- The major long-distance fast lines – i.e. East Coast Main Line, West Coast Main Line, Midland Main Line, Great Western, High Speed 1 (HS1), and in future HS2 – are sensibly grouped together in a Strategic Management Unit (“GB Mainline”). These long-distance fast services share a set of demanding operational requirements and are best operated as an entity according to those standards. This approach can also facilitate the commercial functioning of this Strategic Management Unit, giving scope to market services as a single entity and brand, offering the customer nationwide high-quality performance, principally in speed/time but also extending to other standards suitable to long-distance travel. The core cross-country lines probably logically fall into this category too, in view of the fast, long-distance nature of these services and their need to run across multiple parts of the railway (whilst noting that these services do tend to service a higher proportion of shorter more local journeys).<sup>66</sup> However, if primacy is given, as discussed in previous principles above, to aligning rail structures with devolved areas of government and with coherent areas as regards strategic economic development, then the Mainline SMU would run its services on infrastructure managed by the SMUs covering Britain’s devolved nations and regions of England (see also points below).
- For safety and for smooth operations, total clarity is required about which SMU is responsible for infrastructure management on lines used by multiple SMUs. In particular, many lines will carry both GB Mainline SMU services and local or regional services. Unless the entire railway company GB Rail were to be operated with no business units, compromises between the degree of vertical integration and inter-running by different SMUs become inevitable. Different options are available and the experienced rail professionals consulted agree that no perfect ‘right’ solution is available.
- If the only consideration were maximisation of vertical integration of the railway, responsibility for infrastructure management might be allocated amongst SMUs according to management of the ‘primary services’. For this purpose, the definition of primary services would not be unidimensional, and would logically be determined on the balance of multiple criteria, including: 1) which services are operating to and determining the maximum line specification in terms of line speed, signalling, etc.; 2) which services are earning the bulk of the revenues and are contributing most to the allocation of costs; 3) which services constitute the bulk of train movements; 4) which services are the fundamental determinants of the timetable. In addition, three further considerations would need to be brought to bear: a) where there are four-track parallel high and low speed lines these must be managed together since work on either results in change of use on the other; b) allocation of infrastructure responsibility should seek to achieve a good fit to areas that make for efficient infrastructure management as regards location of facilities and deployment of staff and machinery; c) boundaries where infrastructure management responsibility changes must be clear and certain, because uncertainty is unsafe. In some

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<sup>66</sup> There are further intra-regional and inter-regional city-to-city services that are largely fast long distance (or that merit upgrading to such speeds). There are arguments for also incorporating these services into the GB Mainline SMU. However, the advantages of this approach may need to be balanced against the potential advantages of developing, branding and marketing those services as part of the offer of a particular DTA Business Unit.

cases all these factors point in the same direction, in others they would need to be weighed against one another.

It is considered that the requirement to achieve clarity and certainty to ensure a safe model of accountability for infrastructure should in fact be an over-riding consideration. For this reason, a clear straightforward geographical allocation of infrastructure management amongst the SMUs covering Britain's constituent nations and regions of England is proposed.

- Operational interdependencies between SMUs should be associated with financial obligations. So, for example, the Mainline SMU would pay the SMUs covering Britain's constituent nations and regions of England to deliver the high specifications it requires to support its fast services. The required specification would be set by the Mainline SMU. The regional SMU would be responsible for delivering it, and there would be financial consequences if the specification were not to be delivered. Possible variations on how this relationship might work in practice are discussed in the sections of the report that discuss details of the devolved GB Rail structure.
- Business Units of GB Rail should have substantial financial independence, so that Business Units are motivated to benefit from efficiencies that they achieve, and to resolve budget difficulties that they encounter. This should be achieved notwithstanding the bulk of rail funding continuing to come from central government, and government requiring GB Rail to distribute its resources to achieve certain social outcomes rather than only maximising income and minimising costs (so that in effect, profitable services support socially valuable but unprofitable bits of GB Rail). In particular, if Business Units achieve revenues above forecast, they should be able to retain those to reinvest, and if they succeed in achieving their planned outputs whilst spending less than budgeted, they should not have monies clawed back at financial year-end or future budgets reduced.
- Freight services must be seen as a core part of the railway, fully valued for their economic, industrial and environmental value, rather than being treated as the 'poor relation' in the railway. These considerations indicate a need for a freight-specific Strategic Management Unit. As with the Mainline SMU this would be operating on infrastructure managed by the SMUs covering Britain's constituent nations and regions of England, although the Freight SMU could manage infrastructure on the small number of lines that are only ever used for freight or predominantly used by freight (such as the Felixstowe branch line).

## Appendix 3: Constitution, operation and powers of supervisory boards

The two levels of supervisory boards in GB Rail offer the opportunity for the wide range of stakeholders in the railway to have a role in setting the strategic corporate direction of GB Rail at both national and local level.

### Board-level worker representation in other countries

The advantages of stakeholder representation at board level, and in particular worker representation, are widely acknowledged in other European countries. In total, 19 out of 28 EU Member States plus Norway (i.e. 19 out of 29 European countries) have some provision for workers' representation on company boards, and in 13 of these the provisions are extensive, applying across much of the private sector.

There is a correlation between countries with stronger worker participation rights and high scores across a range of measures, including research and development expenditure, employment rates, educational participation among young people, educational achievement among older workers and lower poverty and inequality rates.<sup>67</sup>

### Basic criteria for effective supervisory board operation

Both types of company, those run by unitary boards and those run by two-tier boards, offer many examples of well-run and badly-run operations. For supervisory board operation to be effective, a number of criteria must be met. As with any type of board operation, these criteria include:

- Restricting the supervisory boards to workable size
- Ensuring that supervisory boards focus on strategic matters rather than interfering in day-to-day operation
- Having sufficient and suitably scheduled meetings
- Ensuring the board has an effective chairperson and otherwise encompasses sufficiently deep and wide expertise
- Providing supervisory board members with suitable, sufficient and timely management information to make good strategic decisions and challenge executive management teams when necessary
- Providing supervisory boards with sufficient power to ensure their strategic decisions are implemented
- Ensuring board members are committed to and are clear about their roles and responsibilities
- Providing sufficient resource for the board secretariat.

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<sup>67</sup> TUC 2016 *All Aboard: Making worker representation on company boards a reality* p.13.

For these reasons, GB Rail supervisory boards will:

- Have powers to recruit and dismiss the executive management team that reports to them
- Require members to sign terms of duty that commit them to making decisions on the basis of the evidence presented to them and what they consider to be the best course of action for the long-term benefit of the entire railway (see further discussion below)
- Meet at least every two months (and probably with subcommittee meetings between main board meetings)
- Have a maximum of 20 members,<sup>68</sup> and ideally fewer, excluding any executive management team members that will also attend supervisory board meetings
- Have secretariats with staff who report directly to the board (rather than via executive management teams)
- Be populated by members recruited for their expertise and experience (one of whom will be chair) as well as members recruited to represent rail stakeholder groups (although these members will also be expected to bring knowledge and experience)
- Provide board members with training, particularly for the stakeholder representatives who may not have board-level experience.

For the supervisory boards to the DTA Business Units it will be important that they are appropriately timed relative to board meetings of the DTA itself (which will generally span other modes as well as rail).

In addition it is likely to be valuable to implement some of the provisions that have arisen from experience of two-tier corporate board structures. Some relevant provisions in the German Corporate Governance Code are listed at the end of this appendix.

## **Achieving a positive productive board culture around shared long-term priorities**

A specific requirement for good functioning of the two-tier board system is that there should be strong mutual respect between the supervisory board and the management board.<sup>69</sup>

The management board should feel that the supervisory board provides a valuable strategic overview and therefore feels committed to providing the supervisory board members with high quality information to take that view and to make the necessary decisions in a timely way for the management board to carry them forwards.

The management team should feel that the supervisory board provides valuable additional expertise and backs them in taking the most difficult and far-reaching decisions about the company and its future trajectory.

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<sup>68</sup> Deutsche Bahn's national supervisory board presently has 20 members.

<sup>69</sup> This requirement was emphasised in discussions with those who have experience of two-tier board operation.

Conversely, it is important to avoid situations where the management board feel that the supervisory board is ill-informed, inclined to focus on issues that should be within the domain of executives' decision making, or tardy in making decisions, so that it becomes seen as undesirable to take issues to the supervisory board and better to make decisions elsewhere. These points appear basic good practice but companies do not always achieve them.

Good relationships, good quality of personnel, and good procedures are at least as important as board structures in achieving high organisational functionality.

The unifying value of a shared long-term vision for the organisation is fundamental. For GB Rail this vision also enables buy-in from a broader body of public and other interested parties. This links to the need for a publicly owned GB Rail to adopt an organisational commitment to maximum public visibility of board discussions, which anyway provides an excellent discipline for board activities (whilst recognising that there will always be an occasional need for some closed-session discussions around things like legal issues or commercially sensitive financial matters).

## **Duties of board members: duty to give best individual judgement versus duty to represent constituencies**

In the course of developing this White Paper there have been extended discussions with a number of experts and interested parties around the best way to resolve the tension between board members inputting to board discussions on the basis of their individual judgement, drawing on their expertise and experience, rather than inputting as 'reps' of particular constituencies, whether those be workers, passengers or devolved or central government.

Labour believes there are many advantages to the supervisory boards of GB Rail including both individuals recruited for their expertise or experience, and representatives of railway stakeholders – in particular staff, passengers and rail freight customers.

However, we also believe that it is crucial that the board works as a coherent whole to propel the new public company towards a vision for the future of the railway that is shared across all board members. It is essential for both the short-term and long-term good of GB Rail that a supervisory board can look beyond potentially differing short-term interests of the various groups represented, to function as a corporate team and have high quality discussions on the basis of the information in their possession, motivated by a shared concern to act in the best long-term interest of the company.

This is difficult territory to negotiate, and is unfamiliar in the British corporate mainstream. But experience from Germany and elsewhere in Europe shows it can be achieved, and with beneficial yields. Two things seem to emerge from looking at successful boards that strive to incorporate ranges of experience and views.

Firstly, that they apply duties to work for the best long-term interest of the organisation, even to members that are on the board as representatives of groups. So, for example, the German Corporate Governance Code, cited more fully at the end of this appendix, which arises in the context of a constitutional legal requirement for 50% employee representation on the supervisory boards of both public and private sector firms, says that "shareholder representatives and employee representatives are obliged in equal measure to act in the best interests of the enterprise".

This is a useful phraseology, but could be considerably improved by referring to 'best long-term interests'. Employees and shareholder representatives may take different views on how the long-term interest of the company is best-served, but that is a

legitimate debate to have. Both interest groups want the company to survive and thrive, even if they might differ on the desirable balance of profits to shareholders and wages to staff. This long-term focus helps avoid dysfunctional board room clashes over the short-term interests of any particular interest group that is not to the long-term benefit of the whole railway – whether that be excessive expenditure to the benefit of passengers or excessive expenditure on staff or excessive expenditure on shareholders.

Secondly, there is a determination, looking across the whole supervisory board membership to recruit a suitable range and depth of skills to ensure that the board is able to effectively fulfil its strategically crucial scrutiny and steering functions. How this can be achieved is discussed in the section on board recruitment below.

Present company laws have long been criticised for the narrowness of the requirement they put on company directors to give primacy to the shareholder interest, and moreover short-term shareholder financial yield, without allowing for due consideration to either longer-term yields or wider social, environmental and economic considerations – some of which, if ignored, would impact the company itself adversely in the longer term.

The arguments for changing these laws extend far beyond the needs of the rail sector. Other countries already take a more enlightened approach. For example, the German Corporate Governance Code, reproduced at the end of this appendix, sets supervisory board duties in the wider context of a ‘social market economy’, requiring consideration of economic sustainability and social and environmental factors.

For GB Rail the pressing issue is to enable supervisory board members to take a long-term view to make decisions that are in the best interests of GB Rail, which take account of wider social, environmental and economic imperatives, and in particular, give full weight to the aims and objectives that the government have set for GB Rail. If this scope cannot be fulfilled by changes to company law generally, then suitable provisions legally defining the legal duties of supervisory board members must be incorporated into the Act that establishes GB Rail.

## **Recruitment to supervisory boards**

Initial recruitment to the national supervisory board will be overseen by the Secretary of State for Transport, assisted by officials in the Department for Transport, with advice from the incoming GB Rail executive management team. Thereafter, succession and further recruitment of board members will be undertaken by the supervisory board itself under direction of the chair, within stipulations about minimum levels of representation of rail stakeholder groups and expertise.

The Secretary of State will hold last-resort powers to dismiss all or some of the supervisory board and will hold veto powers over choice of a new chair. However, the mode of working between the supervisory board and the Secretary of State is expected to emphasise collaboration and seek mutual agreement on strategic matters so that neither of these backstop powers are required.

Business Unit supervisory boards will be initially set up by the national supervisory board and national executive management team, in discussion with DTAs. Thereafter, the Business Unit supervisory boards will be responsible for their own renewal recruitment. To ensure an overall corporate guiding mind can be effectively exerted, the national supervisory board will retain last-resort powers to dismiss and re-recruit Business Unit supervisory boards, but it will be expected that corporate management discussions will be pursued in a collaborative spirit for the best of the whole railway so that issues do not reach this stage.

All supervisory board membership will include: four staff representatives from the rail unions Aslef, RMT, TSSA and Unite; and four passenger representatives, two of whom will be disabled rail travellers, and all of whom at DTA Business Unit supervisory board level will have particular knowledge of the DTA area in question. All supervisory boards will be chaired by one of the independent members appointed for their expertise rather than as a representative.<sup>70</sup>

The national supervisory board and DTA supervisory boards will be balanced, so that either the government and DTA representatives (i.e. the public sector shareholder representatives) or the passenger and employee representatives can form a majority if they have the support of the expert independent members (one of whom is chair with a casting vote if needed).

All supervisory boards will be required to seek to achieve 50% or more female membership and a representative mix of social diversity. These targets will apply to the non-executive members as well as the passenger, staff and DTA representative members. Transport for London has used a recruitment process for its board that has achieved more than 50% women and representative diversity in other respects. Some of the procedures TfL used to achieve that could usefully be adopted by GB Rail.

The passenger representative members will be selected and elected so as to represent a range of passenger constituencies, experiences and perspectives. Priority will be given to obtaining representatives who have experience of the issues confronting types of rail traveller who experience particular obstacles and dangers (i.e. women, disabled people, elderly people, certain minority groups, children, etc.). It is anticipated (subject to further consultation) that the four passenger members will be elected as follows:

- An electoral college will be established by establishing a 'Passenger Voice' organisation in place of Transport Focus (see Appendix 4 for further details of this passenger representation organisation). All people that buy tickets will automatically be registered as members giving them voting rights to elect representatives to GB Rail supervisory boards (in addition to giving them the right for Passenger Voice to advocate on their behalf if service falls short and GB Rail fails to deal with their complaints adequately).
- This national constituency of rail travellers will directly elect passenger representatives to the national supervisory board of GB Rail and members in Britain's nations and regions of England will directly elect passenger representative to the supervisory boards of the GB Rail DTA Business Units covering those areas.
- It will be required that 50% of those elected in this way to each board will also bring direct experience of issues facing disabled rail travellers.

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<sup>70</sup> Deutsche Bahn is an example of this chairing model. Alstom is an example of an alternative approach whereby the chief executive chairs the supervisory board of non-executives (which is simply termed 'the board') as well as heading and chairing the management team (which might otherwise be termed a management board or executive board). Alstom management board has similarities to the GB Rail structure shown in Figure 3 in that it comprises regional directors plus key central functions (chief executive, chief financial officer, etc), albeit with regions defined internationally rather than as part of a single country. The regional directors themselves chair regional management teams, which is also akin to the proposed GB Rail structure but lacks further supervisory boards operating at the regional level. (<https://www.alstom.com/company/corporate-governance> and personal communications from former Alstom employee, 2019).

For the staff representation, it will be up to each individual union to decide on the appropriate process to select the person to serve on the board. This might simply be a decision that the appropriate representative is the union's General Secretary, or President, or some other official position, or unions may wish to initiate a selection process involving the Executive Committee or the broader membership.

All of the selection processes need to work together in such a way that the resulting board covers all the capabilities, skills, professional knowledge and experience to enable the board to effectively provide the strategic guidance, oversight, support and challenge essential to the success of GB Rail. In the same way as pension trustee processes are electoral but require candidates to show a range of appropriate skills, the selection processes for GB Rail supervisory boards should seek to achieve the necessary spectrum of organisational skills, experience and knowledge across the non-executive directors and representatives combined. These skills include, inter alia:

- Senior experience of managing rail
- Senior experience of managing large organisations
- Finance, audit and assurance
- Cost control
- Safety
- Environmental performance
- Staffing and personnel
- Industrial relations
- Equality and accessibility
- Organisational change management
- Innovation
- Technological development
- Customer (passenger) priorities/ market development

For the expert non-executive directors there should be specific job descriptions for recruitment. Some individuals will, of course, have experience spanning more than one of the above skills. Rail passengers as an electoral college span the entire population, and potentially therefore offer a rich vein of experience as well as providing passenger insights. Similarly, the rail unions span staff bodies with deep and specialist experience that can valuably be deployed at supervisory board level.

However, it is essential that the selection processes also encourage and enable 'ordinary' passengers and workers who do not have managerial or specialist experience to come forwards to serve on GB Rail's supervisory boards, because their perspectives may be different and uniquely informative in certain board decisions.

## **Relationships between different supervisory boards within GB Rail**

To facilitate discussions about inter-running of train services where infrastructure is managed by a different Business Unit, there will be cross-representation between DTA Business Units and the Freight and Mainline Business Units.

Relationships between neighbouring DTA supervisory boards and between DTA supervisory boards and the national GB Rail supervisory board will also be important. Good communication channels will need to be established to discuss overlapping operations and to align rail development and operational priorities.

As a matter of principle regarding good devolved management practice and devolved accountability, DTA supervisory boards should resolve any differences of view by mutual agreement. However, if this does not prove possible, and if the

matter is of strategic importance, the DTA representation at national supervisory board level will enable escalation of the discussion to that level for a final decision.

There is no way to rule out possibilities for DTAs to pursue issues externally to GB Rail, through their parallel political channels. However, the aim should be to prevent DTA disagreements over rail issues becoming the subject of horse-trading amongst politicians, and instead ensure priority is given to resolving issues more strategically within the representative structures of GB Rail. The proposed internal GB Rail structures provide the means for DTA supervisory boards to jointly achieve agreement, or at worst a majority decision, at the highest national level, even on potentially difficult issues.

## **German Corporate Governance Code: provisions relevant to GB Rail governance**

Italicised texts are direct quotes from the Code.<sup>71</sup>

### **Responsibilities that span beyond merely short-term shareholder interest**

*The Code highlights the obligation of Management Boards and Supervisory Boards – in line with the principles of the social market economy – to take into account the interests of the shareholders, the enterprise's employees and the other groups related to the enterprise (stakeholders) to ensure the continued existence of the enterprise and its sustainable value creation (the enterprise's best interests). These principles not only require compliance with the law, but also ethically sound and responsible behaviour (the "reputable businessperson" concept, Leitbild des Ehrbaren Kaufmanns). With their actions, the enterprise and its governing bodies must be aware of the enterprise's role in the community and its responsibility vis-à-vis society. Social and environmental factors influence the enterprise's success.*

### **Definition of management board and supervisory board respective roles**

*Principle 1. The Management Board is responsible for managing the enterprise in its own best interests. Its members are jointly accountable for managing the enterprise. The Chair or Spokesperson of the Management Board coordinates the work of the Management Board members.*

*Principle 2. The Supervisory Board appoints and discharges the members of the Management Board; it supervises and advises the Management Board in the management of the enterprise and has to be involved in decisions of fundamental importance to the enterprise. The Articles of Association and/or the Supervisory Board stipulate that transactions of fundamental importance are subject to approval.*

*Principle 3. The Supervisory Board chair is elected by the Supervisory Board from among its members. The Chair coordinates the activities of the Supervisory Board and represents the interests of the Supervisory Board externally.*

*Recommendation and suggestion:*

*A.1 The Supervisory Board shall adopt its own rules of procedure and shall publish these on the company's website.*

*A.2 The Supervisory Board Chair should be available – within reasonable limits – to discuss Supervisory Board-related issues with investors.*

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<sup>71</sup> Based on Government Commission on the German Corporate Governance Code 2018  
**Draft of an amended German Corporate Governance Code** dated 25 October 2018.

*Principle 4. The Management Board develops the enterprise strategy, coordinates it with the Supervisory Board and ensures its implementation.*

*Principle 5. The Management Board and the Supervisory Board cooperate on a trust basis to the benefit of the enterprise. Good corporate governance requires an open dialogue between the Management Board and Supervisory Board, as well as between the members of these individual Boards. Comprehensive observance of confidentiality is of paramount importance in this regard.*

### **Board composition and diversity requirements**

*Principle 8. When appointing the enterprise's executives, the Management Board considers diversity and lays down targets for increasing the share of women in the two management levels below the Management Board.*

*Principle 20. The composition of the Supervisory Board has to ensure that its members collectively have the knowledge, skills and professional expertise required to properly perform all duties as well as the requisite diversity and independence.*

### **Requirement for supervisory board subcommittees**

*Principle 9. The establishment of committees generally supports the effectiveness of the Supervisory Board's work for larger enterprises.*

*Recommendations:*

*A.4 Depending on the specific circumstances of the enterprise and the number of Supervisory Board members, the Supervisory Board shall form committees of members with relevant specialist expertise.*

*A.5 The Supervisory Board should establish an Audit Committee that – provided no other committee or the plenary meeting of the Supervisory Board has been entrusted with this work – addresses in particular the review of the accounting, the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the audit of the financial statements and compliance.*

*The Chair of the Audit Committee shall have specific knowledge and experience in applying accounting principles and internal control procedures as well as the audit, and shall be independent.*

### **Duties of board members**

*Principle 10. The members of the Management Board and Supervisory Board are bound to observe the enterprise's best interests.*

*Principle 19. ... Shareholder representatives and employee representatives are obliged in equal measure to act in the best interests of the enterprise.*

### **Duties and processes to share information**

*Principle 12. The Management Board is responsible for keeping the Supervisory Board informed. Nevertheless, the Supervisory Board must itself ensure that it obtains sufficient information. The Management Board informs the Supervisory Board regularly, without delay and comprehensively about all issues that are relevant to the enterprise – in particular, regarding strategy, planning, business development, the risk situation, risk management and compliance. The Management Board addresses departures in the current business development from its existing projections and agreed targets, indicating the reasons for any such departures. The Supervisory Board may at any time require the Management Board to provide additional information.*

*Principle 13. The Management Board Chair or Spokesperson informs the Supervisory Board Chair without undue delay of major events that are of material importance for the assessment of the enterprise's status and performance, and for the management of the enterprise. The Supervisory Board chair subsequently has to inform the Supervisory Board and, if required, convenes an extraordinary Supervisory Board meeting.*

*Recommendation:*

*A.11 Between meetings, the Supervisory Board Chair shall be in regular contact with the Management Board – in particular, the Management Board Chair or Spokesperson, in order to discuss with them issues of strategy, planning, business development, the risk situation, risk management and compliance of the enterprise.*

### **Training for supervisory board members**

*Recommendation:*

*A.12 The company shall adequately support Supervisory Board members regarding continuous training and professional development measures.*

### **Supervisory board independence from management board**

*Recommendations and suggestion:*

*A.13 The Supervisory Board shall also meet on a regular basis without the Management Board.*

### **Assessment of supervisory board effectiveness**

*Recommendations:*

*A.15 The Supervisory Board shall assess, at regular intervals, how effective the Supervisory Board as a whole and its committees fulfil their tasks. This self-assessment shall be supported by external resources after not more than three years.*

### **Restriction of terms of appointment**

*Recommendation:*

*B.1 Supervisory Board members elected by the shareholders shall be appointed for a period of not more than three years.*

### **Limitations on board members' other commitments**

*Recommendations:*

*B.5 A Supervisory Board member who is not a member of any executive governing body of a third-party entity shall not accept more than five Supervisory Board mandates at listed companies or comparable functions, with an appointment as Chair of the Supervisory Board being counted twice.*

*B.6 Members of the executive governing body of a third-party entity shall not have, in aggregate, more than two Supervisory Board mandates in non-group listed companies or comparable functions, and shall not accept the Chairmanship of a Supervisory Board.*

### **Independence of board members and functions**

*Recommendations:*

*B.10 The Chair of the Supervisory Board, the Chair of the Audit Committee as well as the Chair of the committee that addresses Management Board remuneration shall*

*be independent from the company and the Management Board. The Chair of the Audit Committee shall also be independent from the controlling shareholder.*

*B.12 No more than two former members of the Management Board shall be members of the Supervisory Board.*

### **Succession planning**

*Recommendations:*

*C.1 Together with the Management Board, the Supervisory Board shall ensure that there is long-term succession planning.*

### **Remuneration**

*Principle 23. The Supervisory Board determines a generally comprehensible system on the remuneration for the Management Board members and, on this basis, determines the total remuneration for each Management Board member.*

*Recommendations:*

*D.1 The share of long-term variable remuneration shall exceed the share of short-term variable remuneration.*

## **Appendix 4: A passenger rights body – Passenger Voice**

### **The problem**

The present system to provide passenger redress for complaints, to provide a passenger ‘voice’ and to represent passengers within railway structures is fragmented and confusing.

Transport Focus, and separately London Travelwatch within the London travel-to-work area, the Office of Rail and Road, and the Rail Ombudsman (contracted by the Rail Delivery Group, the industry body) all have roles.

In addition, the present system is undemocratic and not fully independent of government as regards its funding.

In so far as passengers are part of railway governance structures at all, their input is presently limited to staff of Transport Focus sitting on supervisory boards for the Network Rail route areas. These posts are not in any way democratic or representative and the supervisory boards themselves are only advisory, lacking any structural powers.

### **The concept of a genuinely representative passenger rights body**

The proposed passenger rights body would be more representative of passengers, more accountable to passengers, and would have a funding stream fully independent of government. It is proposed here that this body could usefully be constituted as a membership organisation, governed and run by its members.

All rail passengers would automatically become members of Passenger Voice upon purchase of a ticket. Members might also receive shares in ownership of the Passenger Voice, although these would, akin to the John Lewis model of employee ownership, be non-tradeable.

Passenger Voice could be guaranteed independent funding by receiving an entitlement to 0.05% of ticket sales. Although this is this a tiny proportion, across total ticket sales of c.£10bn it would nevertheless amount to enough to cover the present c.£5m annual budget of Transport Focus. Transport Focus is already a state-funded body, so this does not entail extra costs or higher ticket prices – it is a revenue-neutral shifting of financial flows so as to ensure genuine independence for Passenger Voice.

### **Functions of Passenger Voice**

Passenger Voice would roll together several functions presently dispersed across different bodies, so passengers would know there is just one place to go if they have a complaint not directly resolved by the railway itself:

- It would take over the present Transport Focus role as the appeals body for passenger complaints not adequately resolved by GB Rail (or by continuing open access and franchised train operators, whilst these still exist).

- It should take over the newly established Rail Ombudsman function and its binding arbitration powers (once the three-year contract between the Rail Delivery Group and the Dispute Resolution Ombudsman expires).
- It should take over some of the Office of Rail and Road powers regarding passenger service standards, including services for disabled travellers.
- It should be a devolved organisation, either with devolved departments, or perhaps operating as a federation of Passenger Voice organisations based on Britain's constituent nations and England's regions, mapping to the Strategic Management Business Units of GB Rail. London Travelwatch would become one of these organisations or departments, subject to discussions with its present funding body the Greater London Assembly.
- It should continue similar lines of research and consultative engagement to those presently undertaken by Transport Focus, looking at passenger expectations and experiences.<sup>72</sup> Some of this work could usefully be at the behest of passenger reps on GB Rail supervisory boards, as discussed below.

Beyond this, Passenger Voice would play an entirely new role as part of democratic governance of the railway:<sup>73</sup>

- The entire membership would be eligible to vote in elections of passenger representatives to the national supervisory board of GB Rail.
- The memberships living in Britain's constituent nations and regions of England would be eligible to vote in elections of passenger representatives to the supervisory boards of the Strategic Management Business Units of GB Rail covering their area.

The election processes would be complemented by criteria stipulating that 50% of the passenger representatives to the supervisory boards of GB Rail must be people who bring direct personal experience of being a disabled traveller. There should also be proactive attempts (i.e. through approaching potential candidates to encourage them to stand) to make the long list as representative as possible of the passenger population in other respects (including gender and ethnicity in particular).

In addition to these requirements, because the passenger body represents the whole of society, it offers useful scope to select people who can also contribute valuable professional skills and experience to the supervisory boards' crucial functions of strategically steering, supporting, challenging and overseeing GB Rail. Specific supervisory board requirements that passenger reps could help meet are discussed further in Appendix 3.

## **Supporting the passenger representatives on GB Rail supervisory boards**

The passenger representatives on GB Rail's supervisory boards should be supported by Passenger Voice through: a) training; b) help with making connections

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<sup>72</sup> In many cases these are in fact commissioned by Transport Focus from external engagement organisations.

<sup>73</sup> The governance structures proposed here may change as a result of the ongoing wider consultation on possible governance arrangements for all the services that the Labour Party intends to bring into public ownership. See National Policy Forum consultation 2019 paper *Democratic Public Ownership* which forms the basis of consultation running until 30.06.2019.

to the passenger body (i.e. to the Passenger Voice membership), including surveys, consultations and votes.

- Training should aim to demystify and support the role of being an effective board member from the most basic level to more advanced skills. It should include: how to make succinct clear interventions likely to achieve traction; how to interpret corporate financial information and other reports; how to draw on and reinforce strategic documents where these help move particular issues forwards; how to bring other board members onside and contribute to building 'buy in' of the whole board to a shared strategic vision. As well as 'set piece' training sessions, there should be capacity for passenger representatives to seek input and assistance on specific matters arising for which they feel a need for explanation or guidance.
- Connections to the passenger body should be facilitated with a secretariat that can help set up and manage a range of communication and feedback mechanisms. As well as receiving help managing informal social media channels (Twitter, Facebook in particular) and email accounts, passenger representatives should be able (as Transport Focus does at present) to request passenger surveys or consultations to assess the views of passengers on particular issues. There should also be provision, on issues deemed sufficiently important and controversial, for passenger representatives to request a vote of Passenger Voice membership to form the basis of the position s/he will represent to the board. There should be capacity to support passenger representatives in organising public or private meetings where that appears an effective way to achieve an understanding of particular issues.

## **Wider functions of Passenger Voice – A Rail Observatory?**

As an organisation representing all passengers, Passenger Voice may be the most appropriate organisation to convene a citizens' body to undertake wider strategic scrutiny of GB Rail, as happens in some other countries to hold publicly owned water companies to account. In the example of the Paris Water Observatory, attendees are drawn from a wide range of consumer, environmental and other civic organisations.

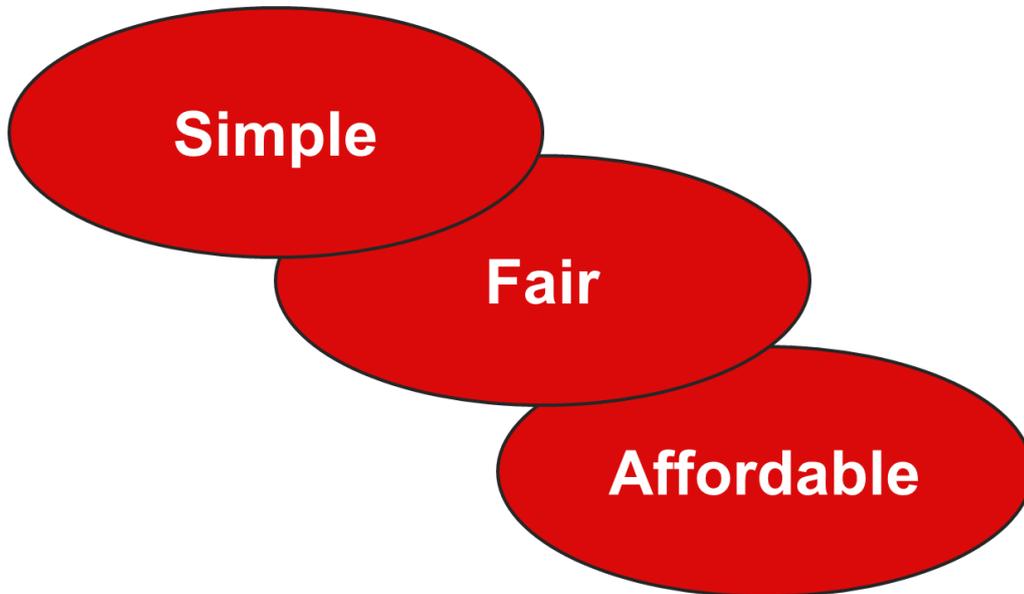
If part of the role of a Rail Observatory were to be to consider whether GB Rail is achieving its wider social, economic and environmental objectives, it would be appropriate to bring in similar ex-officio participants from relevant organisations to broaden the perspective beyond that of rail passengers only. It would, however, be the Passenger Voice representatives on the supervisory board of GB Rail that would provide a direct feedback mechanism from the Rail Observatory into GB Rail, at the highest level.

Observatory bodies rely on 'Sunshine Regulation' rules that mandate the relevant public delivery body to report and submit to the Observatory detailed information, (e.g. fees, contracts, remunerations, reports, minutes of official proceedings) and that may also mandate that certain types of decision must be taken to the Observatory before they are taken. The legislation required to reform the 1993 Railways Act and found the GB Rail company could establish appropriate Sunshine Regulation rules. The Observatory role, as its name indicates, is advisory only, but the Paris Water Observatory appears to play a valued role and be taken seriously by Eau de Paris.

## Appendix 5: Simple, Fair, Transparent Fares

### The problem and the ambition

Labour believes rail fares should be:



But at present rail fares are:



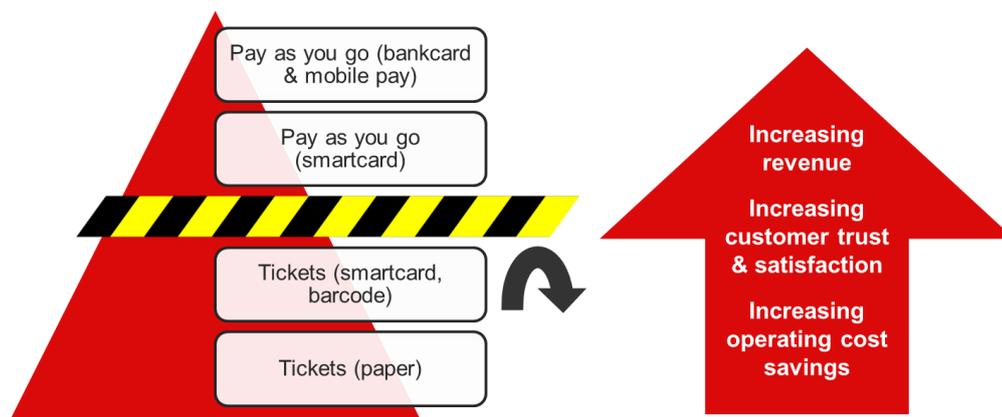
### Background facts that help point to a potential solution

1. 90% of rail journeys are local rather than long distance.
2. Local rail users are better served by turn-up-and-go integrated multimodal fare systems rather than advance-booking airline style ticketing.
3. Where rail came into London's Oyster pay-as-you-go (PAYG) scheme 5% more rail journeys were generated.

4. Greater London is now past 'Peak Oyster', i.e. Oyster card use is declining in favour of contactless bank card and contactless mobile phone payment.
5. Contactless bank card and contactless mobile phone payment is already fast superseding other 'smart card' systems, including ITSO.<sup>74</sup>
6. For most of the rail journeys made by everyday users all the complicated special offers are unavailable and irrelevant.
7. Expert opinion is not unanimous on the value and revenue added to the rail system by supposedly market-oriented variations in ticket price. Only the practice of pricing higher during peak periods holds almost universal expert acceptance as worthwhile, for both demand management and revenue generation purposes.
8. It is not known whether further complicated pricing actually yields any net revenue gain above the losses complexity causes by deterring rail use. It is known that '35% of people for whom rail travel is an option are put off by the complexity of fares'.<sup>75</sup>

## The railway has got stuck & passengers lose out

Figure A1: The 'Payment Pyramid'



Transport payment can be considered as a pyramid (as shown in Figure A1) representing the progression from paper pre-purchased tickets at the bottom, rising through plastic pre-purchased tickets (mainly seasons) to PAYG genuine 'smartcards' and PAYG bankcard and mobile phone payment at the top.

Climbing this pyramid brings benefits in terms of passenger convenience, increased patronage, increased revenue and decreased operating costs.

Thus far, the privatised railway has failed to achieve even the level of PAYG smartcards.

Progress has been blocked by:

- The fragmented industry structure
- Lack of focus on the customer

<sup>74</sup> What used to be known as the Integrated Transport Smartcard Organisation, that has attempted to establish itself as the common technical specification for transport smartcards, and that has received Government financial support for trials on the railway, which have not yet borne much fruit.

<sup>75</sup> Accent and PJM Economics 2016 *Fares Structures and Simplification – Advance Fares*, as cited in RDG 2019 *Easier fares for all* p.9.

- Fares that are too complicated to support PAYG
- Local city smartcard schemes with bespoke specifications
- Undue focus on long distance fares

## **A way forwards: the “Islands and Bridges” concept**

A number of experts have for some years advocated adopting a zonal basis for a large proportion of rail fares and ticketing, as happens in other countries such as the Netherlands, Denmark and southern Sweden.

An ‘Islands and Bridges’ approach has been suggested as the way to move to this kind of system in Britain. With this approach, cities, city-regions and other areas could define ‘islands’ within which zonal rail fares would apply.

These islands might be concentrically structured (‘onion’ zones), as already applied in London where the Oyster zones apply to rail, or could be zones laid alongside one another (‘honeycomb’ zones), as already applied in Merseyside on Merseyrail. Within the zoned areas, the aim is to set fares so that travellers feel able to use rail services on a PAYG basis, tapping in and out to pay with bank cards or mobile phones comfortable in the knowledge that the fares are all defined to work within an affordable daily price cap.

The ‘bridges’ are the longer distance rail journeys, for example between cities, for which the fare is likely to be at a level where passengers will want to know in advance what they have to pay, and may wish to consider timing their journey to obtain cheaper off-peak rates. As noted above, less than 10% of rail journeys fall into this category, but these have tended to define the whole system because of the railway’s traditional emphasis on the prestige fast long distance services (which has arisen in part because it is these routes that can make train companies the biggest profits).

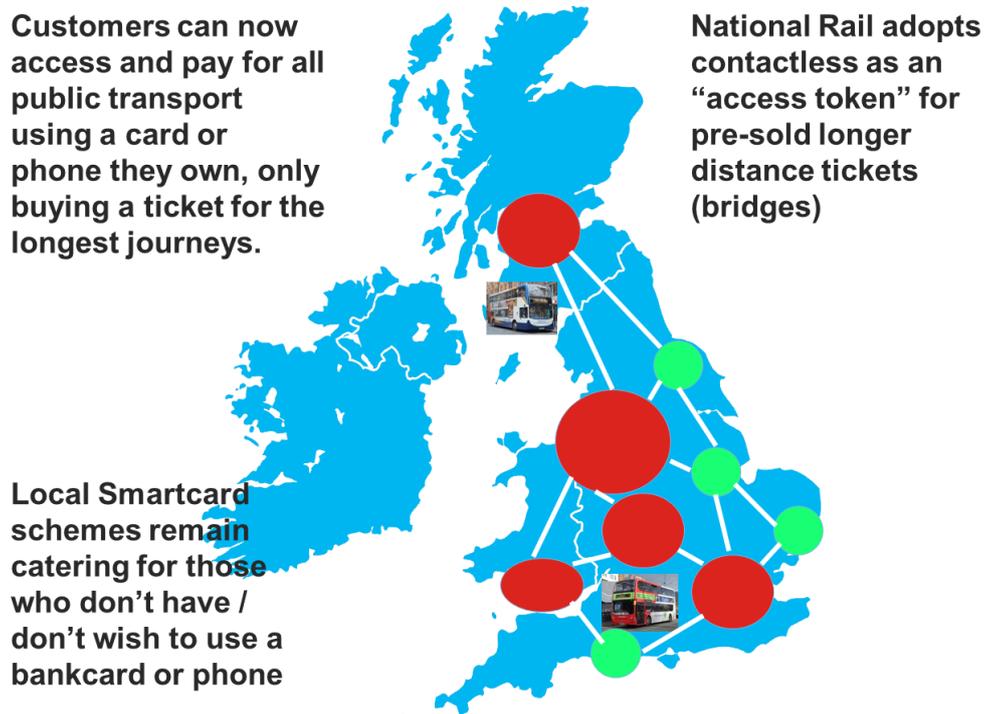
### **How Islands and Bridges would work:**

1. Devolved transport authorities set rail fares & run ticketing for ‘islands’ (i.e. city / region areas) within a national framework, with full integration with other modes of local public transport.
2. Within these islands contactless PAYG with guaranteed best value, daily caps and simple transparent trustworthy fares is made available, covering 90% of UK rail (local) trips and all bus trips.
3. Fares for the longest distance trips, the “Bridges”, become simple and transparent, with distance-related, single-leg pricing (i.e. outward + return leg price = return price), but retaining higher ‘peak’ prices.
4. For these long distance inter-city trips (10% of UK rail journeys) travellers may choose to buy-before-you travel or to buy-at-the station, but contactless payment will be available as a travel token (e.g. loaded to a mobile phone).
5. Air-miles style discount schemes, last-minute deals, deals for pre-booking, and ‘super-off-peak’ fares will be withdrawn, in the interest of making the overall offer to the customer/passenger attractively simple and trustworthy, and in the context of policies to achieve more generally affordable longer distance rail fares.

Contactless payment by bankcards and mobile phones decreases operating costs for multiple reasons, including reduced financial charges, reduced unpaid fares, and reduced ticket production costs. It is important to state here, however, that Labour will not be seeking savings in staff costs, and will introduce Islands and Bridges with a guarantee of no compulsory redundancies. On the contrary, because Islands and

Bridges would expand to cover other modes of travel beyond the railway, ticket staff would in many locations be expected to take on a valuable *expanded* role for ticket and information provision, covering the full range of public transport and other travel options available for local travel connecting to the railway.

**Figure A2: Schematic of Islands and Bridges**



Notes to Figure: Actual locations and boundaries are not implied by this schematic. For metropolitan areas where devolved transport authorities are already taking the lead on developing PAYG multimodal ticketing, the scheme developed for those islands is likely to be locally administered (red circles) but GB Rail would also be able to develop nationally administered islands (green circles) in other areas that may lack the capacity of the bigger metropolitan transport authorities.

## **Actions required to implement Islands and Bridges**

1. The next Labour Government creates a guiding mind for rail that can defragment the railway and overcome residual fragmentation issues: GB Rail company.
2. The Labour Government adopts the Islands and Bridges simpler transparent system.
3. The Labour Government legislates to reform the present system of fare regulation, ensuring continued protection to ticket offices and ticket office staff.
4. The Labour Government and GB Rail create a governance/management system capable of asserting the national command required.
5. Devolved Transport Authorities adopt Islands & Bridges as part of their devolved governance role in GB Rail and help define the islands.

6. The Labour Government allocates funds<sup>76</sup> to pay for: equipment at stations; a contactless 'back office'; legal/commercial agreements; and a contactless 'National Card' for people without bank accounts.

7. Devolved Transport Authorities re-regulate their bus services to achieve the full integration benefits offered by the new system.

### **Result: Simple, Fair, Affordable rail travel**

- **Islands and Bridges could be at least partly in place and yielding benefits for customers within one year.**
- **Ridership is likely to be boosted 5% even if rail fares remain the same on average (so Islands and Bridges pays for itself).**
- **Rail users will migrate to the new system because it is easier to use and because its fare prices will be set so that over time they become increasingly more attractive than the older fares system.**
- **Rail ticket offices and staff take on ticket sales and travel advice for other modes of travel in their local areas, providing a fully integrated information and ticket service. Labour will guarantee Islands and Bridges maintains or improves the jobs of ticketing staff.**
- **Islands achieve "One network, One Timetable, One ticket" spanning all modes of public transport.**

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<sup>76</sup> This has been estimated by one source at as little as c.£100m, assuming extension of the same technology as that used in London PAYG nationwide, on the basis that only tried-and-tested technology is required and that it cost £40m to implement PAYG in London. Provision for a larger budget than this minimum would be wise, however.



