



A public future for Scotland's Railways

How public ownership could be the
start of a transformation in Scotland's
transport system

tssa

COMMON WEAL



Lead Researcher

Lewis Bloss

Acknowledgements

John Duffy

Allison Cosgrove and Jane Ann Liston (Railfuture)

Ellie Harrison (Bring Back British Rail)

David Prescott (AllanRail)

Ian Taylor (Transport for Quality of Life)

Rob Jenks and Sam Tarry (TSSA)

Rail Operator average profits per annum:

£10-20m

The average age of Scotrail's rolling stock in 2015/16

21.8yrs

40%

The 'efficiency gap'
between UK rail systems
and comparative
European countries

PRIVATISED RAIL IN NUMBERS

£30m

Resources expended by
bidders in the tendering
process.

40%

Profit margin the
privately-owned rolling
stock companies
Scotrail purchases
from exceed.

45%

Rail operators public
subsidy from Scottish
Government
(highest in UK).

£127,000

Potential savings per carriage from public purchasing of rolling stock.

Potential average fares cut from reinvestment of operator profits:

6.5%

£8m

The amount saved in congestion costs for every freight train increase to replace HGV usage on Scotland's roads.

PUBLIC RAIL FUTURE IN NUMBERS

76%

76% carbon emissions reduction from tonne of freight transported by rail rather than road.

43-77

The number of HGV's reduced from Scotland's roads per freight train increase:

CO2 reduction for every 1% of car passenger kilometres moving to rail:

22KtCO2e

Contents

| | |
|-----------------------------------------------------------------------------------------------------------------|---------------|
| 1. The case for public ownership | Page 1 |
| 1.1 <i>The situation at present</i> | |
| 1.2 <i>The legacy of privatisation</i> | |
| 1.3 <i>Rail privatisation: a flawed concept</i> | |
| 1.4 <i>The franchise process: where the competition comes in</i> | |
| 1.5 <i>TOC value extraction: the case of Scotrail</i> | |
| 1.6 <i>The historical alternative to privatisation: public ownership under British Rail</i> | |
| 1.7 <i>International alternatives to privatisation: public railways around Europe</i> | |
| 1.8 <i>Railways make more sense as a public good rather than as a private, marketable product</i> | |
| 2. The case for public operation of the Scotrail franchise at the earliest available opportunity | 6 |
| 2.1 <i>The new legislative context</i> | |
| 2.2 <i>Technical considerations</i> | |
| 2.3 <i>Success within the constraints of the franchise system: the case of the East Coast</i> | |
| 2.4 <i>Potential for reinvestment of public-sector ‘profit’ into the creation of a new, fairer fares policy</i> | |
| 2.5 <i>Potential for public-sector operator to better meet social and environmental objectives</i> | |
| 2.6 <i>Potential for a responsive governance model which actively helps in the pursuit of these ends</i> | |
| 2.7 <i>Ideal outcome of public-sector TOC operating Scotrail franchise</i> | |
| 3. The case for long term, permanent public operation of Scotland’s railways | 12 |
| 3.1 <i>A successful bid for the Scotrail franchise as the first step to something bigger</i> | |
| 3.2 <i>Abolition of the franchise system</i> | |
| 3.3 <i>Direct purchasing of rolling stock</i> | |
| 3.4 <i>Increased levels of investment</i> | |
| 3.5 <i>The environmental case</i> | |
| 3.6 <i>The economic case</i> | |
| 3.7 <i>The social case</i> | |
| 3.8 <i>The political case</i> | |
| 3.9 <i>Increased investment in practice</i> | |
| 3.10 <i>Public ownership as a catalyst for change</i> | |
| 4. Conclusion: Rail as a public service | 18 |

Executive Summary

1. Railways should be publicly run

- Scotland's rail system is currently structured in a complex manner, which mainly reflects the legacy of the Britain-wide privatisation experiment initiated by the Major Government's 1993 Railways Act. For the past two decades, Scottish passenger services have been run by a succession of private and foreign state-owned train operating companies (TOCs), which in turn lease their rolling stock from privately-owned rolling stock operating companies (ROSCOs). Scottish rail infrastructure was also privatised, but is now once again publicly-owned by the UK public body Network Rail.
- Both in Scotland and across England and Wales, the privatisation and fragmentation of the rail system has created a more expensive network which does not deliver a standard of service commensurate to its cost to passengers and the public. In particular, the periodic competitive tendering processes through which prospective TOCs bid for the Scotrail and Caledonian Sleeper franchises inhibit the effective and efficient running of the railways.
- Operators of the Scotrail franchise have made consistent annual operating profits of £10-20 million. Under the stewardship of First, the vast majority of these profits were extracted out of the rail system and distributed to shareholders; as Abellio is the international arm of the Dutch state operator Nederlandse Spoorwegen, its predictable intention is for profits made in the UK to benefit passengers of its parent firm in the Netherlands. At the same time, Scotrail is one of the most highly subsidised franchises in the UK – in 2015-16, Abellio Scotrail received £293 million in direct government funding, amounting to nearly 45.6% of its total income. The overall picture that emerges here – of consistent TOC profit obtained on the basis of vast public subsidy and limited amounts of at-risk investment, then extracted from the Scottish rail system – seems hard to justify.
- Before privatisation, public ownership and operation of the railways under British Rail was far more efficient than some popular caricature suggests. Indeed, by the 1980s British Rail outstripped many of its European counterparts in these terms, despite suffering from sustained underinvestment and uncertainty regarding funding. Nowadays, the picture is reversed: the government funnel vastly increased levels of public subsidy into a rail system which has become far less efficient than others around Europe.
- Railways throughout the rest of Europe are characterised by a far greater level of public-sector

involvement than in Scotland and the UK. Finland, a country which is in some key respects comparable to Scotland, has a publicly owned and run rail system which is more punctual, more affordable and more technologically advanced than our own, despite receiving less public funding. Overall, the British rail system has been found to be 40% less efficient than those of comparable European countries.

- The privatised British rail system is an aberration both historically and internationally. Given the dominance in the Scottish Parliament of political parties open to the principle of public operation, the railways in Scotland should not have to continue to conform to this model. Yet until recently, Holyrood has had little ability to fundamentally alter the nature of the rail system in Scotland.

2. Scotrail should be taken over by a public-sector body at the earliest available opportunity

- As of 2016, however, the Scottish Government can fund and entertain public-sector bids for the Scotrail franchise, presenting Holyrood with the opportunity to make a significant break from the past two decades of short termist, often dysfunctional, and dogmatic UK rail policy when the current Scotrail franchise expires. This will provisionally be in 2025, but could be as soon as 2020 (with the new operator beginning in 2022) if Abellio is judged to be failing to meet its contractual obligations.
- In the absence of any major legislative changes in the next few years, a prospective public-sector operator of Scotrail will have to compete against private and foreign state-owned TOCs for the franchise contract. In order for a public-sector bidder to have a chance of succeeding, several key technical considerations regarding legality, financial backing and staffing will have to be taken into account.
- If the bidding process was to be successfully navigated, there is every reason to believe a publicly-run Scotrail could achieve a greater level of service than its predecessors.
- The recent case of public-sector operation of the InterCity East Coast franchise, which ran at a profit with customer satisfaction reaching record levels, proves the potential of publicly-run railways to achieve outstanding outcomes even within the limitations imposed by fragmentation and the franchise system.
- Public-sector operation would allow the reinvestment of operating profits into the creation of a new, fairer fares regime. Recent annual accounts

suggest that the reinvestment of operating profits into fares under public-sector operation would allow for a 6.5% average fare cut, while retaining present funding levels. This potential cut could be even higher if, as was the case with East Coast, public operation led to greater efficiency, or if further funds were freed up by the abolition of the franchise system. Alternatively, funds could be put towards the creation of a new fares regime which prioritises affordability, reliability and fairness for all passengers.

- A publicly-owned Scotrail would be better placed to deliver beyond any specified, minimum obligations with regards to unprofitable social and environmental aspirations, and expansion to boost economic growth and activity, than current and past operators. Indeed public operation would also present an opportunity to incorporate greater responsiveness to social needs into governance structures.
- Broadly-defined public ownership of Scotrail may take the form of an arms-length public body, an integrated public transport body or a co-operative governance model (but with government financing). Though each has its own distinct potential advantages, in each case high levels of democratic accountability and responsiveness to public demands could be achieved through well-designed governance structures.
- Public-sector operation of Scotrail is a crucial aim in and of itself, one which clearly has the potential to lead to an improved experience for all those in Scotland who depend in one way or another on the efficient, effective running of the railways. Yet as things stand, even the best, most effective public operator of Scotrail would have to work within the confines of the franchise system, meaning it would have to go through all the cost and uncertainty of the franchise bidding process again within a decade of taking over Scotrail. At this point the franchise could easily return to the private-sector, as has been the case in the East Coast franchise. Our aspirations for our railways cannot, therefore, be limited to the development of a successful public bid for the Scotrail franchise.
- In 2015, the resources expended by various bidders in the tendering process for the Scotrail franchise amounted to an indirect extraction of over £30 million from the British public transport system. In order to allow us to fully enjoy the rewards publicly-run railways have the potential to offer, the Scottish Government should seek the power to abolish the franchise system, and instead allow Scotrail to be operated permanently on a public-sector basis. This would help eliminate non-productive costs, facilitate long-term thinking and planning, and ensure a publicly-run Scotrail retains its transformative potential by providing a permanent break with decades of market-oriented rail policy. If the UK-level legislation enforcing the franchise system was to be repealed, or if the relevant powers were devolved to the Scottish Parliament, it would be possible for the Scottish Government to abolish competitive tendering by making a direct award to a public-sector operator regardless of the nature of Scotland's future relationship with the European Union. This would be our strong preference over a public-sector franchise bid.
- In future, the Scottish Government should also purchase rolling stock directly, thus ensuring that privately-owned ROSCOs will no longer be able to extract significant profits from the rail system by leasing trains to TOCs at excessive rates. The total savings from doing so, previously estimated at as high as £127,000 per carriage per year, could amount to millions annually given the ongoing necessity that Scotrail replaces parts of its ageing fleet.
- Finally, increased levels of ambitious and far-sighted investment in rail infrastructure will be necessary if publicly-owned and run railways in Scotland are to have the capacity required to be truly transformative. Levels of investment in the railways have long lagged behind levels of investment in motorways, despite the fact that the rail infrastructure projects that have taken place in recent years have proven hugely successful. The new Borders Railway is a case in point, and provides an indication of the variety of benefits – environmental, economic and social – Scottish society could reap as a result of greater investment in rail.

3. In the long-term, a permanent public-sector Scotrail should be a fundamental part of a reformed, revitalised Scottish rail network

- The bringing about of a publicly-run Scotrail should prove the catalyst for a broader rethinking of the role our railways ought to play in Scotland's overall long-term transport strategy. In 2017, social, economic and environmental imperatives demand that we start to think of rail travel as a fundamental public service, similar to how we see the roads at present, rather than as just another consumer product best left as the responsibility of competing private companies.
- With regards to the environment, the most effective means of securing a reduction in emissions from the transport sector – now the single largest source of greenhouse gas emissions in Scotland – would be to achieve a modal shift in transport usage away from the roads and towards the railways. Given that rail travel is over twice as carbon efficient as travel by car, every 1% of current car passenger kilometres shifted onto the railways could be expected to reduce emissions by around 22KtCO₂e. In addition, each tonne of freight transported by rail produces 76% less CO₂ emissions than the equivalent HGV journey, while further electrification of Scotland's railways would increase the efficiency of

both passenger and freight transport even more.

- In economic terms, enhanced rail links would increase connectivity and improve the prospects of those living in cut off areas, such as Levenmouth. Each freight train, meanwhile, removes between 43 and 77 HGVs from the roads. If more freight was to be shifted from heavy goods vehicles (HGVs) onto the railways, the £2.4 billion (source) annual cost of congestion could be reduced by £8 million per freight train increase. Further savings could also be made from the significant proportion of the Scottish Government's £967 million motorways and trunk roads budget which is currently devoted to repairing damage for which HGVs are disproportionately responsible.
- Given that Scotland is a country in which over 30% of households do not have access to a car, a truly national and affordable rail network would give multitudes of citizens greater access to the swathes of Scottish social and economic life from which they are currently effectively excluded.
- Finally, the presence of well-funded, affordable and publicly-run railways would prove a powerful symbol of the sort of country Scotland aims to become in the 21st century. At present, while most similar European countries have efficient publicly-owned national rail companies operating most or all passenger services, Scotland's trains are run by the Dutch state rail operator. A new, publicly-owned Scotrail has the potential to be a source of collective pride in the same way the National Health Service is today, and its presence would send a potent signal that Scotland's society is one in which the infrastructure and services we have collectively built up contribute to shared rather than private prosperity, ultimately answering to and serving the common good.

1. The case for public ownership

1.1 The situation at present

Scotland's rail system is structured in a complicated manner, one which partly reflects the complexity of the United Kingdom as a state and the particularities of Scotland's current place within that state. Our railways at present are owned and operated by a combination of public and privately owned bodies, which answer to different centres of political authority and cover different geographical remits. Since April 2015, Scotland's national train operating company (TOC) has been Abellio Scotrail, owned by the Dutch state operator Nederlandse Spoorwegen, which won the rights to the Scotrail franchise in 2014 and operates around 95% of Scotland's passenger trains. Yet the status of Abellio Scotrail is explicitly temporary; by 2025 other prospective TOCs will have had the chance to win ownership of the franchise, and this could occur as soon as 2022 (see earlier comments about contractual expiry date) should the Scottish Government, which lets the franchise through Transport Scotland and is the relevant political authority in this case, decide that Abellio has failed to meet its contractual obligations. In addition, in 2015 the Caledonian Sleeper franchise was separated from the rest of Scotrail, and its services are currently being operated by the private company Serco as part of a contract which is set to last until 2030. Scottish rail infrastructure, meanwhile, is managed by Network Rail, a public body which is owned by the UK Department of Transport, though it receives funding from Transport Scotland and works closely with the relevant rail and transport bodies in Scotland. Finally, like elsewhere in the UK, the actual trains which run on Scotland's tracks are owned by privately-owned rolling stock operating companies (ROSCOs), who in turn lease their stock to TOCs such as Abellio Scotrail.

1.2 The legacy of privatisation

This complexity reflects the legacy of the privatisation experiment initiated in Scotland, England and Wales by the John Major Conservative Government's 1993 Railways Act, which has failed rail passengers as well as the broader public both north and south of the border. The 1993 Act initiated the splitting of British Rail's infrastructure, operations and rolling stock into the "disintegrated, tripartite structure"¹ outlined above. The infrastructure aspect of this tripartite structure, a new private grouping formed in 1994 called Railtrack, went into administration in 2001 due to a combination of inherent structural problems and managerial ineptitude² which led to

several rail disasters including that at Hatfield in 2000. Network Rail, a publicly owned private company was created to take over the infrastructure functions from Railtrack in 2002 and subsequently decided in 2003 to progressively take infrastructure maintenance back in-house from the contractors formerly employed by Railtrack, leading to substantial savings estimated to be as high as £400 million a year.³ Network Rail has, since 2014, officially been classified as a public sector body. Continuing private sector predominance with regards to train operations and rolling stock, on the other hand, has seen the entrenchment of a system in which a select few companies are able to make low-risk profits only as a result of a level of public subsidy which frequently far exceeds double the highest subsidy received by British Rail before privatisation.⁴

Despite the considerable increase in the amount of public money put into the railways, we have not seen a similar level of improvement in quality of service. Passengers in Scotland and across the UK are paying the highest fares in Europe⁵ to travel on increasingly old trains⁶ in a system which lags behind its European counterparts on a range of performance dimensions.⁷ Indeed, as explored in great depth in a 2013 report by the Centre for Research on Socio-Cultural Change,⁸ privatisation has failed even on its own terms, with the two main promises made at its inception – first, that the need for public subsidy would be reduced due to the efficiency of private management and, second, that privatised railways would attract large amounts of private investment – failing to materialise in practise.

1.3 Rail privatisation: a flawed concept

The UK was almost unique internationally in going so far down the privatisation path. Given the basic lack of applicability traditional pro-privatisation arguments have in the case of the railways, it is not surprising the UK stands out in this respect. Privatisation in theory is said by proponents to bring benefits to customers or service users when it provides them with the ability to choose between multiple providers, competition

³ Taylor, I., and Sloman, L. (2012) *Rebuilding Rail*. Transport for Quality of Life. Page 19

⁴ Wolmar, C. (2011) *Co-operative Rail: a radical solution*. Co-operatives UK, Manchester. Page 6

Connor, R. et al (2017) *UK Rail Industry Financial Information 2015-16*. Office of Rail and Road, London. Page 8

Ramyead, A. (2016) *Rail Finance: 2015-16 Annual Statistical Release*. Office of Rail and Road, London. Page 2

⁵ Action for Rail (2015) *The Four Big Myths of UK Rail Privatisation*. Action for Rail, London. Page 6

⁶ ORR Data (2017). *Average age of rolling stock by franchised train operating company*. Accessed 02/08/17 at <<https://dataportal.orr.gov.uk/displayreport/report/html/ab2f70d4-d415-4dea-b8ea-bf9925011260>>

⁷ Duranton, S. et al (2017) *The 2017 European Railway Performance Index*. Boston Consulting Group. Page 7

⁸ Bowman et al (2013)

¹ Bowman, A. et al (2013) *The Great Train Robbery: Rail Privatisation and After*. Centre for Research on Socio-Cultural Change, Manchester. Page 20

² Bowman, A. et al (2013) Page 21

between whom is predicted to drive standards up or prices down. Travel by rail, however, is quite clearly unsuited to this kind of competition – firms can hardly offer competing services at the same time on the same route – and most passengers seeking to take the train to a particular destination simply do not have a choice of which TOC they travel with. In Scotland, this means that whoever operates the Scotrail franchise enjoys an effective monopoly over the provision of the vast majority of passenger services.

Furthermore, privatisation of the rail system has facilitated a raft of extra non-productive increases in cost which are ultimately borne by passengers and the public, and which explain why the railways in Scotland fail to deliver a level of service commensurate to their cost to passengers through fares and the public through taxation. The bidding processes entailed by the franchise system are lengthy, heavily bureaucratic procedures that drain resources from both TOCs and Transport Scotland, which otherwise could be put towards direct investment in the railways.⁹ Privatisation of rolling stock, meanwhile, has led to a situation in which Scotrail pays over the odds just to lease the trains that it operates from privately-owned ROSCOs. Both TOCs and ROSCOs in turn consistently extract money from the rail system via the frequent distribution of operating profits as dividends. Virgin West Coast is an example of this, extracting £2.4bn in net subsidy from 1997-2012, while accruing over £1bn in profit and dividends.¹⁰ This money could instead be reinvested productively in the railways. Finally, the separation of the operational and infrastructural aspects of the railways has given rise to considerable interface costs between Network Rail and TOCs such as Scotrail,¹¹ which causes additional inefficiency compared to countries with integrated public railways such as France and Germany.

Rail privatisation, then, was a misguided policy, the implementation of which has led to unsurprisingly poor outcomes. The continuation of market-oriented rail policies even as these consequences have become clear seems therefore quite hard to explain, and owes much to the extent to which the reform agenda at the UK level in recent years has been set by corporate and managerial actors who benefit from the economic extraction facilitated by privatisation.¹²

1.4 The franchise process: where the competition comes in

Since it cannot happen directly on the tracks, competition regarding the operation of the railways in Scotland only comes into play once every seven (recently extended to ten) years when private or publicly-owned TOCs get the chance to bid for the

virtual monopoly over Scotland's passenger services that comes with the Scotrail franchise. Until 2016, this was subject to an important caveat: the Scottish Government could only entertain bids from publicly-owned operators if they were not part of the UK public sector.

Even putting aside the additional public costs entailed by its presence, the franchise system is flawed both in theory and in practice. It should have been easily foreseeable that TOCs time-restricted operating franchises would lead to low levels of private capital investment to improve service delivery in the long-term, as a company with the franchise could easily be investing in a rival contractor if they were to win the franchise in the next round of bidding. So it has proved: a 2012 report estimated genuine, at-risk private investment by TOCs to represent roughly 1% of the total money going into the railways,¹³ while the most recent figures available reveals only an infinitesimal increase in this proportion in the five years since.¹⁴

1.5 TOC value extraction: the case of Scotrail

Franchises continue to attract multiple bidders when they go out to tender, for the simple reason that TOCs are generally able to make a profit from their operation. Yet this profit is only possible due to a combination of significant amounts of direct and indirect public subsidy. Direct subsidy takes the form of direct government payments to TOCs, either through pre-arranged franchise subsidy payments or revenue support paid out should TOC revenue dip below a particular level. Indirect subsidy, meanwhile, is provided through the holding down of the track access charges TOCs must pay Network Rail to use the tracks. These have been held down to such an extent that Network Rail's income from track access charges paid by TOCs is actually lower in real terms today than it was in 2003, despite increasing passenger numbers.¹⁵ The resulting shortfall in Network Rail's income is then made up in large part by government grants. It is public money, then, that subsidises the low track access charges upon which TOC profits depend.

The recent history of the Scotrail franchise is illustrative of the practical implications of this state-of-affairs. Both currently under Abellio and previously when operated by First, the Scotrail franchise has been one of the most subsidised franchises in the UK.¹⁶ In 2015-16, for instance, Abellio Scotrail received £293 million in direct government funding, the 3rd highest amount in the UK in terms of funding per passenger kilometre.¹⁷ On top of this, Network Rail received a £345 million government grant relating to the infrastructure used by Scotrail, indirectly subsidising

¹³ Taylor, I., and Sloman, L. (2012) Page 33-4

¹⁴ Connor, R. et al (2017) Page 18; ORR Data (2017) *Private investment in the rail industry (excludes Network Rail investment)* – Table 1.9. Accessed 31/07/17 at <<https://dataportal.orr.gov.uk/displayreport/report/html/a1bcb53b-9914-4d7d-9d57-0187cd27e59b>>

¹⁵ Bowman et al (2013) Page 24

Connor, R. et al (2017) Page 10

¹⁶ Bowman et al (2013) page 48; ORR Data

¹⁷ Connor, R. et al (2017) Page 33

⁹ Sukhram, S. (2015) *TUC: Towards Public Ownership*. Trades Union Congress, London.

¹⁰ Bowman, A, Folkman, P, Froud, J, Johal, S, Law, J, Leaver, A, Moran, M, Williams, K (2013). *The Great Train Robbery: Rail Privatisation and After*. CRESC University of Manchester.

¹¹ Taylor, I., and Sloman, L. (2012) Page 18

¹² Bowman et al (2013) Page 28-33

Scotrail's revenues by keeping track access charges low in the manner outlined above.¹⁸ In this fairly typical year, then – Scotrail was actually the most directly subsidised franchise as recently as 2014–15¹⁹ – any profit made by Scotrail was clearly highly dependent on public money, with direct public funding representing 45.6% of its total income and subsidised low track access charges helping limit its expenditure. During Abellio's first nine months of operating the franchise, these profits averaged just over £1 million a month.²⁰

Indeed, the Scotrail franchise has consistently proved profitable, with First Scotrail's profits generally in the range of £15–20 million a year during its tenure.²¹ Under the stewardship of First, over 90% of Scotrail's operating profits were typically distributed to shareholders,²² while internal Abellio documents have revealed the firm's predictable intention for its profits from operating Scotrail to benefit Dutch passengers using the service of its parent company back in the Netherlands.²³ Particularly when one considers the myriad ways in which the Scottish railways could benefit from additional investment, explored further in section 3, the overall picture that emerges – of consistent profit obtained on the basis of vast public subsidy and limited amounts of at-risk investment, which is then diverted to either private interests here or public interests abroad, rather than the public interest in Scotland – seems hard to justify.

1.6 The historical alternative to privatisation: public ownership under British Rail

Yet as already mentioned, our present way of running the railways is far from the only, or even the standard, way of doing so, with today's fragmentation emerging only recently in historical terms. From 1948 to 1994 (the Railways Act passed in November 1993 but privatisations did not begin until following year and went into 1995), both the operational and the infrastructural aspects of the railways in Scotland – 'wheel and steel' – were under public ownership, through the management of the Scottish arm of the state-owned operator British Rail.

While this highly centralised model was far from perfect, and British Rail became the subject of much passenger dissatisfaction, recent research suggests that particularly by the 1980s the company had become far more efficient than current popular caricature would suggest, and indeed far outstripped many of its European counterparts in these terms.²⁴

¹⁸ Connor, R. et al (2017) Page 31

¹⁹ Regas, C. et al (2016) *GB Rail Industry Financial Information 2014–15*. Office of Rail and Road, London. Page 40

²⁰ McArdle, H. (2016). 'Abellio making £1 million profit a month from ScotRail franchise', *The Herald*, 24/09/2016.

²¹ Bowman et al (2013) Page 49

Regas, C. et al (2016) Page 40

²² Bowman et al (2013) Page 49

²³ McDonald, C. (2016) 'Crisis-hit Scotrail network run to fund Dutch trains, firm admits' *Daily Record*, 02/10/2016

²⁴ Bowman et al (2013) Page 135–138

Taylor, I., and Sloman, L. (2012) Page 32 Stittle J., (2015) *Network Rail*:

Furthermore, much passenger dissatisfaction concerned perceptions of low service quality, which seem, given the company's operating efficiency, attributable to a considerable extent to the sustained underinvestment²⁵ and uncertainty surrounding funding British Rail was subject to. The present situation, meanwhile, resembles something like the opposite of this – vastly increased levels of public subsidy are funnelled into a system which has become considerably less efficient than others around Europe.²⁶

The British Rail years were not a golden age to which we should seek to return, but it is important that the British experience of public ownership is understood in more realistic terms than the outright disaster purported by some for whom it is ideologically convenient. Moreover, the levels of efficiency, and innovation (the Advanced Passenger Trains for example, now the Pendolinos running on the Inter-City West Coast line, where technology was sold to the Italians only to be sold back to the UK years later) eventually achieved under public ownership offer a glimpse of the potential for future, properly funded public railways to achieve a level of service far surpassing that of either the present or the past.

1.7 International alternatives to privatisation: public railways around Europe

Our current model is an aberration in international as well as historical terms. Indeed, public railways across Europe, especially when accompanied by long-sighted and ambitious public investment, have repeatedly been seen to have better outcomes than the British model.

From a Scottish perspective, it is not even necessary to look outside of the UK to find a present example of a publicly run railway. Northern Ireland was exempted from the privatisation process initiated by the 1993 Railways Act, and Northern Ireland Railways – responsible for both operating services and managing infrastructure – is a publicly-owned body which is not subject to the franchise system. While Northern Irish railways see much less investment than those in the rest of the UK,²⁷ with the level of grant from the Northern Ireland Executive averaging just £44 million in recent years,²⁸ other aspects of the Northern Irish system nonetheless provide more proof of the efficiency of integrated public models in comparison to the fragmented British one. One reflection of this is the prices of fares, which are generally lower than in the rest of the UK – walk-on peak and off-peak day tickets from Belfast to Derry, for instance, cost less than half

Staying on the right track). Page 12

²⁵ Lewis, O. (2016) *A Better Railway for Britain*. Bring Back British Rail. Page 27

²⁶ McNulty, R. (2011) *Realising the Potential of GB Rail: Summary Report*. Department for Transport, London and Office of Rail Regulation, London. Page 32

²⁷ Donnelly, K. J. (2015) *DRD: the effectiveness of public transport in Northern Ireland*. Northern Ireland Audit Office. Page 16

²⁸ Kennedy, D. (2014). *Railway Investment Prioritisation Strategy*. Northern Ireland Department for Regional Development, Belfast. Page 3

as much as their equivalents for a journey of similar distance from Glasgow to Dundee.²⁹

Further afield, railway systems in the rest of Europe tend to conform to one of a few broad structures, each of which is characterised by a much greater level of involvement from public sector operators.³⁰

Finland is a country of similar-sized population to Scotland, and though Finland is much larger in geographical terms, the two countries are nonetheless similarly demographically split between large, sparsely populated rural regions in the north and much more densely populated urban centres further south. Despite these similarities, however, passengers in Finland enjoy a rail system which is more punctual,³¹ more affordable³² and more technologically advanced³³ than our own, which ranks joint-best in Europe for quality of service³⁴ and second-best for quality of rail infrastructure.³⁵ Finland's rail system also turns its arguable geographical unsuitability to passenger rail to its advantage, with most of its rural tracks free at night for long-distance freight traffic.³⁶ The first half of 2016, meanwhile, saw fares for all long-distance services in Finland cut on a permanent basis by an average of 25%³⁷ and levels of freight traffic increase by 7.5%.³⁸

These outcomes have been achieved in a system which is free of many of the inefficiencies inherent in our own fragmented model. All passenger services and the vast majority of freight services are run by VR Group, the state-owned railway company, which has not had to go through the cost and uncertainty caused periodically by the franchise system. While maintenance of rail infrastructure is the responsibility of the Finnish Transport Agency (FTA), in practice a subsidiary of VR Group – VR Track – holds a monopoly of the track maintenance and construction market,³⁹ and is generally the main contractor in infrastructure projects embarked upon by the FTA. These combined activities mean that, despite spending well over €100 million annually on investment in rolling stock and other areas, VR Group makes a much bigger annual operating profit than all operators of the Scotrail

franchise thus far, a profit which is in turn put towards a large annual dividend to the state (€100 million in 2015).⁴⁰

This example is not intended to illustrate that publicly-run railways mean quality service on the cheap – Finland does invest a lot of public money in its railways (though considerably less per head than we currently do).⁴¹ Rather, more pertinent is the fact that in Finland increased public investment has created a rail system which is one of the best in Europe and which provides exceptionally high value for money,⁴² thanks to a structure in which large amounts of investment are not lost to the non-productive costs entailed by a fragmented, complex and consequently inefficient system.

Nor is Finland a particular outlier – the 2011 UK Government-commissioned McNulty Report identified the British rail system as suffering from a 40% 'efficiency gap' compared with those of France, the Netherlands, Sweden and Switzerland, essentially meaning that British rail costs would have to be reduced by a remarkable 40% while maintaining present outputs if the system were to match the efficiency of its counterparts.⁴³

1.8 Railways make more sense as a public good rather than as a private, marketable product

The experience of privatisation in Scotland and the UK, combined with the superiority of public rail systems elsewhere in Europe, demonstrates that it simply makes far more sense for rail travel to be conceived of as a public service rather than as a marketable product. The reality of rail travel in Scotland could and should be far better considering its cost to passengers and the public, and examples from both our own past and from elsewhere in Europe demonstrate the higher levels of service and efficiency we would have the opportunity to achieve with a more integrated, publicly-run rail system. This common sense position is reflected in the preferences of the Scottish public, a majority of whom now favour nationalisation of the railways;⁴⁴ at this point, the dogmatic and purely ideological position is to remain in favour of illogical and demonstrably disastrous privatisation – yet this is precisely the stance of UK Transport Secretary Chris Grayling.⁴⁵ It seems absurd that the rail system in Scotland should continue to conform to the dysfunctional British model, particularly considering the dominance in the Scottish Parliament of parties who favour, at least in principle, the idea that the

²⁹ Donnelly, K. J. (2015), Page 68.

³⁰ Taylor, I., and Sloman, L. (2012) Page 47

³¹ Cartmell, J. (2016) *Study on the prices and quality of rail passenger services*. European Commission Directorate General for Mobility and Transport, Brussels. Page 132

³² Cartmell, J. (2016) Page 14; at the time of writing, an off-peak day single from Edinburgh to Aberdeen costs almost twice as much (£35.40) as one from Helsinki to Tampere (21 eur).

³³ Finland has 3262km of electrified track (out of 8483km) vs 711 of 2776km in Scotland.

³⁴ Duranton, S. et al (2017), Page 6

³⁵ European Commission (2017) *Finland Country Information: Investments and Infrastructure*. Accessed 28/07/2017 at <https://ec.europa.eu/transport/facts-fundings/scoreboard/countries/finland/investments-infrastructure_en>

³⁶ OECD (2009), *OECD Environmental Performance Reviews: Finland 2009*, OECD Publishing, Paris. Page 71

³⁷ Teivainen, A. (2016) 'VR cuts long-distance fares by 25%', *Helsinki Times*, 16/02/2016

³⁸ Briginshaw, D. 'Traffic increase boosts VR first-half operating profit', *International Railway Journal*, 31/08/2016

³⁹ Leviäkangas, P. et al (2016) *Ownership and governance of Finnish infrastructure networks*, VTT Technical Research Centre of Finland. Page 73

⁴⁰ VR Group (2015) 'Report by the Board of Directors and financial statements', *Annual Report 2015*. Available at <<http://2015.vr-groupraportti.fi/en/annual-report-2015/board-of-directors-report/report-by-the-board-of-directors/>>

⁴¹ Duranton, S. et al (2017), page 10

⁴² Duranton, S. et al (2017), page 11

⁴³ France, the Netherlands, Sweden and Switzerland. McNulty, R. (2011), Page 27-32

⁴⁴ 'Poll: Support for nationalising Scotland's railways rises', *The Scotsman*, 01/12/16

⁴⁵ Topham, G and Weaver, M. (2016). 'Chris Grayling unveils plans for fully privatised rail line', *The Guardian*, 6/12/16

railways might be publicly run. Fortunately, as will be explored next, there is now a clear opportunity for the Scottish Government to embark on a new direction in rail policy, moving away from the failings of the present and towards a future in which Scotland's railways contribute exclusively to the social good.

2. The case for public operation of the Scotrail franchise at the earliest available opportunity

2.1 The new legislative context

Up until recently, Scottish administrations in Holyrood have had little ability to fundamentally alter the private nature of the operation of Scotland's railways. Much transport policy is devolved, yet for most of its lifetime the Scottish Government has been compelled to act within constraints put in place by UK-level legislation which prohibit the possibility of public-sector rail operation. As of 2016, however, in accordance with the recommendations of the Smith Commission, the Scottish Government can entertain and fund public-sector bids for the Scotrail franchise. This presents Holyrood with the opportunity to make a significant break from the past two decades of dysfunctional, dogmatic UK rail policy when the Scotrail franchise next goes out to tender – provisionally 2025, but potentially 2022 should Abellio fail to meet its contractual obligations. Even more promisingly, the potential exists for a form of public management which, drawing on best practice elsewhere in the UK and internationally, improves not only upon the status quo but also upon the previous experience of public rail in Scotland. A Scotrail run on a public basis should represent only the first step towards a future in which rail plays a much larger role in Scotland's transport strategy. It is a first step which is crucial and that, since there is no need for the public to actually buy anything out, is easy in fiscal terms to take.

2.2 Technical considerations

The most effective means of ensuring that Scotrail is publicly run would be through the removal of the competitive bidding process and the making of a direct award of the franchise to a public-sector operator. The case for and practicalities of taking this course of action are explored in section 3.2. As things stand, however, in the absence of any major legislative developments in the next few years, any public body seeking to operate Scotrail will have to compete in an effective manner for the franchise against other bidding TOCs next time it goes out to tender.

Crucial to ensuring that a public-sector bidder for the franchise has a chance of success will be the possession both of appropriate financial backing and of staff with sufficient expertise – first with regards to issues surrounding the bidding process, and then regarding the technical demands of actually operating Scotrail. The first of these is crucial because a public bidder will have to compete against private or foreign state-backed rivals with considerable resources and experience in bidding for transport franchises. In 2008, when the first contract to operate the Tyne and Wear Metro was put out to tender, an in-house public bid from Metro managers reached the final

shortlist along with a bid from DB Regio, subsidiary of the German state railway company Deutsche Bahn. While the established team of managers evidently possessed the greater experience in actually managing the relevant Metro, the bid they put together was ultimately deemed inferior to the more expensive bid of DB Regio.⁴⁶ DB Regio then operated the Metro for seven years in a manner considered poor by the relevant transport authority, with the Metro now publicly run again as of April 2017.⁴⁷ If a public sector Scotrail bid does not possess both the financial backing and bidding expertise necessary to compete effectively against experienced rivals, a similar fate could easily befall it, and the estimated £10-12 million cost of a full franchise bid would go to waste.⁴⁸

Also crucial will be technical expertise relating to actually operating the franchise in the event of a successful bid. The aforementioned collapse of the privatised British rail infrastructure company Railtrack owed much to the managerial ineptitude as well as a simple lack of rail engineering expertise in the organisation, which had disastrous consequences for passenger safety.⁴⁹ While matters relating to infrastructure look likely to remain within the purview of Network Rail for the foreseeable future, managerial competence will still be a key factor for a public operator of Scotrail both in winning the franchise and in ensuring popular support for public operation in the event of that outcome.

Even if sufficient expertise and financial backing are secured, success in the bidding process would be by no means guaranteed. While the European Union's Public Procurement Directives do not apply to public service contracts for passenger rail such as Scotrail, Transport Scotland clearly remains legally obliged to conduct the bidding process in a non-discriminatory and transparent manner, and civil servants could easily judge a bid put together by an experienced private operator to better meet the franchise objectives than the bid of a public-sector competitor. Nonetheless, there are steps that the Scottish Government could take that, while not precluding the possibility of private-sector operation, would at least ensure the next operator of Scotrail bears more resemblance to the ideal of a responsive, public-minded and socially-oriented body than previous ones. Legal advice received by the train drivers' union ASLEF, summarised in a 2013 report by Professor Paul Salveson,⁵⁰

⁴⁶ Pearson, A. (2010) 'German firm won Metro bid despite higher bill', *The Journal*, 4/5/2010.

⁴⁷ Tyne & Wear Metro to be publicly-run after passengers 'let down' by DB Regio' *Rail Technology Magazine*, 15/03/16.

Hill, L. (2017). 'Tyne and Wear Metro return to public hands a success although disruption to come' *Chronicle Live*, 20/06/17

⁴⁸ Salveson, P. (2013) *Scotrail: A People's Railway for Scotland*, The Co-operative Party, London. Page 20

⁴⁹ 'How Hatfield changed the rail industry', *The Guardian*, 6/9/2005

⁵⁰ Salveson, P. (2013) Page 18-19

suggested that the Scottish Government could ensure the running of Scotrail on a not-for-profit (or dividend/revenue sharing) basis by taking the view that any bid involving a for-profit element would not constitute adequate tender. Somewhat less ambitiously, bids from public-sector groups and social enterprises could be encouraged if the Scottish Government ensured that future franchise objectives feature a greater emphasis on social and environmental objectives, as well as on requirements regarding the rights of workers, levels of staffing and rates of pay, rather than on the few narrow conceptions of efficiency which are associated (inaccurately) with private-sector operators.

2.3 Success within the constraints of the franchise system: the case of the East Coast

Indeed, even within the limitations imposed by rail fragmentation and the franchise system, public sector franchise operation has proven highly successful in the UK in recent years. From 2009 to 2015, after two private-sector franchises had failed in three years, the InterCity East Coast franchise was run by the state-owned operator of last resort, Directly Operated Rail (DOR). Despite facing an extreme set of challenges,⁵¹ most of which would not hamper a new public operator of Scotrail, public ownership on the East Coast proved hugely successful. During its five full years of operating the franchise, DOR returned over £1 billion to the Department for Transport in premium payments,⁵² while in its last year of operation DOR was one of only two TOCs to make a net contribution to public finances.⁵³ It also made over £30m in profits over the period 2009-2015.⁵⁴ By 2015, moreover, DOR had achieved a customer satisfaction score of 94%, an all-time record for the franchise and the highest of all long-distance TOCs in the UK.⁵⁵ Finally, despite its share of net government funding being dwarfed by other franchises such as Virgin West Coast, the public operators of East Coast received dozens of industry awards and achieved record levels of employee engagement, with levels of sickness absence declining by a third during the first few years of public-sector management.⁵⁶

The experience of public-sector rail on the East Coast further puts paid to the myth that efficiency on the railways is a hallmark of the private-sector, and demonstrates that there is no reason to expect a public operator of Scotrail to be any less efficient simply by virtue of being owned by the Scottish public. Not only this, the many successes of DOR reveal the potential of publicly-run railways to achieve outstanding outcomes, including record levels of

customer satisfaction,⁵⁷ even within the limitations of the current rail system.

2.4 Potential for reinvestment of public-sector 'profit' into the creation of a new, fairer fares policy

As seen in the case of the East Coast franchise, and abroad in countries such as Finland, one key benefit of publicly-run rail is the potential for any operating profit achieved to be returned to the public purse and reinvested in the railways. Operation of Scotrail has consistently proven a profitable venture for the private and foreign state-owned companies that have done so up to now. First Scotrail's net profits from 2007 to 2013 totalled £115.8 million, the vast majority of which was extracted out of the railways in the form of dividends to shareholders.⁵⁸ Going forward with a publicly-run Scotrail, this extracted profit could be reinvested in a manner far more beneficial to the Scottish public.

One obvious short-term target may be fares, which should be set far more consistently and fairly than at present. Fares around Scotland are set at levels which are prohibitively high for some passengers, and this is particularly the case the further one strays from the Central Belt – the cheapest walk-on day single available for a journey between Dundee and Perth costs around two-thirds the price of the equivalent ticket between Glasgow and Edinburgh, despite taking less than half the amount of time.⁵⁹ Between 2013 and 2015, the amount in dividends paid out by First Scotrail equalled around 6.5% of the total money received by Scotrail in passenger income (mostly deriving from fares).⁶⁰ In the future, then, if operating surpluses were to be reinvested wholesale into fare prices, the potential would exist for either a substantial across-the-board cut, or for a move towards a more social needs-oriented, geographically sensitive fares regime. It is important to note that this takes into account only the reinvestment of dividends – if public operation brought greater efficiency as in the case of the East Coast Line, or if public operation was accompanied by the abolition of the franchise model, far greater across-the-board fare cuts than 6.5% would be theoretically possible even while maintaining present funding levels.

Broadly, the aim of a new fares policy should be to provide passengers with a service that is affordable, reliable and fair. Affordability will be crucial if rail is to have the ability to attract large numbers of people away from the roads in coming years – across the UK, the past few decades have seen the cost of travel by rail rise dramatically, while total motoring costs have declined.⁶¹ A first step towards reversing this trend

⁵¹ Bowman et al (2013), Page 127

⁵² Directly Operated Railways (2015) *Annual Report and Financial Statements: For the year ended 31 March 2015*. Directly Operated Railways Limited, London. Page 7

⁵³ Regas, C. et al (2016) Page 40

⁵⁴ Directly Operated Railways (2010-16). *Directly Operated Railways Limited: Group of companies' accounts, 2010-2016*. Companies House.

⁵⁵ Directly Operated Railways (2015), Page 6

⁵⁶ Action for Rail (2015) Page 10

Lawson, N. (2014), *All on Board*. Compass, London. Page 7-8

⁵⁷ Transport Focus (2015). *National Rail Passenger Survey: Spring 2015 Main Report*, Transport Focus, Southend On Sea. Page 13

⁵⁸ First Scotrail, Annual Reports

⁵⁹ £12.60 for Glasgow to Edinburgh, £8.00 for Dundee to Perth as of 07/08/2017

⁶⁰ Calculations using ORR data from annual rail industry financial information reports

⁶¹ Stone, J. (2015) 'Driving a car is getting cheaper and cheaper while trains and buses just keep getting more expensive', *The Independent*. 03/07/15

should be putting an end to the practice of linking fare rises to the retail prices index (RPI), which is considered a flawed measure by the Office for National Statistics and which consequently has not been an official UK statistic for four years.⁶² The continued use of the RPI in spite of this means that season tickets and anytime fares in Scotland are set to increase in price by 3.6% in January 2018,⁶³ a significantly higher rise than if fares were linked to the consumer prices index (CPI) or the CPIH, a statistic inclusive of housing costs which is now the lead measure of UK inflation.

Moreover, our railways should provide a service which is reliably affordable regardless of the purpose for which they are required. Currently, it is possible to buy very reasonably-priced tickets for most journeys in Scotland – provided one is able to book a seat on a specific service long enough in advance. Indeed, a key component of Abellio's successful franchise bid was a pledge to introduce a new headline limited-availability Advance Ticket Purchase fare of £5 between any two stations in Scotland. Yet the flip side of focussing efforts on making advance fares affordable is the reality that walk-on fare prices remain too high to offer a convincing alternative to car travel for many, while also penalising those who, for whatever reason, need to travel by rail at too short a notice to book advance tickets. Fundamentally, for rail travel to be an effective public service, people must feel that they can rely on it whenever and wherever they happen to need to, knowing that even if they need to take the train at short notice they do not have to risk paying an extortionate fare. A public operator, then, could make life simpler and less trying for passengers by investing in making all types of fares more affordable, rather than focussing on bringing down the price of exclusionary advance tickets.

Finally, the nature of Scotland's geography makes it imperative that any fares policy is sensitive to the vastly differing scales of distance at play in different parts of Scotland. While the introduction of a maximum fare per mile would make sense as a means of ensuring the affordability of rail travel on suburban and commuter networks in the Central Belt, a truly national rail service should go beyond this in making rail a feasible and affordable mode of transport for those living in rural areas where many miles may separate successive stations. The aforementioned example of Finland would be a good one for a public operator to emulate with regards to making rail travel affordable over long distances – at the time of writing, an off-peak day single from Helsinki to Tampere costs around half as much as the equivalent ticket for a journey of similar distance from Edinburgh to Aberdeen.⁶⁴

Funds could also be put towards ensuring adequate staffing levels in stations, or ensuring all Scotrail staff continue to receive at least a living wage. In addition,

very worthwhile investments could be made in any number of much-needed infrastructure projects, discussed at greater length in section 3 of this report.

2.5 Potential for public-sector operator to better meet social and environmental objectives

The benefits of a publicly-run Scotrail should extend beyond the reinvestment of operating profits. Transport Scotland's objectives for the current Scotrail franchise do feature an emphasis on social and environmental aims, including improvements in transport integration, environmental performance, passenger satisfaction and accessibility for people with reduced mobility. In the future, still greater emphasis ought to be placed on such issues. Yet while any franchise operator is contractually obliged to deliver on certain outcomes, a responsive publicly-owned body, ultimately accountable to the Scottish public rather than a group of shareholders or a foreign government, would have the clear potential to better deliver beyond any specified, minimum obligations with regards to unprofitable social and environmental aspirations. The potential environmental benefits of publicly-run railways are explored at greater length in section 3.5.

In addition, one example of present shortcomings with regards to social aspirations can be seen in Abellio Scotrail's approach to transport integration. A key aspect of Abellio's strategy has been a focus on achieving greater integration between cycling and rail use.⁶⁵ However, this has been mainly focused on increasing the numbers of people using bicycles to get to train stations⁶⁶ – meaning that while lots of investment has been put into new cycle racks at stations, the number of cycling spaces available on trains is actually set to reduce in coming years.⁶⁷ While such a strategy makes some sense in more densely populated urban areas, it also amounts to misguided investment in lots of rural stations where the distances involved for many passengers travelling to and from stations simply make cycling an unfeasible mode of transport. Public-sector operation would present an opportunity to incorporate greater responsiveness to geographically differing needs than is the case at present, in turn helping ensure that social and environmental objectives are met more substantively than at present.

2.6 Potential for a responsive governance model which actively helps in the pursuit of these ends

Fundamental to ensuring this kind of responsiveness to social needs and demands will be an appropriate governance model. There are several broad structural models which could facilitate a form of publicly-run rail in Scotland that improves upon the pre-

⁶² Khan, M. (2017) 'Still 'flawed': ONS reiterates shortcomings of RPI inflation measure', *Financial Times*, 31/07/17

⁶³ 'Rail fares set to rise by up to 3.6%', *BBC News*, 15/8/17

⁶⁴ €21.00 vs £35.40 as of 27/07/17

⁶⁵ Abellio (2015) *Abellio Scotrail Cycle Innovation Plan*.

⁶⁶ Dalton, A. (2016). 'Taking on cyclists always a Scotrail risk', *The Scotsman*, 01/04/16

⁶⁷ McArdle, H. (2016) 'Campaigners warn over cuts in bike capacity on ScotRail's West Highland and Edinburgh-Glasgow routes', *The Herald*, 29/3/2016

privatisation era of state ownership in this regard, and their respective merits ought to form a central consideration of policy-makers going forward.

a) Arms-length public body

The most common form of public-sector rail governance internationally is through the presence of a dedicated arms-length rail company, such as Germany's Deutsche Bahn, France's SNCF, Italy's Trenitalia or indeed Finland's VR Group. British Rail, like other British institutions such as the BBC and Network Rail, was also an arms-length public body. If a new arms-length Scottish rail operator was simply to emulate the governance structure of British Rail, however, this would be a missed opportunity to incorporate greater responsiveness and democratic accountability.

A Scottish public arms-length rail company should function in the service of several key long-term social, economic and environmental objectives. These goals ought to be set democratically, perhaps by the Scottish Parliament on the basis of a broad consultation with a wide variety of stakeholder groups, including communities of passengers in Scotland's major cities, as well as the Highlands, and even the Island communities where the linking up of rail services and ferries, could become far more seamlessly integrated. If the franchise system remains, the next Scotrail franchise objectives should reflect these goals. If, however, the franchise system along with its implicit time-limited framing were to be abolished, these objectives could make up a more permanent guiding document⁶⁸ setting out the ethos of the railways.

This would ensure a degree of accountability to the public. This accountability should be reinforced by a board structure reflecting the importance of the railways to workers, passengers, the public and various local and environmental groups. Day-to-day governance ought to be in the hands of a small executive board comprised of those with proven experience and competence in running and managing the railways. Yet this board should be overseen by a new, larger board of trustees focussed on strategic governance. This supervisory board would present an opportunity to incorporate representation for a diverse range of stakeholders into the governance of Scotland's railways; ideally, this board will see representatives of trade unions, local government, passengers, freight users, environmental organisations and transport authorities working to ensure the effective functioning of Scotrail in a manner consistent with its public service ethos and responsive to public demands.

Such a structure would represent a radical move in the direction of public accountability in comparison to past models of rail governance in Scotland. It would not, however, be without parallels elsewhere in the UK and Europe. The efficient and successful

German state-owned rail company Deutsche Bahn is structured similarly to the model outlined above, with governance responsibilities split between an executive management board of six members and a supervisory board of twenty members. The supervisory board is split between ten members representing the sole shareholder (in other words, the German Federal government) interests, and ten members elected as employee representatives, including trade unionists. While the supervisory board of a publicly-run Scotrail could and should be even more ambitious than this in terms of the diversity of interests it provides representation to, the German example nonetheless demonstrates the viability of a two-tier board structure as a model of rail governance.

Closer to home, meanwhile, publicly-owned ferry operator Caledonian MacBrayne is currently in the process of seeking members for a new Community Board made up of residents of rural communities.⁶⁹ This is an encouraging recognition by a key public transport operator in Scotland of the positive role such boards can play, both in facilitating the representation of crucial stakeholder groups and in influencing decisions regarding key strategic issues.

b) Integrated public transport body

Another potential model of public rail operation is through an integrated body responsible not only for rail travel but also for operating other modes of public transport, which in Scotland may include bus and/or ferry travel. This is also a model which has been successfully applied in other countries, and is one which offers its own distinctive advantages deserving of careful consideration.

In theory, there are clear potential benefits to having an integrated public transport body. There is little natural incentive for different profit-maximising companies operating different modes of public transport to work together in the public interest; instead, the inevitable inclination in a fragmented public transport system will always be for operators to compete to maximise the number of passengers using their particular service. If, by contrast, Scotland's buses, trains, trams and ferries were unified under public ownership, a far different incentive could be expected to predominate – namely that of maximising the number of people using any aspect of Scotland's public transport system to travel wherever in the country they need to go. The exciting possibilities presented by such a scenario could not only include a vastly improved bus network – witness the difference in popularity between Glasgow's declining, increasingly expensive⁷⁰ privately-run bus network and Edinburgh's award-winning, affordable and publicly-run Lothian Buses⁷¹ – but also better integration between modes of transport, innovative ticketing

⁶⁹ Fisher, P. (2017). 'Board members wanted for Calmac'. *Ardrossan Herald*, 25/07/2017

⁷⁰ STV (2016), 'First Bus calls for action to tackle congestion in Glasgow'. *STV News*, 14/9/2016

⁷¹ Taylor, I. And Sloman, L. (2013) *Options for Regional Rail*. Transport for Quality of Life, page 20

⁶⁸ See Lawson, N. (2014) page 13

initiatives and an overall shift from private, road-based transport onto railways, tramways and buses, with all the positive social and environmental consequences that would entail.

There are also UK precedents for railways being governed as part of a broader, integrated public transport body. The aforementioned Northern Ireland Railways is a subsidiary of Translink, a publicly-owned company which has responsibility for both the bus and the rail network in Northern Ireland. Despite receiving a low level of public subsidy, Translink has generally been very successful in meeting the targets set for it by the Northern Irish Department for Infrastructure,⁷² and also provides sensible, convenient services which could easily be applied in a future integrated Scottish public transport network, such as the iLink integrated smartcard providing unlimited bus and rail travel across three zones in Northern Ireland.

In Scotland, meanwhile, the presence of Lothian buses means there is already a large, publicly-owned and successful bus company which could form the basis of a future integrated Scottish public transport company along the lines of Translink. In addition, there is no reason a company in Scotland could not be more ambitious and representative in its governance structure than its Northern Irish counterpart.

c) Co-operative model

A co-operative model represents a final potential governance structure which could be applied in a successful manner to a future Scottish rail company. This would be a less orthodox model of rail governance than either a conventional arms-length public body or an integrated public transport operator, as well as one without any direct international precedents. In addition, co-operatives are not companies which are publicly-owned in the traditional sense – rather than being wholly owned by the public via the state, cooperatives are instead owned by their workers, consumers, producers or by a combination of these groups. Nonetheless, the establishment of a not-for-dividend, special purpose rail co-operative would be an innovative approach to running Scotland's railways which could provide its own distinctive advantages.

In practice, of course, any co-operative Scottish rail company would not be wholly owned by either workers or passengers. Rightly given its status as the main funder of the railways, as well as the importance of the railways to the public at large, the Scottish Government would play a key role in the governance and ownership of such a body, and the democratic institutions in Holyrood should always be responsible for setting the ultimate strategic aims of Scotrail. In addition, the present subsidy-based model of financing should be retained, and a rail co-operative should be required to reinvest any operating profits into improving its service. In theory, where a Scottish rail co-operative would differ from an arms-length public-

sector body is through the incorporation of worker and passenger representation into the ownership as well the governance of the railways. In practice, this could mean Scotrail being part-owned by trade unions and passenger groups such as season ticket holders as well as by the Scottish Government, which would likely remain the single largest shareholder. Giving workers and passengers a direct stake in the success or failure of Scotrail may in turn facilitate more effective decision-making than would be possible with a single Scottish Government shareholder, by creating a mutual incentive for the sometimes conflicting objectives of passengers, workers and central government to be resolved without quality of service being adversely affected.

For David Prescott, a rail industry expert from the rail consultancy AllanRail, a 'Social Scotrail' which was much more oriented around local areas and expertise than more centralised board structures, adhering to an over-riding philosophy which emphasised the importance of Scotrail as a public service run for and by the people of Scotland, could prove a powerful catalyst for positive change in the industry, and ultimately deliver a much improved service. Finally, the core co-operative values – including democracy, equality and solidarity⁷³ – should play an important role in informing the social ethos of a future publicly-owned operator of Scotrail, regardless of the precise nature of its governance and ownership structures.

2.7 Ideal outcome of public-sector TOC operating Scotrail franchise

If the technical considerations relating to the bidding process can be successfully negotiated, there is every reason to believe that a publicly-run Scotrail, with a governance model ensuring that it works responsively in the interests of the Scottish public, will be able surpass the level of service achieved by Scotrail's previous private or foreign state-owned operators. The prize here is an improved experience for all those who depend in one way or another on the effective functioning of the rail system. Indeed, given the plethora of broad social and environmental benefits well-run railways can bring, efficient and effective publicly-run railways would ultimately work to the advantage of everyone in Scotland.

Nonetheless, even if running of the Scotrail franchise is taken over by a public body of the kind described in this section, there remains something of an elephant in the room. Even the best, most effective operator of Scotrail in this scenario will still have to operate within the confines of the present dysfunctional rail system, including most pertinently the franchise system. As things stand, this would mean that such an operator would have to go through all the cost and uncertainty of the franchise bidding process within a decade of taking over Scotrail, at which point the franchise could easily return to the private-sector (as happened

⁷² Translink (2015) *The Translink Annual Review 2014/15*. Northern Ireland Transport Holding Company, page 9

⁷³ 'Co-operative identity, values and principles', *International Co-operative Alliance*. Accessed 22/08/17 at <<https://ica.coop/en/whats-co-op/co-operative-identity-values-principles>>

following six successful years of public-sector management on the East Coast franchise).

The next section of this report will thus make the long-term case for a broader re-imagining of the role the railways could play in Scottish society as a whole. Ambitious legislating in relevant policy areas, combined with far-sighted investment in rail infrastructure, has the potential to transform this role, further benefiting Scottish society in a multiplicity of ways.

3. The case for long term, permanent public operation of Scotland's railways

3.1 A successful bid for the Scotrail franchise as the first step to something bigger

Looking further into the future, the bringing about of a publicly-run Scotrail should prove the catalyst for a broader rethinking of the role our railways ought to play in Scotland's overall long-term transport strategy. Ultimately, we ought to move away from seeing rail travel as just another consumer product best left as the responsibility of competing profit-seeking private companies, and towards thinking of the railways as a fundamental public service worth investing in for the array of benefits it brings to society. Indeed, this is rather how we treat our roads at present – the roads are of course publicly-owned and funded by all citizens through general taxation, yet while most car owners pay vehicle tax, we accept that the roads are simply too important to Scottish society and the economy for us to expect them to make a profit by charging access fees.

In 2017, social, economic and environmental imperatives demand that we start to approach our railways in this way. For us to get there, it is first crucial that some of the inefficiencies and flaws inherent in the current structure of the rail system are removed.

3.2 Abolition of the franchise system

While the system of tendering out time-limited contracts for operating Scotland's railways remains, even the most popular and efficient public-sector operator will suffer from the lack of certainty which inhibits long-term thinking in the railways today, as it would face the very real prospect of losing its right to operate the franchise every five to ten years. In order to allow us to enjoy the full rewards publicly-run railways have the potential to bring, the Scottish Government should seek the power to abolish the franchise system, and instead allow Scotrail to be operated permanently on a public-sector basis.

One key reason for doing so is simply to eliminate the quantifiable costs added to the rail system by bidding processes. Making a serious bid for a franchise is generally accepted to cost at least £5 million. The most recent tendering process for the Scotrail franchise saw five such bidders shortlisted. Of course, only for Abellio did this money not ultimately go to waste – and even in Abellio's case these are funds which could have been more productively invested in the railways. All of the four other bidders, meanwhile, are active providers of rail or bus services in the UK, meaning that the money they spent in the Scotrail franchising process – over £30 million⁷⁴ – amounted to an indirect extraction from the British transport system. FirstGroup, for

instance, was operating both the Scotrail franchise and bus services in Glasgow at the same time as it was devoting considerable resources to its failed franchise bid – resources that could otherwise have been put into improving the experience of passengers on any of its existing services in Scotland. While in reality a private company such as FirstGroup may have just as easily chosen to divert such savings to shareholders instead, this would not occur with a public-sector operator of Scotrail, and all savings obtained through the abolition of the franchise system could be invested in improving service on the railways. As of 2015, meanwhile, these arguments also apply to bidding processes for the newly separate Caledonian Sleeper franchise.

Permanent public-sector operation of Scotrail would also allow managerial staff to take a longer view with regards to investment and planning. This is crucial in an industry such as rail, in which decisions regarding matters such as rolling stock can have implications lasting several decades. The paucity of genuine investment made by TOCs has already been noted, and indeed the UK Government's McNulty Report identified the short-term nature of franchises as a key reason behind this. The proposed solution to this was to extend the length of franchises⁷⁵ – hence the extension of the Scotrail franchise from seven to ten years for the current contract. However, if the aim of this move was to end operational uncertainty, one only has to glance at the many news reports⁷⁶ speculating over the possible activation in 2020 of the five-year break clause in Abellio's franchise agreement to know it has been a failure. The McNulty Report also argued that longer franchises would produce public savings by allowing transport authorities to spend less money conducting costly bid competitions. Once again, a more effective way of achieving these savings would simply be to remove the need for such competition altogether.

Finally, much of the transformative potential of the idea of publicly-run railways in Scotland relies on it being a permanent break with decades of privatisation and market-oriented policy. Any public operation of Scotrail which is strictly time limited always leaves the door open for a return of private management, meaning it would struggle to be a true catalyst for broader change. Outside of Scotland, the public ownership of rail is also on the national agenda, as one of the flagship policies of an invigorated Opposition, meaning that the context in which the Scottish railway system currently operates could change dramatically

to Abellio', *Financial Times*, 8/10/2014

⁷⁵ McNulty, R. (2011) *Realising the Potential of GB Rail: Detailed Report*. Department for Transport, London and Office of Rail Regulation, London. Page 63

⁷⁶ For example: McKenny, S. (2016), 'Abellio could lose Scotrail contract if service worsens' *The Scotsman*, 16/10/2016

⁷⁴ Dickie, M. (2014) 'Political row erupts over ScotRail franchise award

in the near future if the prohibition on public ownership was to be removed at a UK wide level by a change in Government in Westminster.⁷⁷

The question of which legislative issues are relevant to making public-sector operation permanent will depend somewhat on the nature of Scotland's future relationship with the European Union, which at the time of writing is uncertain. The EU's Fourth Railway Package, adopted by the European Parliament in December 2016, seeks in certain ways to emulate the British system as part of its attempts to create a single European railway area. The market pillar of this package moves towards making it compulsory for member states to open up their railways to private-sector competition, and conduct competitive tendering on public service contracts. This risks spreading the UK's mistake across the continent. Indeed, in order to comply with the Package, Finland has recently announced plans to have competitive tendering in place on all its rail routes – currently all run by the public operator VR – by 2026. Nonetheless, there are exceptions permitted in the Package which could facilitate the abolition of the franchise system. Specifically, according to the EU Council, “direct award (of public service contracts) will still be possible where it leads to better quality of service or cost efficiency”.⁷⁸ Even if Scotland remains a full EU member, then, the fact that the Scotrail franchise is considered a public service contract⁷⁹ means that the Scottish Government could make a direct award of a contract to operate Scotrail to a public-sector operator on the condition that certain performance criteria were met.⁸⁰

However, in the absence of any further major political convulsions in the next year and a half, the current likelihood is that as of March 2019, Scotland will not be a full EU member state. Unless continuous Single Market membership is obtained, the only legislative obstacles to ending competitive tendering in this scenario would be the UK Government Railway Acts enforcing it, which could be overcome either through pressure on the part of the Scottish Government for the devolution of the relevant powers, or through the repeal of the legislation in question. If the Scottish Government does indeed press the case for further devolution of transport powers, and the UK Labour Party continues to be committed to repealing the 1993 Railways Act responsible for introducing competitive tendering, either one of these prospects could well be realised by the time of the current franchise's scheduled end date in 2025.

3.3 Direct purchasing of rolling stock

Another important policy change on the part of the Scottish Government should be with regards to the

⁷⁷ The Labour Party (2017). *For the Many Not the Few*, The Labour Party, London. Page 90-92

⁷⁸ European Council Press Release (2016) 'Better rail services: Council adopts 4th railway package market pillar' *European Council*, 17/10/16

⁷⁹ Department for Transport (2016) *Passenger Services: Franchise Competition Guide*, Department for Transport, London

⁸⁰ EU Regulation 2016/2338. Available at <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016R2338>>

recruitment of the trains that run on Scotland's tracks. As of 2015-16, the average age of Scotrail's rolling stock was 21.8 years,⁸¹ with Scotland's trains getting progressively older since 2007.⁸² Indeed, a fleet of 26 trains recently leased by Abellio Scotrail date back forty years, having first been used by British Rail in 1977.⁸³ At present, these trains are leased by Scotrail from privately-owned rolling stock operating companies (ROSCOs) such as Eversholt Rail Group and Angel Trains. If these were instead to be purchased directly by the Scottish Government, not only could newer and greener rolling stock be procured, but considerable savings could be made.

The three ROSCOs to whom British Rail's rolling stock was divided up and sold off have proven one of the most significant sources of profit leakage in Britain's privatised rail system, enjoying profit margins which have often exceeded 40%.⁸⁴ This is because the amount of money paid by TOCs to lease trains from ROSCOs exceeds the amount the ROSCOs spend acquiring their rolling stock. If a transport authority such as Transport Scotland was instead to purchase the rolling stock used by Scotrail directly, substantial savings could be made as a result of both the elimination of profit leakage via ROSCOs and the ability of the public-sector to borrow at lower interest rates than the ROSCOs. By way of illustration, a 2013 study by Transport for Quality of Life estimated that direct purchasing of the rolling stock that entered service for Scotrail in 2010 would have resulted in an annual saving of £127,000 per car compared to the actual cost of leasing them from a ROSCO.⁸⁵ Given the ageing nature of Scotrail's fleet, switching to this method of obtaining rolling stock would help greatly in the future in freeing up public funds to be put to use more productively in Scotland's rail system; what's more, putting such a change into practice would not require any significant legislative overhauls.

3.4 Increased levels of investment

Finally, if future publicly-owned and run Scottish railways are to have the capacity necessary to be truly transformative, increased levels of ambitious and far-sighted investment in rail infrastructure will be required. In recent years, investment in rail infrastructure has lagged behind investment in roads; from 2007 to 2014, the Scottish Government invested £6.5 billion in motorways and trunk roads compared to £5 billion in the rail network.⁸⁶ Nor is this trend showing any sign of reversing – the Scottish Government's 2017-18 Draft Budget sets out plans to spend almost £200 million more on roads than rail (up from a difference of £69.3 million in 2016-17),⁸⁷ with

⁸¹ Office of Rail and Road (2016), 2015-16: *Scotrail Key Statistics* – Table 2.10. Office of Rail and Road, London

⁸² ORR Data. See ref 6

⁸³ Aitken, M. (2017). 'New' Scotrail trains are English hand-me-downs with 10 million miles on the clock', *Daily Record*, 9/04/2017

⁸⁴ Bowman et al (2013), Page 62

⁸⁵ Taylor, I. And Sloman, L. (2013), page 12

⁸⁶ Transport Scotland (2016), *National Transport Strategy: January 2016*, Transport Scotland, Glasgow. Page 12

⁸⁷ The Scottish Government (2016), *Scottish Budget: Draft Budget*

motorways and trunk roads seeing the largest year-on-year real terms spending increase of any area of responsibility.⁸⁸

This is despite the fact that the rail infrastructure projects that have taken place in recent years have proven hugely successful. The Borders railway was the longest new domestic railway to have been built in the UK in over a hundred years when it opened in September 2015. Since then, its presence has saved an estimated 40,000 car journeys as people shift from using the roads to using the new railway to travel between Edinburgh and Tweedbank.⁸⁹ In the first six months of 2016, meanwhile, the number of visitor days spent in hotels and bed & breakfasts in the Borders was 27% higher than in the first six months of 2015, a remarkable increase in tourist numbers attributable largely to the opening of the new railway.⁹⁰ This in turn has boosted local attractions such as Melrose Abbey and Hawick Museum. Moreover, the new ease with which those near the railway can get to Edinburgh to work and study – an estimated 65% of trips on the railway are commutes to either workplaces or educational centres such as Edinburgh College⁹¹ – has helped prevent a decline in the Borders' population, with the Borders railway found to be a key factor in influencing its users' residential choices.⁹² In addition, the commutes go both ways – a third of the staff of Tempest Brewing, which relocated to Tweedbank specifically to take advantage of the new railway, use the line to get from Edinburgh to the new station near their workplace.⁹³ Even more impressively, this success has been achieved despite large swathes of the line being built with only a single line, resulting in frequent delays – a decision made partly on the basis of forecasts by Transport Scotland which drastically underestimated the popularity the line would have.⁹⁴ This misinformed decision may also inhibit future expansion of the Borders railway.⁹⁵

The array of benefits – environmental, economic and social – which have resulted as a result of investment in the Borders Railway provide an indication of the wider benefits Scottish society could reap from greater investment in rail. The case of the Borders Railway also demonstrates a need for the Scottish Government to ensure it appraises more realistically the potential benefits of rail investment, lest future opportunities for success be squandered.

3.5 The environmental case

The first benefit referred to in the case of the Borders railway was environmental, as large numbers of people took to using the new railway to travel rather than using their cars. On a nationwide level, the environmental case carries even more weight than with regards to individual local projects, given the imperative that Scotland reduces its greenhouse gas emissions in order both to meet its own target of a two-thirds reduction by 2032, and to play its part in wider global efforts to combat the possibility of catastrophic climate change. In 2015, the transport sector overtook the energy supply sector to become the largest single source of greenhouse gas emissions in Scotland for the first time since records began.⁹⁶ This amounts to 27% of Scotland's overall emissions, a proportion which has been steadily rising in recent years, up from less than 20% in 2003.⁹⁷ Indeed, transport emissions have fallen by just 2% since 1990, and unless meaningful reductions can be achieved the transport sector is set to become an increasingly large hindrance to Scotland's overall environmental aspirations in years to come. At present, the Scottish Government's strategy for securing such reductions focusses mainly on improving the efficiency of cars, buses and other road-based vehicles.⁹⁸

This is a worthy aim and should play a role in any climate strategy. Yet during this period of stubbornly high transport emissions, the modal share of all journeys taken by rail has remained stubbornly low at around 2%.⁹⁹ In fact, achieving a modal shift in transport usage away from road transport and towards the railways – as the opening of the Borders railway helped achieve on a local scale – would be a much surer and more effective means of reducing emissions than relying on improving the efficiency of cars, and should be a higher priority for the Scottish Government. In 2014, 73% of transport emissions came from road transport, and 43% from cars alone, compared to 1.35% from rail.¹⁰⁰ Rail travel in the UK, meanwhile, emits just 49g of CO₂ per passenger kilometre compared to 113g for car travel.¹⁰¹ Applying these figures to the Scottish context implies a potential emissions reduction of around 22KtCO₂e for every 1% of the passenger kilometres currently travelled by car which are shifted onto the railways. In addition, each tonne of freight transported by rail produces 76% less CO₂ emissions than the equivalent HGV journey,¹⁰² indicating the potential for a substantial reduction in emissions to be achieved by a shift towards rail freight transport. All of this

2017–18. The Scottish Government, Edinburgh. Page 117

⁸⁸ SPICe (2016), *Financial Scrutiny Unit Briefing: Draft Budget 2017–18*. Scottish Parliament Information Centre, page 15

⁸⁹ Transport Scotland (2017), *Borders Railway Year 1 Evaluation*, Transport Scotland, Glasgow. Page 3

⁹⁰ Midlothian Council (2017) 'Borders Railway boosts tourism', *Midlothian.Gov.UK*, 30/01/17

⁹¹ Transport Scotland (2017), *Borders Railway Year 1 Evaluation*, page 31

⁹² Transport Scotland (2017), *Borders Railway Year 1 Evaluation*, page 6

⁹³ Mathieson, SA. (2017), 'Brewing in the Borders: the businesses thriving along Scotland's new railway line', *The Guardian*, 13/03/2017.

⁹⁴ Spaven, D. (2016), 'Quango manages to derail Borders success story', *The Scotsman*, 05/09/2016.

⁹⁵ Dalton, A. (2014), 'Borders Railway cuts 'could hold back development'', *The Scotsman*, 29/4/2014.

⁹⁶ Official Statistics (2017), *Scottish Greenhouse Gas Emissions 2015*, Scottish Government Chief Statistician, Edinburgh. Page 15

⁹⁷ Transport Scotland (2016) *Carbon Account for Transport No. 8: 2016 Edition*, Transport Scotland, Glasgow. Page 9

⁹⁸ The Scottish Government (2017) *Draft Climate Change Plan*. The Scottish Government, Edinburgh. Page 68–72

⁹⁹ National Statistics (2017) *Scottish Transport Statistics No. 35*. Transport Scotland, Glasgow. Page 22.

¹⁰⁰ Transport Scotland (2016) *Carbon Account for Transport No. 8: 2016 Edition*, Page 9–11

¹⁰¹ 49 g vs 113 g. National Statistics (2017) *Scottish Transport Statistics No. 35*. Page 222

¹⁰² Department for Transport (2016) *Rail Freight Strategy*. Department for Transport, London. Page 13

is despite the fact that only 25.3% of rail track in Scotland is electrified.¹⁰³ The carbon emissions of electric trains are 20-35% lower than those of diesel trains,¹⁰⁴ meaning that if Scotland were to embark on a programme of electrification bringing our railways into line with other European countries such as the Netherlands – where over 70% of track is electrified – the environmental efficiency of the railways would be improved further. In addition to this, huge strides are currently being made in the development of zero-emissions hydrogen trains,¹⁰⁵ opening up the prospect of still greater efficiency in the future. Crucially, only investment and the right policy decisions will allow us to make the most of the environmental advantages provided by rail both now and in years to come.

3.6 The economic case

The Borders railway also provided an economic boost to the areas it serves, with the connectivity it provides benefiting local businesses while helping make the Borders a more attractive place to live for those working and studying in Edinburgh. Regarding the ways in which increased investment in rail would benefit Scotland economically as a whole, it is first important to point out that there are a number of areas in Scotland currently excluded from the rail network where the introduction of new railways and stations could easily have the same kind of positive impacts we have seen in the Borders. A foremost example here is Levenmouth, where the reopening of the five-mile rail line between Thornton and Leven, closed in 1969 but still intact and owned by Network Rail, has the potential to be transformational. For a total cost conservatively estimated at £78.4 million¹⁰⁶ – around a fifth of the cost of the Borders railway – a population of around 38,000 people currently cut off from the rail network could be connected to employment and other opportunities in Edinburgh and south Fife, while those living elsewhere in Scotland would gain the ability to easily access tourist attractions such as the Fife Coastal path, in turn helping local businesses.

In addition, Diageo, which runs the largest whisky distillery in Scotland next to the currently closed Cameron Bridge station on the proposed Levenmouth line, has expressed support for the track's reopening due to the opportunities it would present for transporting freight¹⁰⁷ – the line would allow freight from its nearby bottling plant, which currently requires eighty heavy goods vehicle (HGV) movements a day, to be transferred on to just two daily container

trains.¹⁰⁸ This reflects another wider economic benefit rail investment could bring to Scotland as a whole. A substantial portion of the Scottish Government's £967 million motorways and trunk roads budget is set aside for repairs and routine maintenance.¹⁰⁹ If more freight was to be moved from HGVs onto the railways, the major damage caused to roads¹¹⁰ by these vehicles would be reduced, freeing up funds for investment in other areas. Each freight train, moreover, removes between 43 and 77 HGVs from the roads depending on the type of goods carried,¹¹¹ demonstrating the potential of increased rail freight to ease congestion on Scotland's roads. This in turn would reduce considerably the £2.4 billion annual cost of congestion – an £8 million reduction in congestion cost per freight train replacement for HGV's.¹¹² More broadly, HGVs cost the UK economy an estimated £6.5 billion a year through their combined negative impacts on safety, air quality and road quality,¹¹³ with freight by rail offering a safer, more environmentally friendly and more economically efficient potential alternative.¹¹⁴

3.7 The social case

The economic case for increased investment in rail is closely linked to the social case – it should hardly be necessary to spell out the myriad ways in which communities in Levenmouth, an area which has suffered from significant levels of deprivation and unemployment since the closure of the coal industry in the late 1970s, would benefit from greater economic opportunity. Scotland as a whole is a country in which over 30% of households do not have access to a car,¹¹⁵ and until such a time as Scotland's rail network provides an affordable, reliable service to all of its citizens, a great number of these people will continue to find swathes of the country's social and economic life difficult to access. Furthermore, car usage in Scotland is closely related to affluence, with only 45.8% of the most deprived fifth of Scots (as defined by the Scottish Index of Multiple Deprivation) in possession of a full driving license, compared to 82% of the least deprived.¹¹⁶ This means that investment in new motorways such as the M74 extension disproportionately benefits the wealthy, and thus reinforces existing socio-economic inequalities.¹¹⁷

¹⁰⁸ Shirres, D. (2016) 'Levenmouth – Scotland's next railway?', RailStaff, 17/11/16.

¹⁰⁹ The Scottish Government (2016), Scottish Budget: Draft Budget 2017-18. Page 129

¹¹⁰ Edmunds, P. (2017). 'Lorries cause more damage to roads than cars', *Campaign for Better Transport*, 13/03/17.

¹¹¹ Network Rail (2013) *Value and importance of rail freight*. Network Rail, London. Page 4.

¹¹² 'Traffic congestion in Scotland cost drivers £2.4bn last year', *The Herald*, 20/02/17.

¹¹³ 'Dangerous, dirty and damaging - New research reveals impact of HGVs', *Campaign for Better Transport*, 25/02/15

¹¹⁴ 'Useful facts and figures', Freight on Rail. Accessed 05/08/2017 at <<http://www.freightonrail.org.uk/FactsFigures.htm>>

¹¹⁵ Rehfish, A. (2016) *Transport in Scotland*, Scottish Parliament Information Centre, Page 9.

¹¹⁶ National Statistics (2017) *Scottish Transport Statistics No. 35*. Page 188

¹¹⁷ Foley et al (2017) 'Effects of living near a new urban motorway on the travel behaviour of local residents in deprived areas: Evidence from a natural experimental study', *Health & Place* (43). Page 57-65.

¹⁰³ Transport Scotland (2017) *Electrification programme*. Accessed 02/08/17 at <<https://www.transport.gov.scot/projects/electrification-programme/electrification-programme/>>

¹⁰⁴ Network Rail (2017) *Electrification*. Accessed 02/08/17 at <<https://www.networkrail.co.uk/our-railway-upgrade-plan/key-projects/electrification/>>

¹⁰⁵ Molloy, M. (2017) 'The world's first zero-emissions hydrogen train is coming', *The Telegraph*, 22/03/17

¹⁰⁶ Levenmouth Rail Campaign (2016), *Time to Reopen the Levenmouth Rail Link*. Available at <<http://transformscotland.org.uk/wp/wp-content/uploads/2016/04/Levenmouth-briefing-v1.0.pdf>>

¹⁰⁷ 'Diageo reaffirms rail link pledge', *Fife Today*, 03/03/09.

A well-funded, integrated public transport system, with an expanded, world-class rail network at its centre, would be a powerful instrument for tackling the endemic inequality present in Scottish society, enhancing the opportunities and prospects of millions. Transport will only be able to fulfil such a role if investment in making rail and forms of public transport affordable and accessible to all is prioritised over investment in motorways, which necessarily favour the more affluent groups amongst whom car ownership is most prevalent.

3.8 The political case

Finally, the presence of well-funded, affordable and publicly-run railways would prove a powerful symbol of the sort of country Scotland aims to become in the 21st century. As pointed out by the sustainable transport alliance Transform Scotland, in most similar northern European countries the presence of fast, electrified double-track railways connecting cities symbolises ambition and modernity, whereas in Scotland an estimated 44% of inter-city routes remain single-track.¹¹⁸

On top of this, of course, most similar European countries have efficient publicly-owned national rail companies operating most or all passenger services, while Scotland's trains are run by the Dutch state rail operator. A new, publicly-owned Scotrail, especially if combined with transformative levels of investment, has the potential to be a source of collective pride in the same way the National Health Service is today, and its presence would send a powerful message that our society is one in which the infrastructure and services we have collectively built up contribute to shared rather than private prosperity, and ultimately answer to and serve the common good.

3.9 Increased investment in practice

Increased investment in part means re-opening local routes such as those in the Borders and Levenmouth. St Andrews is another example of an area excluded from the rail network, where local campaigners have long been making a compelling case for reconnection.¹¹⁹ Yet while such projects are wholly necessary, rail investment should not depend solely on where local outcry happens to be strongest. Investment for example, cannot be limited to the reopening of closed stations – electrification, more double track, digital railways signalling, and various other improvements to existing lines will be necessary to ensure that the rail network, particularly around Glasgow, has the capacity to deal with future demand. The Scottish Government must rethink its entire approach to investment in the railways to ensure that they are fit for purpose for the decades to come.

¹¹⁸ 'Scotland's Rail Infrastructure Strategy: Consultation response from Transform Scotland', Transform Scotland, 23/02/17. Page 2

¹¹⁹ StARLink Campaign (2016) '10 Reasons why St Andrews needs its railway back', Accessed 07/08/17 at <<http://www.starlink-campaign.org.uk/page2/why.html>>

The process of appraising new projects through the Scottish Transport Appraisal Guidance (STAG) process is excessively bureaucratic and opaque, and was shown to be unfit for purpose by its stark under-estimations of the patronage of the Borders Railway. This process must be reformed to ensure the potential of rail infrastructure projects is more realistically appraised. In addition, new funding mechanisms should be identified to help finance investment in rail, and make up for what has ultimately been decades of under-investment in infrastructure. At the very least, land value levies on areas benefiting from major infrastructure projects should be introduced to ensure that the public, rather than just local landowners, benefits from the inevitable increase in nearby land value that occurs when a new railway or station is built. Such levies are already present in Miami, Los Angeles and Denver,¹²⁰ and would be a logical method of raising funds to invest in public transport.

The politicians and civil servants of today should also learn from the mistakes of the past, and make sure that a long-term perspective is fundamental to decisions regarding transport infrastructure. Following the Beeching cuts of the 1960s, much of the land upon which closed stations and tracks were located was sold off, a myopic decision which has complicated subsequent efforts to reopen railways in response to rising demand. In the USA, on the other hand, concern at the closing of major railway lines led to Congress legislating in 1983 to introduce the practice of 'railbanking' as a means of safeguarding the integrity of unused rail routes. When a former rail line is railbanked, it remains under federal jurisdiction, and any measures that would inhibit its re-opening as a railway in the future are outlawed. While many former rail lines have become popular trails for cyclists and hikers in the US, the building of the kind of permanent structures situated on many former rail lines in the UK is prohibited. There are over four thousand miles of railbanked line in the US, all of which could be reactivated as railways should demand arise in the future. Of course, the damage of previous sell-offs has been done. However, now would be a good time for the Scottish Government to lay down the principles for a land-banking programme which would ensure that future unused rail routes do not risk permanent disfiguration, and that future passengers do not also become the victims of temporary fluctuations in demand.

3.10 Public ownership as a catalyst for change

Overall, bringing about public ownership of the Scotrail franchise is of utmost importance, and would represent a significant, symbolic and practical departure from the past two decades of dysfunctional British rail policy which have seen the railways work far more effectively for a narrow set of mostly private interests than for the public which funds them, and whom ultimately the railways should serve.

¹²⁰ Taylor, I., and Sloman, L. (2016) Building a world-class bus system for Britain. *Transport for Quality of Life*, Page 135.

Yet perhaps the most compelling of all arguments for public ownership is neither the principled case which rightly states that privatisation was wrong in theory, nor the evidence-backed case which proves that privatisation is deeply flawed in practice. Looking to the future, what captures the imagination most is the potential for the return of publicly-run railways in Scotland to prompt a broader rethinking of how our railways, and our broader public transport system, could change and improve society as a whole.

The bringing about of a permanent, publicly owned operator of Scotrail, whether through a bidding process or after legislative changes permitting a direct award, will require large amounts of hard work, political will and technical nous in the next few years. The rewards, however, might be felt by people living in Scotland for decades and generations to come.

4. Conclusion: Rail as a public service

In the 1960s, when the publication of the Beeching reports preceded the closure of thousands of miles of railway line across Scotland and the rest of the UK, rail travel was considered a mode of transport fundamentally of the past, with the future represented by personal car travel on the realms of newly-built motorways. In 2017, it has never been clearer that this prognosis was wrong.

The past decade has seen demand for rail travel in Scotland rise rapidly, with the number of passenger journeys on Scotrail up by 34% since 2005-06.¹²¹ With the trends driving this rise – including long-term GDP growth, increasing urban concentration of work and, most importantly, the rising cost of motoring – extremely unlikely to collectively reverse in coming years, we can say with a high degree of confidence that the railways are set to play a far greater role in Scottish society in the 21st century than the civil servants of the mid-20th century could have ever imagined.

Yet at present, our rail system is organised in such a way so as to limit the opportunities presented by this rising demand, and indeed turn some of these opportunities into problems. It is hard, for instance, to see how peak-time commuter services around Glasgow will be able to cope with further increases in passenger numbers in coming decades in the absence of far-sighted investment to raise capacity. Meanwhile, despite rising passenger numbers, rail's overall share of passenger journeys in Scotland by any mode of transport has remained stubbornly low for decades.

The presence of a publicly-run ScotRail would rectify some of the significant flaws in the current system, and could stand at the centre of a new collective approach to our railways which would enable us to take full advantage of the array of benefits rail travel will have to offer in the years to come. Public investment could be put wholly to use improving rail infrastructure and improving service, rather than being lost in the profit margins of ROSCOs and TOCs or wasted due to the inefficiencies of the franchise system. Managers of the railway could take a long-term approach to decision-making and problem-solving, rather than having to work in a necessarily short-term manner due to the arbitrary temporality created by ritual rounds of competitive bidding and funding cycles that are too short for serious long term investment planning. A publicly-run Scotrail could provide greater democratic accountability to the various groups of people it serves, and could restructure fare prices in such a way that no longer seems to arbitrarily penalise some groups of passengers.

Perhaps most importantly, the bringing about of a publicly-run Scotrail would allow us once more to think of rail travel as a public good, serving and benefiting all of us. If Scotland is to become the sort of modern, socially just and economically democratic society it has the potential to be, we should get to work on joining our European counterparts in having world-class, publicly-owned and run railways, providing a quality of service which is a source of collective pride for the public it answers to.

¹²¹ National Statistics (2017) *Scottish Transport Statistics No. 35*. Page 108



COMMON WEAL

