ASLEF Response to Rail Value for Money Study Phase 1 – July 2010

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train driver's union representing approximately 18,000 members in train operating companies and freight companies as well as London Underground and light rail systems. The union has 130 years experience of the railways.

2. ASLEF welcomes the chance to contribute to Sir Roy McNulty's Rail Value for Money Study Phase 1 of the UK rail industry in 2010. The union believes that 15 years on from privatisation there is an overwhelming need to streamline and consolidate the infrastructure and operation of the UK railway not only to deliver for the industry itself but to reduce unnecessary expenditure for the politically austere era in which we now live.

3. More widely the union would point out that in less than 15 years the UK government's rail policy has evolved from a tendency to distance itself from an increasingly irrelevant and expensive anachronism to a commitment to fund and expand a critical part of the country's social and economic infrastructure. We welcome this significant change in perspective and note this is a view shared across the country's political parties which is reflected in the commissioning of this study in itself.

4. In our submission we intend to focus on structures, interfaces and incentives particularly the need for reform of franchising to achieve better value for passengers and taxpayers as well as commenting on the rolling stock companies and the need for more support for rail freight.

5. As the representative organisation for 18,000 train drivers we, unsurprisingly, intend to focus on people. ASLEF takes the view that the staff are the industry's greatest asset and the one constant amid years of upheaval and fragmentation.

Structures, interfaces and incentives

6. ASLEF believes that since privatisation and the separation of track from train operations the UK rail industry has become unfathomably more complicated so we welcome the Study's acknowledgement of the need for simplification to deliver better value for money and to minimise costs.

7. The UK rail industry in 2010 is a Pandora's Box of uncontrollable forces and unaccountability amid separation of track, operations and rolling stock alongside multiple layers of contracting and a Byzantine regulatory structure. The union has described the franchising system as an expensive game of musical chairs and we believe its reform would be a good starting point for the Study to consider as the Government intends to do in it's recently launched consultation on the issue.

8. We note the interim report's reference to the fact that franchising in the UK costs 20 to 40% more than in comparable European countries such as Sweden and Germany. The financial model used for franchising is a deeply flawed one as demonstrated by two companies failing within three years in the running of the East

Coast franchise. These failures were described by the Transport Select Committee as being indicative of the ‘underlying problems of the current franchising model.’

9. In particular, ASLEF would contend that National Express’s decision to walk away from a contractual obligation to pay the government £1.4 billion by 2014 demonstrates that the rail franchising system cannot deliver the investment or certainty which passengers or taxpayers deserve. For example, the transport group’s rail division has made nearly £500 million profit since it began running rail franchises in 1999 during when it received £2.5 billion in state subsidy. We don’t believe these arrangements best serve the interests of the railway in the austere economic and political era in which we now live.

10. Clearly new hurdles need to be erected to protect the public and ensure the franchise holder takes some genuine risk. In the case of National Express, the Special Purpose Vehicle corporate structure allowed the parent group to avoid liabilities of its subsidiary. A system has to be designed whereby risk is substantially transferred to the franchisee rather than the can’t-lose-financially of the existing cap and collar revenue protection arrangements.

11. ASLEF believes that Revenue Protection payments to franchisees must be radically reformed and should not continue along the lines of the current system. One of the supposed purposes of rail privatisation of was to increase the efficiency of services as a result of the financial and commercial risks undertaken by the winner of the franchise. The idea was that the service had to run well or the company would lose revenue leading to financial loss. However these basic rules of the market do not apply to the railway as currently constituted. Franchises who do not meet their

revenue targets are eligible for tax payer subsidy. Typically, if revenue falls below 94% of the target, the tax payer provides 80% of the shortfall. This means that the public subsidise failure and the incentive for running a good service simply disappears.

12. The union is concerned at the impact of revenue protection arrangements on industrial relations. A consequence is that there is little incentive for a company to promote positive union dialogue when they can claim lost revenue from strike action back from the taxpayer. This scenario subverts the natural order of industrial relations make it entirely and absurdly possible for a franchise to make a profit as a result of strike action. During a strike period, a company can save money through the lower costs of not running services and lower wages whilst claiming for the loss of ticket sales. ASLEF would be greatly concerned for there to be a collapse in industrial relations on the relevant franchises prior to the Olympics where the provision of good services is essential. Surely risk must be on the side of those who make profit and not the taxpayer.

13. ASLEF moreover believes the time is right for more creative and more financially equitable structures to be given the chance to run franchises and that’s why the union is calling on the Government to allow employee-led co-operative franchise bids which will put stakeholders at the heart of decision making and redistribute profits back into the service.

14. The union’s contention is that the costs and complexities of the current franchising system, particularly the EFQM written and RADAR analysed accreditation questionnaire, do not make it a level playing field for bidders. It has become an

exclusive oligarchy open only to those multinational transport companies with the deepest pockets.

15. In addition we support the call in July 2009 Transport Select Committee report which urged the Government to retain the East Coast Main Line franchise in the public sector to provide a benchmark against which to compare the performance of other types of franchises both in terms of financial viability and passenger service quality.

16. ASLEF would point out that PFI tenders in the public sector have a facility whereby they can be measured against a public sector comparator. In addition the relevant trade unions are notified as to the shortlisted companies although are not provided with specific details of their bids. The Study should therefore consider introducing a public sector comparator for rail franchises as it exists for PFI tendering in the public sector alongside a role for employee and passenger representatives in the franchising process?

17. It is important that Network Rail is more accountable. There is a huge democratic deficit in the organisation's governance most recently demonstrated by the Secretary of State's inability to intervene on the issue of Executive bonuses. ASLEF believes Network Rail's management must be more open to stakeholders for consultation and that all involved in the industry are part of the decision making process.

18. The union believes it is essential that that rail freight is sufficiently prioritised given its ability to generate 70% less carbon emissions than the equivalent road journey

and alleviate road congestion which is estimated to cost the economy £17 billion a year.

19. ASLEF would also point out that total rail freight traffic has grown by more than 60% in the last ten years which has seen rail's share of the surface freight market rise to 11.5% and notes the considerable suppressed demand for rail freight across sectors such as construction with forecasts showing the potential to double tonnes carried by 2030 including a fivefold increase in container rail freight. We therefore call on the Study to consider the need for enhancements to rail freight infrastructure.

20. The union believes the government must also examine the provision of rolling stock, particularly the role of rolling stock operating companies or Roscos. The three main Roscos Angel Trains, Porterbrook Leasing and Angel Trains are collectively worth around £7 billion and are all owned by financial consortia. A report by the Competition Commission in 2009 expressed concerns about the levels of competition between Roscos. In the light of the uncertainty over the procurement of the Inter City Express Programme and the new rolling stock for the Thameslink ASLEF calls on the Study to examine whether the existing arrangements for the provision of rolling stock best serve the interests of taxpayers and passengers.

People

21. The people who work on the railways are unquestionably the industry's most important asset. Since privatisation the industry has undergone fragmentation upon fragmentation with not only different companies running each franchise but track

and train being separated and private contractors also involved in infrastructure maintenance and renewal to a greater or lesser degree.

22. Despite ever changing franchises and ownership arrangements, the one constant across the industry has been those individuals who work in it. We call on the Study to recognise and acknowledge the staff as a valuable and stable resource whose experience is essential for the safe and successful running of the railway.

23. ASLEF would additionally encourage greater communication and harmonisation throughout the industry, a particularly important area in terms of track renewal and maintenance. Many of the tragedies the industry has witnessed in recent years can be attributed to poor communication and differing standards between rail industry stakeholders. It is essential that the negative effects of fragmentation are therefore reduced by obligatory cross industry forums.

24. For these reasons, ASLEF feels it is important that ATOC as an organisation has channels of communication with unions. This would allow many headline issues to be discussed in a forum that could cover a significant chunk of the railway alongside freight operators and Network Rail.

25. Like many industries good industrial relations in the railways are essential in ensuring a good quality of service for passengers and taxpayers. ASLEF feels that this axiom must be emphasised by the Department for Transport and should also be reflected in franchise agreements. One example of why this is important is the Greater Anglia franchise which was previously three franchises before being absorbed into one. A lack of franchise specification on industrial relations

particularly with regard to harmonisation has led to a scenario where 3 sets of drivers doing identical jobs are working under different terms and conditions and with different salaries. The result has been industrial unrest including strike action.

26. It is essential that whilst franchises exist in a transitory state of ownership the workforce remains as one. One obstacle in the way of this is the two tier workforce that has been created by differing travel facility provision as a result of whether employment commenced pre or post 1995. It is inexcusable that two drivers with exactly the same role, salary and job description can have such a significant disparity in their travel facilities. It is also bizarre for non-safeguarded to have greater facilities across the whole of Europe than they enjoy in the country where they supply such a vital service.

27. The travel facilities given to our members here in the UK are inferior compared to those enjoyed by drivers in the rest of Europe. ASLEF fails to see any logical reason why this should be the case. The extension of travel facilities would offer a significant benefit to staff at a limited cost to the Train Operating Companies and Freight Operating Companies. It would create a harmonious content workforce and most importantly, would give non safe guarded staff the facilities they deserve.

Conclusion

28. ASLEF welcomes the chance to contribute to this important study into value for money in the rail industry. The need to reduce expenditure across the public sector brings the high costs within the rail industry into particular focus. This should be

regarded as an opportunity to simplify many of the complexities which exist in the industry in 2010.

29. In our comments on structures, interfaces and incentives we addressed the inherent flaws in rail franchising including the process's inability to properly scrutinise the balance sheets of bidders as evidenced in the failure of two companies on the East Coast line in three years. We also pointed out there was a need for a public sector franchise benchmark as well as consideration of other models for the provision of passenger rail services such as co-operative or mutual structures which would reinvest profits rather than pay dividends with them.

30. We additionally highlighted the importance of rail freight and questioned the efficacy of the current arrangements for the provision of rolling stock.

31. We emphasised the importance of the industry's people as the one constant amid transitory ownership arrangements and underlined the need for better channels of communication between all the industry's stakeholders.

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