ORR Consultation on the financial framework for PR18 – April 2017

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train driver's union representing approximately 20,000 members in train operating companies and freight companies as well as London Underground and light rail systems.

2. ASLEF welcomed the decision to bring Network Rail in to public ownership. Keeping the infrastructure company as an arm's length not-for-dividend private company was a trick to keep its debt off the public accounts, yet simply meant that Network Rail had to pay far higher interest rates on its debt. Bringing it into public ownership means that our railing infrastructure can benefit from far lower costs in borrowing which will bring benefits to passengers and the taxpayer.

3. However whilst it reduces the cost of borrowing, it does not alleviate the problem of spiralling debt at Network Rail. This is clearly a subject that must be examined and addressed. Additionally it is always important to address how Network Rail finance future projects. However, ASLEF has some major reservations and concerns about the proposed methods of getting extra funding.

4. ASLEF has consistently pointed out the one of the major problems with franchising is the despite the private franchises benefitting from infrastructure upgrades, it is nearly always the public sector that finances this work. As the consultation points out, a train operator would only be likely to pay for a project if it could enter into, for example, a back to back

arrangement with DfT/Transport Scotland, because of the limited length of train operator franchises.

5. For this reason, It is very difficult to think of any genuine examples where private sector railway companies have introduced innovation or investment which has benefited passengers. The “Rebuilding Rail” report was commissioned by ASLEF and the other transport unions. It interviewed many rail industry experts who pointed out that most of the innovation on the railway was publically funded. Roger Ford, Industry & Technology Editor at Modern Railways stated, “They’re not investing. Nor are they really innovating. Not all that much.”

6. It is therefore difficult to see how it becomes possible for the private sector to begin investing in any meaningful way whilst the franchising system remains in place. The document states that, “East West Rail provides an example of third party participation in the delivery and funding of a railway scheme. The DfT recently announced that “a new East West Rail organisation will deliver the design, construction and operation of a railway link between Oxford and Cambridge. Whilst most of the financing/funding is expected to come from DfT, the East West Rail Consortium (of local authorities and strategic partners) is making a contribution towards the cost of the scheme.”

7. The Transport Secretary, Chris Grayling, has announced that “Network Rail has got a huge number of projects to deliver at the moment … I want it to happen quicker. This is an essential corridor for this country. On that route we are going to bring in private finance, in a form to be decided.” East West Rail is currently undergoing a scoping exercise on the financing of the project and how much private investment will be feasible. ASLEF therefore feels it cannot be considered an example of third party participation. ASLEF also fundamentally opposes the privatisation of rail infrastructure. The Unions feels it is important to learn from the mistakes of

the past and the catastrophic disaster of Railtrack. The combination of profit motive and the maintenance and improvement work on our network have led to fatal consequences in the past. Whilst we agree that fragmentation is leading a lack of productivity, and is a barrier to efficiency on our network, bringing together track and train under private ownership is not the answer. Removing the money leaving the industry in dividends is. For this reason, ASLEF is opposed to any private investment in our network that leads to the private sector controlling any of our infrastructure.

8. The private sector is unlikely to invest in rail infrastructure without being guaranteed a return. Therefore it is important to question at what price and private sector investment will come at.

9. It is difficult to imagine many other third party organisations funding projects too. Certainly the dramatic cuts to local authority budgets mean that they would be unlikely to have the financing to do this. Therefore plans that rely on this devolvement of funding are in danger of actually plans to devolve cuts.

10. ASLEF believes that the best way to create sustainable investment is to end the fragmentation of rail which itself creates inefficiency and also by preventing profit from leaving the industry. In 2014-15 £222 million left the industry through dividends. This is despite a public subsidy of £3.5 billion. Network Rail only receives £1.4bn from the track access and other charges from private operators but gets £4.2 billion from net government grants. How can it make financial sense to allow profit to leave the industry when the industry is still so reliant on public financing?

11. ASLEF believes that its time we stopped tinkering with a broken system. There are of course certain measures which can help increase efficiency when undertaking infrastructure work on our network, such as bringing Network Rail back into public ownership to reduce its borrowing costs. But

it’s the whole structure of our network which requires change. Until we have a single unified network were profits are reinvested into the network rather than handed out as dividends, we will never achieve the efficiency the railway needs to grow in capacity, reliability and value.

Mick Whelan
General Secretary
77 St John Street
London
EC1M 4NN