TUC, ASLEF, RMT, TSSA and Unite submission to the Transport Select Committee inquiry: Reform of the Railways

Introduction

1. This is a joint written submission from the TUC, ASLEF, RMT, TSSA and Unite, representing over 100,000 workers across all parts of the UK rail industry.
2. We welcome the opportunity to inform the Transport Committee's inquiry into the reform of the railways. In our view, the rail industry clearly needs reform given that the burden on the taxpayer and passenger has increased significantly since privatisation.
3. However, we believe that the government's proposals outlined in the *Rail Command Paper* do nothing to challenge the fundamental causes of inefficiency and fragmentation in our rail system, indeed in some cases will make it worse.

Key Points of the submission:

4. Discussions around the balance of the cost burden on taxpayer and farepayer must take into account increased costs in the industry as a result of privatisation. Quantifiable costs directly attributable to privatisation in the rail industry amount to £1.2bn per year. Eliminating these costs from the industry could provide an across the board cut in rail fares of 18 per cent.
5. Train operating companies will be given greater freedom to reduce services, increase fares for peak time passengers and de-staff trains and stations penalising the passenger and laying off thousands of rail workers.
6. Achieving high end cost savings of £3.5bn by 2019 could result in 20,000 job losses across the rail industry as well as closures of over 650 ticket offices. Passenger surveys consistently show that passengers want staff on stations, on trains and in ticket offices.
7. Network Rail will continue to reduce its own maintenance, signalling and renewals workforce in order to meet its efficiency savings, while undergoing fundamental restructuring that will see it fragmented and potentially subordinated to the interests of commercial train operating companies through the creation of alliances, creating a number of mini-Railtracks.
8. This provides significant risk to safety and infrastructure management, creates a greater number of regional interfaces and threatens to subordinate the interests of rival TOCs and freight operators.
9. EU comparators indicate that unified and integrated national rail systems under public ownership are more efficient and cheaper for passengers.
10. Trade unions have, to date, been excluded from the Rail Delivery Group and high-level strategic discussions within the rail industry.

What should be the Government's vision for the railways in 2020, taking account of likely spending constraints? How should the balance be struck between the taxpayer and the farepayer in paying for the railway?

11. In considering how our railways should be reformed, it is important to focus not just on the mechanics of reform, but on what we want that reform to achieve – that is, a vision of what our railways are for.
12. For UK rail to fulfil its potential and meet its full range of economic, environmental and social objectives, the government should be setting out a vision for rail that includes:
    - Providing a high quality service that passengers understand, with simple system-wide ticketing and affordable fares;
    - Tackling overcrowding through the expansion of capacity (rather than pricing people off trains);
    - Seeking ways to stimulate economic regeneration across all parts of the UK through investment in better rail services;
    - Rebuilding a rail manufacturing base in the UK, as a basis for then exporting our skills and technology to other countries;
    - Helping create uncongested liveable cities like the best in Europe through the expansion of urban rail networks;
    - Reducing carbon emissions by moving more long distance freight from road to rail (especially by encouraging palletised freight movements), as well as by providing passenger services that are an attractive alternative to driving;
    - Reducing longer rail journey times so that domestic and short haul flying becomes comparatively less attractive, in the way that Spain has achieved a more sustainable mode shift from air to rail;
    - Working with developers, development agencies and planners to integrate rail services with land use planning, so that users of major new developments can travel sustainably rather than being car-dependent;
    - At the regional and local level, making the railway function as part of a fully integrated public transport system;
13. Perhaps above all, creating a strong ethos of public service, in which all staff feel they are working to create the best possible railway, for the benefit of all of us.
14. The current model of UK railways has singularly failed to deliver this agenda. Privatisation has proved costly for both taxpayer and farepayer while failing to deliver the efficiency, innovation or investment that was promised.
15. Unpublished research by Transport for Quality of Life[1], commissioned by ASLEF, TSSA, RMT and Unite, shows that additional *quantifiable* costs of over £1bn per year are incurred through a combination of debt write-offs, dividend payments to private investors, fragmentation and transaction costs, including profit margins of complex tiers of contractors and sub-contractors and higher interest payments incurred by Network Rail resulting from being kept off the government's balance sheet. The cumulative costs since privatisation could be well over £11bn, as the following table demonstrates.

[1] *Rebuilding Rail*, Transport for Quality of Life, April 2012

Figure 1: Quantifiable costs of privatised and fragmented railway system

	Annual (£ million)	Cumulative (£ million)
TOTAL COSTS	**£1.2 billion**	**£11.3–11.7 billion**
Excess interest payment on Network Rail debt[2]	156	950
Fragmentation costs		
Cost of interfaces between TOCs and Network Rail[3]	290	not known
Network Rail: cost of outsourcing renewals / enhancements (and maintenance before 2003/04)[4]	200	2311
TOC sub-contractors' operating margins[5]	76	771
ROSCO sub-contractors' operating margins[6]	15	176
Leakage		
Dividend payments: Railtrack[7]	-	709
Dividend payments: TOCs[8]	227	507-1000
Dividend payments: ROSCOs[9]	207	2520
Sunk costs		
Underselling of ROSCOs at time of privatisation[10]	-	1100
Debt write-offs and liability transfers to make Railtrack sell-off attractive[11]	-	2208

16. As such, when seeking to address the balance that should be struck between taxpayer and the farepayer, we need to also address the fundamental problem of how both are being burdened with unnecessary and unproductive costs associated with privatisation.

17. A more useful exercise might be to look at the balance of benefits accrued to taxpayer, passenger, train operating companies, shareholders and other stakeholders as a result of escalating fares and public subsidy to the industry.

18. One way of looking at this would be that if all unnecessary costs highlighted above were eliminated and the resultant saving was used entirely to reduce fares, it would equate to an across the board cut in fares of 18per cent (or a substantially larger cut if applied only to regulated fares). Of course, savings could also be shared between farepayer and taxpayer. Either way, this would seem a more useful starting place to analyse the fundamental issue of how industry costs are being allocated between the passenger and the public purse.

19. Research by Just Economics[2], commissioned by the RMT, constructed an index that evaluated a range of outcomes in relation to levels of public subsidy across the UK and other EU nations. It found that the UK is the poorest performer by some distance. National, integrated rail systems under public ownership in Europe are more efficient and cheaper to use than the fragmented, privatised UK rail system.

How are the targeted efficiency savings (£3.5bn by 2019 on a 2008/09 base) to be delivered? What will be the consequences?

20. Targeted savings of £3.5bn by 2019 represent the high end of estimated achievable savings set out by the McNulty Review. While rail industry employers have set out a case for achieving low end savings of £2.5bn through the *Initial Industry Plan* (IIP) the government strategy is "to incentivise the industry to entirely close the £3.5 billion efficiency gap by

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[2] A Fare Return: Ensuring the UK's railways deliver true value for money, Just Economics, February 2012

2019"[3] and the ORR has committed to "challenging Network Rail hard to deliver further savings"[4] beyond the low end savings already outlined in the IIP.

21. There remain serious doubts as to whether the proposed changes outlined in the Rail Command Paper and the IIP will be able to achieve the significant savings identified even at the low end. Moreover, until further detail through the publication of High Level Output Specification (HLOS) and Statement of Funds Available (SoFA) there remains very little detail as to how the government expects the industry to extend these savings to the high end target of £3.5bn.

22. Both the Rail Command Paper and the Initial Industry Plan place great faith in the twin track approach of providing greater commercial freedom to train operating companies and the alignment of incentives for TOCs and Network Rail through alliancing. This is premised on the assumption that TOCs run on commercial grounds will drive through greater efficiency, innovation and investment and that Network Rail should be more subordinate to their interests. Yet much of this is based on assumptions with little supporting evidence, as industry analyst Roger Ford points out the Rail Command Paper is "full of such unconsidered and untested assertions"[5].

23. We believe that reductions in labour costs already form a disproportionate slice of overall targeted efficiency savings. It is also our view that where predicted savings fail to materialise in areas such as alliancing and train utilisation, the industry will resort to 'quicker wins' through further reductions in staffing costs, removal of services, further over-crowding and fare hikes.

24. It is clear from the McNulty review is that efficiency savings through reduced 'people' costs is one of the main areas to be targeted, with labour costs constituting between a quarter and a third of all savings.

25. McNulty's prescriptions for achieving these significant savings include the closure of over 650 ticket offices around the country, the use of Driver Only Operation as the default setting on UK rail, a review of station staffing and attacks on above inflation pay rises and revisions to existing terms and conditions for the rail workforce.

26. Many of these recommendations have been adopted by rail industry employers in their Initial Industry Plan and the Rail Delivery Group is currently working on its strategy covering 'technology, innovation and the impact on working practices', although rail industry unions have not been party to these discussions.

27. However, it is clear that job cuts are expected as part of the new rail franchises.

28. The Invitation to Tender for the Intercity West Coast franchise provides an indication of the way franchises will work to secure efficiency savings. Under a section on McNulty and Industry Reform it states that *"bidders are required to consider how the costs of running the railway can be reduced to secure a sustainable and efficient railway for the future. Bidders are also expected to propose in their plans how they would reduce the unit costs of the existing operations to improve efficiency. "*

29. On staffing it specifically states that *"it is not necessary for all stations to have a continuous visible staff presence, but staff should be on-duty at each station each operational day. It is for Bidders to define the balance of resources at each station between the various functions to deliver the most effective results".*

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[3] Rail Command Paper, March 2012
[4] Advice on NR's Cost and Outputs in CP5, Letter to Sec of State, Richard Price, ORR, 15 March 2012
[5] Informed Sources, April 2012

30. What might this mean for the rail workforce? Rail industry employers and the Secretary of State have been very reluctant to discuss potential numbers. Extrapolating from the McNulty Review we can identify the following jobs 'at risk':

Job type	Numbers at risk
Ticket retail in E and D stations	2,000
Station staff	5,500
Non-driver on-train staff	6,800
NR maintenance, signalling and operations	6,300
Total	**20,800**

31. What this will mean in practice, is a reduced service to passengers and a reduction in customer-facing staff that runs directly in contrast to what passengers want. We know from successive surveys and research: rail passenger want staff on trains and on stations.

32. Passenger Focus's National Passenger Survey[6] shows that "personal security" and "availability of staff" are two of the worst three areas of passenger satisfaction at stations. Personal security scored more highly on trains but less than half of all rail passengers were satisfied with the availability of a staff member on their train.

33. In response to the Command Paper, Anthony Smith, Chief Executive of Passenger Focus stated that "all our research indicates passengers really like the re-assurance only the presence of staff can bring. Taking staff away from stations would represent a very short-term, short-sighted saving."

34. In her report commissioned by the Labour Party *Everywoman safe everywhere*, Vera Baird QC states that "a significant number of respondents to the consultation raised concerns about cuts to travel budgets and services and the corresponding impact on that could have on women's perceptions of safety."[7] Removal of station and train staff and closures of ticket offices were chief among these concerns.

35. As Sophie Allain of the Campaign for Better Transport put it "cutting money from front-line passenger services, like ticket offices and train staff, will do more harm than good. Passengers want to know that train fares will be collected, that stations will not be deserted and dangerous, and that staff at ticket offices will be able to answer questions when they have them. Without these basic passenger services, rail will be less attractive to new customers."

36. What is more, we believe that the targeting of labour costs is misplaced. Labour cost efficiency targets are based on the assumption that wages have been a key contributory factor to the increasing cost burden in the industry. The McNulty Review blames "excessive wage drift" while the Rail Command Paper states that "successive substantial increases in pay have inevitably been one of the pressures behind the escalating costs of the railways"[8]

37. However, our analysis shows that unlike TOC profit margins, for example, there is very little correlation between increases in labour costs and public subsidy for the industry.

38. Train operating staff productivity has increased at a higher rate than unit labour costs and

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[6] National Passenger Survey, Passenger Focus, Autumn 2011
[7] *Everywoman safe everywhere*, Baird, March 2012
[8] *Reforming the Railways: Putting Passengers First*, DFT, March 2012

the wage bill. Rail pay provides value for money, as the following table shows:

Employment, Labour Costs and Productivity 1996/97 – 2008/09

39. All TOCs	
Wage Bill[9]	52.2per cent
Total employed[10]	13.6per cent
Unit labour cost - TOCs[11]	35.3per cent
Unit labour cost – Whole Economy[12]	38.0per cent
Productivity [13]	56.3per cent

40. The McNulty Review also shows that UK rail workers are 4th most productive in Europe and also points out that "train staff" and "other staff costs" are actually lower than those European competitors used as benchmarks in the report.

41. It is also worth noting that rail employment has a significant multiplier effect in the wider economy. Research by Ekogen found that the creation of 100 direct jobs in rail supports 140 indirect and induced jobs in the wider economy. The scale of job losses that might be inflicted in the rail industry will have significant repercussions throughout the economy.

Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?

42. The government's promotion of alliances between TOCs and Network Rail on a franchise basis and the potential for Network Rail to let long term infrastructure management concessions cause significant concerns.

43. In the absence of a fully integrated rail system under public ownership, the current national, not-for-dividend model is the most effective and efficient way for Network Rail to deliver its role as infrastructure manager. It provides economies of scale, an integrated approach across the network and prioritises investment in safety and maintenance over short term profit and dividend payments.

44. The economies of scale that can be achieved may be demonstrated by the savings of £400m per annum which resulted from Network Rail's decision to bring maintenance in-house. It is estimated that £100m of these savings can be attributed to reduced interface costs.[14]

45. The Rail Command Paper promotes both the fragmentation of Network Rail into smaller regional units thereby making it "more accountable to its train operating customers" and closer alignment of train and track, including "options to place responsibility for train operations and infrastructure management in an area in the same hands".[15] The paper makes clear the government's intention to use future franchises to "encourage bespoke arrangements for cost and revenue sharing, including the forming of alliances between train operators and Network Rail".[16]

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[9] TAS Business Monitor: Rail Industry Performance July 2010
[10] TAS Business Monitor: Rail Industry Performance July 2010
[11] TAS Business Monitor: Rail Industry Performance July 2010
[12] ONS Labour Force Survey Unit Wage Costs data
[13] TAS Business Monitor: Rail Industry Performance July 2010
[14] Rail Value for Money Scoping Study Report, 31 March 2010
[15] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[16] Ibid

46. Alliancing can be seen as a first step towards the "full vertical integration" of track and train "through a concession of infrastructure management and train operations combined"[17] as proposed in the McNulty Review. Indeed, the Command Paper commits the government to explore "full integration on discrete parts of the network", identifying Network Rail routes such as Wessex and Anglia as potential areas for targeting vertical integration.

47. Of course, greater integration makes sense and we would support a fully integrated system if it were on a national, publicly accountable and not-for-profit basis.

48. But both alliancing and full integration within the current system will cause greater fragmentation, increasing transaction costs and inefficiency across the network as well as reducing the economies of scale currently afforded to Network Rail. Furthermore, it places safety and maintenance back in a commercial framework that was a key contributing factor to safety failures under the previous Railtrack model. Creating a series of regional Railtracks would pose a major threat to safety and maintenance.

49. Moreover, there are doubts as to what kind of savings might be made through alliances. Again, as Roger Ford notes, *"the Command Paper claims that it is 'clear' that some of the additional Network Rail efficiency is only deliverable through partnership working with train operators. But no one knows yet how partnerships might work, let alone the savings they might deliver. It is back to 1992 when everyone 'knew' that privatisation would cut costs."*[18]

50. There are also serious concerns about the nature of Network Rail's current alliance proposals, particularly in the 'deep alliance' model piloted with Stagecoach on South West Trains. Network Rail's policy paper refers to "an integrated management team with a single Managing Director who is accountable to both companies"[19].

51. To what extent does this demonstrate closer collaboration between Network Rail and TOCs or capture and takeover of Network Rail by the latter? While it is clear that Network Rail's statutory responsibilities and accountability will be unchanged, there can only be significant tensions with the profit motives of Stagecoach when negotiating priorities for infrastructure work, particularly as Stagecoach will directly benefit from efficiency gains through the sharing of "upside risk". The extent to which shared efficiency gains will benefit Stagecoach profits and dividend payments as opposed to the whole network is unclear at this stage and should be subject to particular attention as the deep alliance progresses.

52. We are also concerned by the impact of alliancing and/or vertical integration on access to the network by other rail operators, particularly those in the freight sector.

53. Finally, we are particularly concerned with proposals that have been mooted for privatisation of parts of Network Rail through the letting of infrastructure concessions to equity based providers. While this is separate from alliancing and no tangible proposals have been submitted to Network Rail as yet, this would raise considerable concerns about fragmentation and negative impacts on safety as highlighted above.

How should fares and ticketing be reformed?

54. The Command Paper states that the government will "reduce and then end above-inflation rises in average regulated fares, as soon as the impact of cost saving measures and improvement in the wider economic situation permit"[20] However, it is made clear that this will only be achieved once savings are found as the government's austerity drive means that subsidy will be cut. Given that the government is committed to RPI + 3per cent increases

[17] *Rail Value for Money Study*, McNulty May 2011
[18] Informed Sources, April 2012
[19] *Alliancing: Network Rail Policy Statement,* March 2012
[20] Ibid

(along with the 5per cent that train operating companies can add to some routes) on regulated fares for 2013 and 2014, there is unlikely to be any respite for the passenger until towards the end of this decade at the earliest.

55. Furthermore, peak time passengers are likely to face a further fare hike. The government states that *"while we reject the idea of using demand management to price people off railways, we need to look seriously at the possibility of rewarding passengers who do not travel on the most crowded trains, and asking those passengers who drive the need for capacity enhancements by travelling at the busiest times to pay more over the time for their journey by comparison"*[21]

56. However, this approach to demand management jars with the experience of many paying passengers who have no choice but to travel at peak times due to working hours. Without a massive culture change in attitudes to working hours, this kind of approach will simply penalise a captive market of commuters. As the Campaign for Better Transport states "If people could change their commute times easily, they would have done so by now to avoid having to stand on crowded trains. Raising the price of tickets by RPI+3per cent +5per centflex +Xper cent for the busiest trains will simply price people on lower incomes off trains and make little difference to overcrowding."[22]

57. A YouGov poll commissioned by the Campaign for Better Transport shows only 14 per cent of people believe that raising fares on the busiest trains at a higher rate than other services is fair, whilst 63 per cent think the proposal is unfair for all passengers, even if it meant lower fares on some less busy services.

58. Helping passengers obtain tickets through better information and technology is something that we would support. However, we believe that both the McNulty Review and the Command Paper have ambitious plans to de-staff trains and ticket offices that will be at the expense of the passenger. And we do not believe that purchasing train tickets from non-trained staff in other retail settings provides the help and advice that passengers want.

59. Over half of all nationally available ticket retail is provided through face to face contact with ticket office or train staff. Nearly all (89per cent)[23] ticket retailers offering the full range of tickets for passengers are handled by trained staff in ticket offices and on trains. What is more, surveys show that passengers value face to face contact when it comes to navigating their way around the complex ticket pricing system.

60. The Department for Transport's own review into ticketing acknowledges Passenger Focus research that shows that "passengers are more confident with ticket offices than any other sales channel of obtaining the best value ticket for their journey"[24]. Plans to cut on-train and ticket office staff will be unacceptable to a great majority of passengers.

What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?

61. As European comparisons indicate a strong role for regional and local authorities helps support greater specification of service needs and integration of rail services with local transport modes.

62. A greater role for regional bodies, such as ITAs, could result in a closer focus on local social, environmental and economic priorities through all parts of the country.

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[21] Ibid
[22] *Media briefing on fares review,* Campaign for Better Transport
[23] *Rail Fares and Ticketing Review: Initial Consultation*, Department for Transport, March 2012
[24] Ibid

63. However, the examples from Europe suggest that this is greatly facilitated by the existence of strong regional structures within a unified national rail system under public ownership.
64. Negotiating long term sustainable outcomes is much harder in a UK system where most parts of the country are covered by local authorities that lack the scope and resources to engage with rail, where regional bodies have largely been abolished and where local funding is subject to severe funding cuts. This is exacerbated by the complex number of interfaces that local authorities would have with multiple passenger and freight operators.
65. There are also serious concerns about the devolution of funding for rail. The current situation with local bus services under threat due to severe restrictions in local authority funding, shows how vulnerable transport can be where devolved budgets are under threat. A similar devolution of rail funding might lead to additional threats to regional rail services.
66. As such, there are severe limitation to the current structure of local government and the rail industry in managing effective joined-up regional management of the railways.