A Trade Union Response to the Rail Command Paper

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Introduction

The Rail Command Paper *'Reforming our Railways: Putting the Customer First'* sets out the government's plans for reforming the rail industry in order to drive through cost reductions resulting in efficiency savings of £3.5bn by 2018/19.

The Command Paper is largely based on the recommendations made by Sir Roy McNulty's Review into value for money in the rail industry, published in May 2011 and will have a serious impact on jobs, services, fares and the integrated structure of our rail industry.

Many of these recommendations have also been adopted by the rail industry employers, as outlined in the Initial Industry Plan (IIP), produced in September 2011. The Rail Delivery Group, comprised of owners of Britain's train operating companies (TOCs), freight operating companies and Network Rail, have convened a series of working groups looking at how the industry can implement the range of McNulty recommendations.

The government is also driving through cost cutting measures through the renewal of rail franchises, starting with the invitation to tender for Intercity West Coast. And plans to integrate infrastructure management and train operation and fragment the national structure of Network Rail are already being piloted in different parts of the country, most notably with the 'deep alliance' between Network Rail and Stagecoach on the South West franchise.

The rail industry clearly needs reform given the burden on the taxpayer and passenger has increased significantly as a result of the costs of privatisation.

However, the government's proposals do nothing to challenge the fundamental causes of inefficiency and fragmentation in our rail system, indeed in some cases will make it worse. 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. At the same Network Rail will continue to reduce its own maintenance, signalling and renewals workforce in order to meet its efficiency savings through to the end of its next funding period (Control Period 5) from 2014 – 2019.

This briefing paper sets out our key concerns with the government's proposals. The TUC, and rail unions, passenger groups and communities will join together to campaign against fare hikes, job cuts and service reductions. We will also continue to promote the case for a national, integrated and publicly owned rail system that meets the needs of our passengers, our economy and our environment.

The costs of privatisation

Before we turn our attention the specific proposals in the Command Paper, it is important to understand the fundamental sources of inefficiency and cost escalation in our dysfunctional privatised rail system.

Research by Transport for Quality of Life[1] shows that additional 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.

Figure 1: Quantifiable costs of privatised and fragmented railway system

TOTAL COSTS	Annual (£ million) £1.2 billion	Cumulative (£ million) £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

The researchers also stress that these reflect readily-quantified costs. In additional there are excess interest payments on ROSCO debt, excessive bonus payments and executive remuneration, costs associated with franchise bidding rounds, marketing and re-branding on franchise take-overs and tax avoidance.

This represents over £1bn a year that leaks out of the industry that could be otherwise invested in infrastructure, rolling stock, training, safety and tackling over-crowding. And these are costs that dictate pricing throughout the industry, from passenger fares to track access charges, the system is geared to accommodate these cash leakages that are a direct and unproductive result of rail privatisation. No wonder then that, as the McNulty Review correctly identified, integrated state-run services in Europe achieve significantly higher efficiency while providing lower fares for passengers.

[1] *Rebuilding Rail interim report*, Transport for Quality of Life, September 2011

The Rail Workforce: Serving the passenger

One thing is clear from successive surveys and research: rail passenger want staff on trains and on stations.

Passenger Focus's National Passenger Survey[2] 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.

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."

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."[3] Removal of station and train staff and closures of ticket offices were chief among these concerns.

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."

The government cannot fail to understand this and is coy about job cuts, recognising that "passengers can feel very strongly about ticket office opening hours, not least because they value the face-to-face contact with a member of staff"[4]

Yet they intend to extend Driver Only Operation, reduce ticket office and station dispatch staff and undermine collective agreements by taking on new staff under new terms of employment. Furthermore, bidders for future franchises will be asked "to set out the key actions they will take to improve efficiency" and "to look closely at areas highlighted by the *Rail Value for Money Study*"[5]

So it is worth turning to the McNulty Review to see what this might mean for staffing.

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[2] National Passenger Survey, Passenger Focus, Autumn 2011
[3] *Everywoman safe everywhere*, Baird, March 2012
[4] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[5] Ibid

The first thing that is clear from the McNulty review is that efficiency savings through reduced 'people' costs is one of the main areas to be targeted. The table below shows potential low case and high case savings to be achieved by 2018/19, with labour cost cutting making up between a quarter and a third of all potential savings.

Estimates of savings in 2018/19 (in 2009/10 prices)

Area	Low case (£m)	High case (£m)
Industry objectives, strategy & outputs	90	110
Leadership, structures, interfaces and incentives	40	130
Revenue	90	90
Asset management and supply chain management	230	580
Programme management	40	100
Safety, standards and innovation	190	190
People	260	260
Less double counts	(200)	(410)
Net funding savings	**740**	**1,050**

Source: *Rail Value for Money Study*, McNulty, May 2011

McNulty's prescriptions for achieving these significant savings include:

- Driver Only Operation as the default position for all services on the GB rail network
- Closure of all Category E station ticket offices and reduced opening hours for Category D station ticket offices
- Train operating companies to review station staffing as a matter of priority
- Reduction of Network Rail maintenance, signalling and operations staff
- Reduction of Network Rail's management, support and administration
- An end to above inflation pay increases
- An industry-wide review of terms and conditions
- The use of revised terms and conditions for new entrants to the industry

Many of these recommendations were adopted by the 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.

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

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:

“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. “

“Bidders are required to describe how they plan to reduce the unit costs that they can control during the life of the franchise. ..A specific delivery plan is not required; rather every delivery plan should include a section that describes the initiatives that bidders will implement to reduce unit costs... A quantitative summary of the total reductions expected to be achieved by these initiatives should be presented in the bid executive summary. “

On staffing it specifically states:

“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. “

“Smartcard ticketing and new retailing methods through such channels as the Internet have considerably reduced the need for passengers to use ticket offices. Bidders should consider more flexible and economic staffing arrangements at stations which provide a visible staff presence, revenue protection and help in choosing and purchasing a ticket.”

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**

In its response to the Rail Command Paper, the RMT estimated an initial 12,000 jobs were at risk, this figure being based on similar job estimate methodology as used above.

Adopting a different methodology, the TSSA has set out estimates based on low case and high case efficiency savings, assuming that employee cost savings will be applied proportionately i.e. approximately one-third of the total.

Low end efficiency gap estimate					
Staff savings to be made = £833 million (c1/3rd of £2.5 billion)					
Average per capita staff cost	No of jobs axed				
	Crude head cull	10% efficiency	20% efficiency	30% efficiency	40% efficiency
£30,000 pa	c27,800	c25,000	c 22,200	c19,400	c16,700
£35,000 pa	c23,800	c21,400	c19,000	c16,700	c14,300
£41,900 pa*	c19,900	c17,900	c15,900	c13,900	c11,900
*McNulty VfM final report 12.1.3 (page 193) referred to 92,000 employees in 2008/09 (Network Rail, Train Operating Companies, Freight Operating Companies and Open Access Operators) with staff costs of £3.85 billion). This gives an average per capita cost of c£41,900. The lower average staff cost figures have been included to illustrate the potential impact based on the likelihood of lower paid staff being adversely affected disproportionately – train drivers who are amongst higher paid, for example, are not likely to suffer in terms of job cuts.					

High end efficiency gap estimate					
Staff savings to be made = £1.16 billion(c1/3rd of £3.5 billion)					
Average per capita staff cost	No of jobs axed				
	Crude head cull	10% efficiency	20% efficiency	30% efficiency	40% efficiency
£30,000 pa	c38,900	c35,000	c31,100	c27,200	c23,300
£35,000 pa	c33,000	c30,000	c26,700	c23,300	c20,000
£41,900 pa*	c27,800	c25,100	c22,300	c19,500	c16,700
*McNulty VfM final report 12.1.3 (page 193) referred to 92,000 employees in 2008/09 (Network Rail, Train Operating Companies, Freight Operating Companies and Open Access Operators) with staff costs of £3.85 billion). This gives an average per capita cost of c£41,900. The lower average staff cost figures have been included to illustrate the potential impact based on the likelihood of lower paid staff being adversely affected disproportionately – train drivers who are amongst higher paid, for example, are not likely to suffer in terms of job cuts.					

Clearly, all these estimates need to be treated with a great deal of caution and we are not claiming that the higher end figures will materialise in terms of job cuts. They may, however, give an indication of the sorts of savings needed in addition to job cuts that will have major implications for staff surviving the cuts in terms of pay, work patterns and other conditions of employment. These will have to be squeezed in order to deliver the savings required.

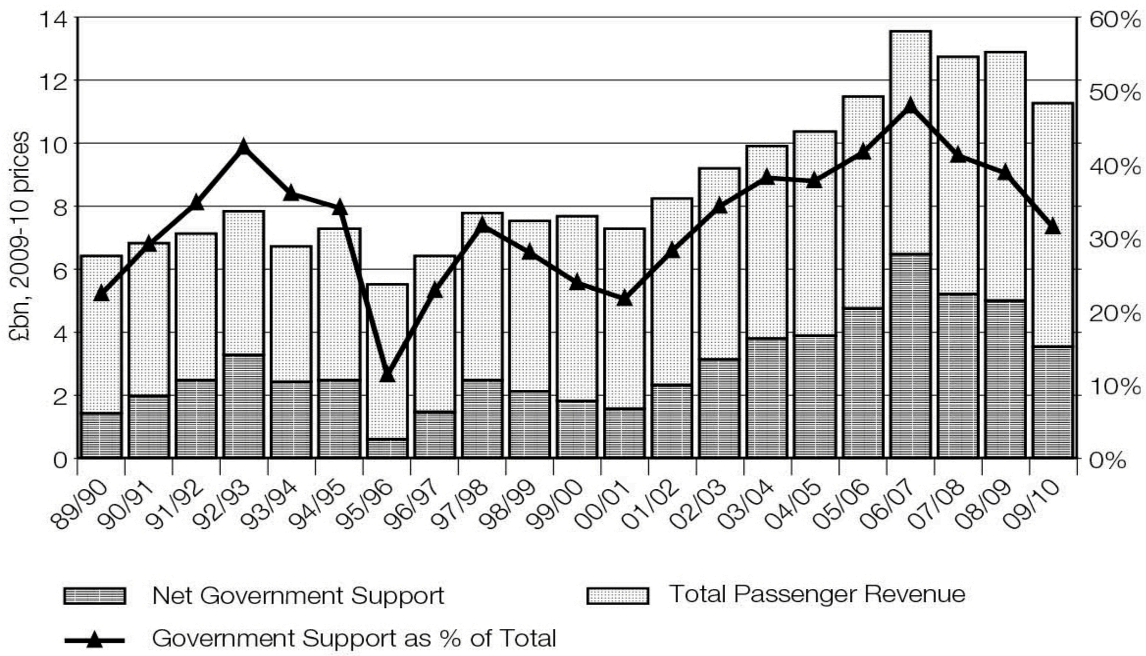
Are rail industry labour costs the problem?

The 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"[6]

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.

We can see from the following two tables that there is a very strong positive correlation between levels of state support for the industry and TOC profit margins since privatisation.

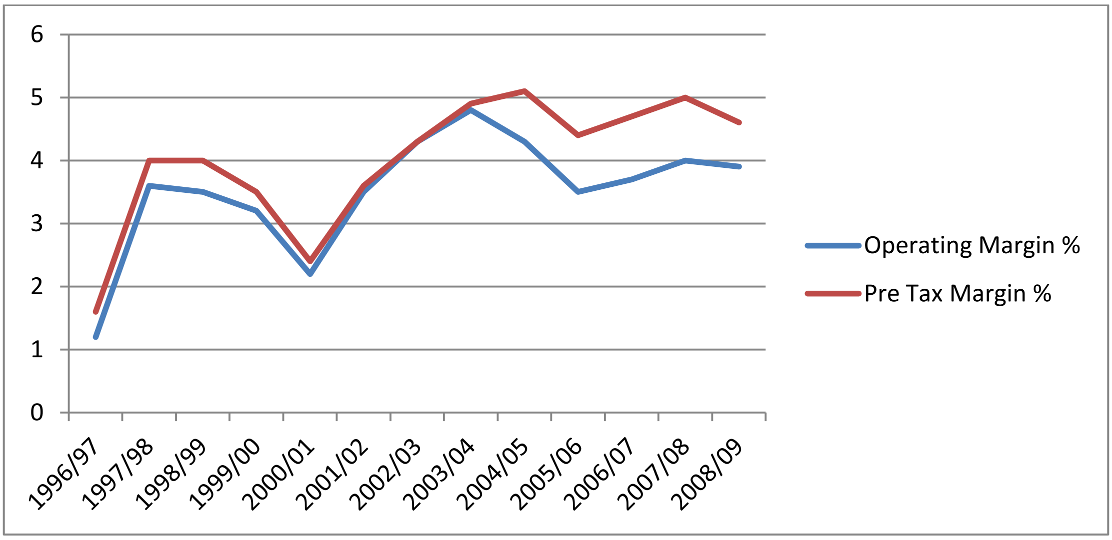
Fare-payer and taxpayer contributions to GB rail since 1989/90



Source: *Reforming the Railways: Putting Passengers First*, DFT, March 2012

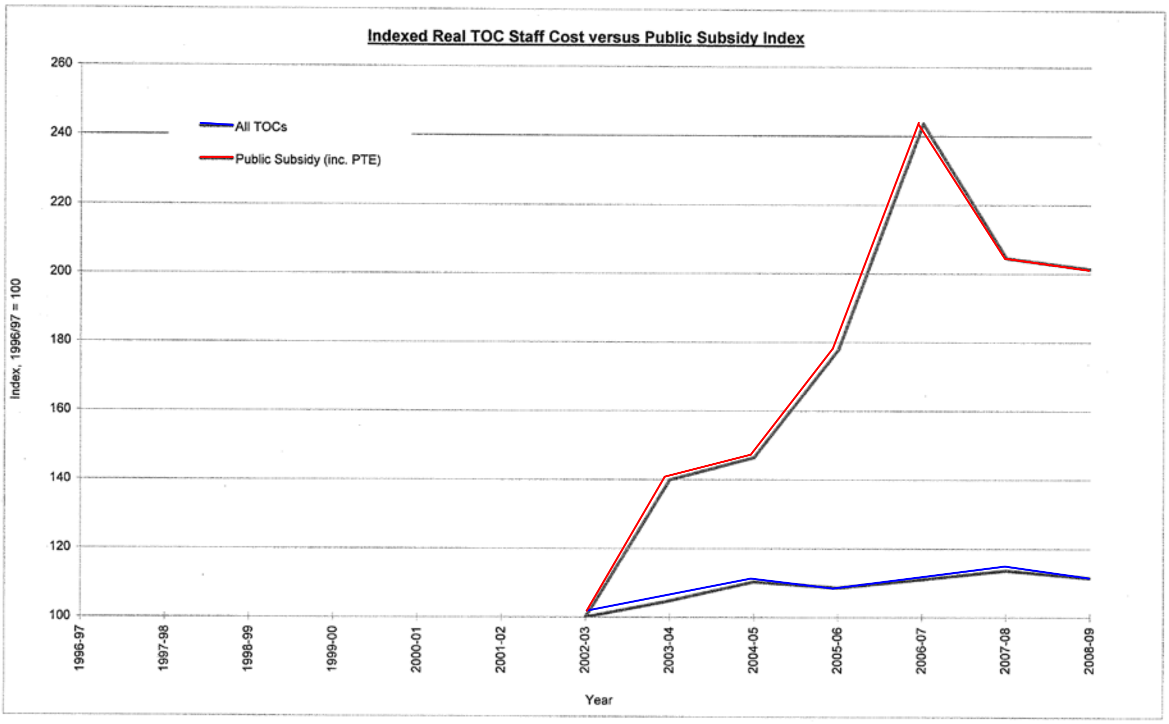
[6] *Reforming the Railways: Putting Passengers First*, DFT, March 2012

TOC Operating and Pre-Tax Profit Margins 1996 – 2009



Source: TAS Business Monitor: Rail Industry Performance July 2010

This contrasts starkly with the chart below which contrasts rises in indexed real TOC staff costs with public subsidy.



Train operating staff productivity has increased at a higher rate than unit labour costs and the wage bill. Rail pay provides value for money, as the following table shows:

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

All TOCs	
Wage Bill[7]	52.2%
Total employed[8]	13.6%
Unit labour cost - TOCs[9]	35.3%
Unit labour cost – Whole Economy[10]	38.0%
Productivity [11]	56.3%

The McNulty Review 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.

[7] TAS Business Monitor: Rail Industry Performance July 2010
[8] TAS Business Monitor: Rail Industry Performance July 2010
[9] TAS Business Monitor: Rail Industry Performance July 2010
[10] ONS Labour Force Survey Unit Wage Costs data
[11] TAS Business Monitor: Rail Industry Performance July 2010

Network Rail – collaboration or capture?

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.

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.

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".[12] 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".[13]

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"[14] 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.

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.

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.

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"[15].

[12] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[13] Ibid
[14] *Rail Value for Money Study*, McNulty May 2011
[15] *Alliancing: Network Rail Policy Statement,* March 2012

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.

Finally, the TUC is 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.

Leadership: Who's leading whom?

The Command Paper claims that "the government is holding too much responsibility for industry's performance". It therefore resolves to "devolve more accountability and decision-making to the professionals who run our railways – the train operators and industry as a whole"[16] In addition the government are seeking to devolve more decisions making over local services to Passenger Transport Executives (PTEs) and local authorities.

We believe that as a vital national service delivering a wide range of economic, social and environmental objectives beyond passenger services, national rail requires strong and pro-active government engagement and would be wary of the government taking a step back from this.

As part of devolving leadership to industry professionals, rail franchises will be reformed with more flexible specifications that, among other things, will allow franchisees to "use their knowledge of their own passengers' needs to develop service patterns" on the understanding that train operating companies have "a vested interest in satisfying their passengers"[17]

As for-profit and for-dividend companies, train operators have a vested interest in satisfying their shareholders. Passengers at smaller stations and on less profitable lines may well suffer from service reductions as train companies balance passenger interest with commercial interests of investors and share holders. Less prescription may well not deliver a public service orientated railway.

Devolution to local authorities and PTEs has some merits, particularly in increasing local democratic accountability, however there are also potential issues around competing interests and fragmentation that would need to be ironed out to ensure that this worked effectively. And with local authorities subject to 28% cuts in funding through to 2015, it is unlikely that the resources will be in place on a local level to ensure appropriate capacity to deliver on this. For example, the extent to which local promoters will be able to tap into local budgets to provide revenue funding for the first three years for any new local services is highly questionable.

The government welcomes the establishment of the Rail Delivery Group which brings together the Chief Executives of the owning groups that operate passenger franchises, leading freight operators and Network Rail. The Rail Delivery Group is recognised as the key vehicle for delivering industry leadership.

However, despite the McNulty Review's call for a "whole industry approach" to rail reform, the Rail Delivery Group excludes any representatives of passengers, the rail industry workforce or other stakeholders such as local authorities or PTEs. This is a top down

[16] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[17] Ibid

initiative that will set priorities for the industry in the interests of the owning groups and Network Rail management.

While representatives of the Rail Delivery Group have committed to meet with rail unions at a later date to discuss implementation, there has been no voice for the railway workforce in the design or production of any of the strategies.

There are also concerns about the restructuring of Network Rail’s governance. The reduction in members and the exclusion of “industry insiders” again reduces the ability of workforce representatives to help shape strategic decision making and accountability in the industry. Moreover, the Command Paper’s aim to “ensure the appointment of a membership with a skill-set better aligned to holding a large commercial organisation to account” suggests the promotion of private sector interests within Network Rail’s membership.

Fares: Pricing people off rail?

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"[18] 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 + 3% increases (along with the 5% 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.

Furthermore, peak time passengers are likely to face a further fare hike.

In an apparent contradiction that is characteristic of the Command Paper, 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"[19]

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+3% +5%flex +X% for the busiest trains will simply price people on lower incomes off trains and make little difference to overcrowding."[20]

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

Helping passengers obtain tickets through better information and retailing opportunities 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.

[18] Ibid
[19] Ibid
[20] *Media briefing on fares review,* Campaign for Better Transport

Over half of all nationally available ticket retail is provided through face to face contact with ticket office or train staff. Nearly all (89%)[21] 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. 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"[22].

Plans to cut on-train and ticket office staff will be unacceptable to a great majority of passengers.

[21] *Rail Fares and Ticketing Review: Initial Consultation*, Department for Transport, March 2012
[22] Ibid

What price on safety?

The government wants to assure passengers that our railways are “not only some of the safest in Europe but continuing to improve on that record”[23] We welcome the Command Paper’s assertion that reform must be delivered in a way which ensures the highest standards of safety.

However, we have serious concerns about the direction of travel on safety where the Command Paper calls for a more “cost-effective” approach to safety and where infrastructure management could be subordinated to commercial interests through vertical integration with train operating companies. The government makes clear that “expensive infrastructure solutions” are not always the most “cost-effective” way of delivering safety improvements, there is a clear push to “lower the cost of renewals over time”. While cost efficiency is not of itself a risk to safety, in the context of ‘deep alliancing’ and vertical integration it does cause some concern for those who recall the recent history of disasters in our rail industry.

The Command Paper recognises the huge improvements made in safety since the Hatfield rail disaster, indicating that “there was a pressing need to learn lessons from the tragedy and fix the problems it highlighted”[24]

But the lessons of Hatfield (as well as Ladbroke Grove and Potters Bar) indicate that complexity of sub-contracting, commercial imperatives over-riding technical and safety considerations and a falling rate in track renewals were all to blame.

Arguably this would arise from a regional integrated track and train franchise run by a for-profit train operating company. It seems that not all of the lessons of Hatfield are being learned by this government.

[23] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[24] Ibid

Rolling stock - buying wisely

Unions have long argued for a more structured planned and transparent approach to rolling stock procurement. The disastrous handling of the Thameslink rolling stock project and the threats to the future of rail production at the UK's sole remaining rail manufacturing facility at Bombardier in Derby prompted a passionate and high profile campaign by trade unions and the local community to defend British rail manufacturing.

As a result of this campaign, we welcome the government's commitment to adopt a new approach to rolling stock procurement. We welcome the proposed publication of a "high-level, industry-wide rolling stock strategy to assist planning and to give more visibility to the supply chain"[25]

We also welcome the commitment made to ask bidders to set out "how they will establish a local presence to manage the delivery of the contract and be asked to make clear which elements of the contract will be sourced in the UK so that we can better understand and communicate the benefits to the UK economy" on the "limited occasions when government chooses to procure rolling stock"[26].

We also recognise the government's aim to work more closely with UK-based rail manufacturing companies so that they are informed and geared up to make the most of opportunities at home and abroad.

However, we also note that the government is keen to enable "greater flexibility to franchisees over the rolling stock decisions they make when bidding for franchises" which will "allow private sector experience to be used in the procurement process"[27]. We would welcome a pro-active approach from government that ensured that franchisees shared a similar approach to supporting UK manufacturing.

[25] Ibid
[26] *Reforming the Railways: Putting Passengers First*, DFT, March 2012
[27] Ibid

A future for freight?

The Command Paper supports rail freight growth, recognising its value in economic, environmental and safety terms and justifies on-going reduction in track access fees and revenue grants on this basis. It also recognises what rail freight needs to thrive and grow is the expansion of the strategic freight network including diversionary routes, gauge and capacity upgrades and planning policies to deliver terminals of all sizes.

Restructuring of rail with commitments to trial vertical integration in the privatised railway is a huge threat to rail freight. A fragmented model with more interfaces is no use for rail freight. Network Rail needs to work to ensure that freight's interest are safeguarded and that passenger operators are not running track. It is therefore disappointing that government continues to support full vertical integration, going much further than the current proposals for alliancing which in themselves risk more interfaces and fragmentation.

In particular, singling out Anglia routes for vertical integration tests is very worrying for freight which could threaten the ability of freight operating companies to supply reliable services to their customers' trains out of Felixstowe. In some parts of the country this model could lead to conflicts of interests.

Knowledge is power, making transparency work

We agree with the Command Paper's assertion that "the public has a right to clearer and more transparent information on costs and on performance"[28] For too long, rail industry financing has been oblique and hidden under commercial confidentiality.

The passenger and taxpayer do not appreciate where their money goes to in the industry or the extent to which the burden for meeting industry costs is fairly shared between the passengers and taxpayers on one side and the industry on the other.

We therefore welcome increased information about the flow of cost, income and subsidy of Network Rail and franchised train operators for each operating route. We would particularly welcome greater visibility of train operating company costs and revenues. We note that the government, Office of Rail Regulation and train operating companies are working together to make appropriate data readily available while recognising train operators' "legitimate wish in certain circumstances to maintain commercial confidentiality".

We will continue to press for more visible information that is available in user-friendly formats for the public and industry stakeholders to use effectively.

[28] *Reforming the Railways: Putting Passengers First*, DFT, March 2012

Conclusion

The rail industry needs reform. Since privatisation, the rail industry has seen subsidy and fares increase, while billions have been taking out of the industry in the form of profits, dividends, transaction costs and other unproductive uses of scarce resources.

Comparisons with European rail systems have shown that state-run industries can deliver more efficient rail services with lower fares and better performance across a range of indicators.

The McNulty Review and the Command Paper present another missed opportunity. Once again, government is looking to patch up a dysfunctional privatised system without addressing the fundamental flaws. As a result, this current agenda provides even greater fragmentation, more commercial freedom for the train operating companies that form part of the problem and a weakening of Network Rail, the national, integrated and not-for-dividend infrastructure manager that was put in place in the wake of the Railtrack fiasco.

The government has set an extremely stretching target for cost savings within the current system. Even within the low end of efficiency savings of approximately £2.5bn, train operating companies will be asked to find £700m a year in savings on top of the £1.8bn earmarked for Network Rail in CP4 and CP5 (up to 2019). With an additional £1bn targeted on top, there are likely to be severe impacts on the industry, with a great deal of faith placed in untested measures such as regional alliancing and potential even greater stress on staff. Much of the Command Paper appears wishful thinking. Train Operating Companies are expected to deliver increased investment on the basis of longer term franchises, despite there being no evidence that this will transpire and no mechanisms in place to oblige them. In short, the Command Paper is a train operating companies charter, with huge concessions given and very little demanded as a result, bar hopeful anticipation that the private sector will deliver. Despite all the evidence to the contrary and the fact that rail privatization failed to deliver on nearly all of its promises, the Command Paper repeats the government's mantra that "equity is a strong driver of efficiency and value for money"[29]

We will continue to press the case for public ownership. We will continue to demonstrate through further research and information that there is a strong efficiency, economic, environmental and social case for a publicly owned, integrated national rail network. And we will continue to lobby the government to implement the government to take the case for rail reform seriously and put public ownership back on the agenda.

[29] *Reforming the Railways: Putting Passengers First*, DFT, March 2012