Railways - beyond privatisation

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A strategy for bringing railways back into community control.

Britain's railways have always been profoundly political. Ever since the inauspicious opening day of the Liverpool and Manchester Railway on 15 September 1830, when William Huskisson MP was mown down by Stephenson's *Rocket*, railways have had an uneasy relationship with politicians. And the question of ownership and co-ordination of the railways has always been a central area of dispute.

In 1997 the Blair government inherited a railway which had been privatised by John Major four years earlier, having made a commitment to creating a 'publicly-owned and publicly accountable railway'. This never happened, and for the last twenty years the structure inaugurated by Major has remained largely intact. During this period the cost of the railways to the state has nearly quadrupled - contrary to Tory claims that privatisation would reduce the costs of a bloated state-run bureaucracy. However the current franchised system hit the buffers in October 2012, when new secretary of state for transport Patrick McLoughlin announced the abandonment of the West Coast franchise and put a temporary halt to other bids. This article looks at past experiences of nationalisation and privatisation, and sets out a course for a new way to manage Britain's railways in a way that would meet the needs of both passengers and industry.

To start, we can take pride in the fact that Britain gave railways to the world. The astonishing talent of working-class Tynesider George Stephenson played a central part in creating a national railway network that for many years was the envy of the rest of the world. By the 1860s, Britain had built a national railway network that had been entirely created by private capital. But the state made an intervention at an early stage with Gladstone's 1844 Railways Act, which subjected the railways to 'such conditions as are hereinafter contained for the benefit of the public', including cheap 'workmen's' fares; and this legislation started the long process of regulating railway safety, initially through the Board of Trade. However, for a long time nationalisation remained an unacceptable proposition, despite many of Europe's railways becoming state-owned by the end of the century.

One problem was the co-ordination of a national system. What emerged was a network of scores of private companies, each 'vertically integrated' with ownership of their own tracks and trains - though negotiated arrangements allowed for some degree of shared use of track. There was duplication and even triplication of routes as companies vied for their shares of the cake of Victorian economic prosperity. However, by the end of the nineteenth century the number of independent companies had reduced as the larger enterprises, such as the Great Western, Midland, London and North Western and North Eastern Railways swallowed up the smaller fish.

Towards the end of the nineteenth century the railways became a major focus for socialist and radical liberal attempts to tame unbridled capitalism. Critics of the railways pointed to excessive profits, a casual disregard for the safety of both passengers and employees, and the often inadequate standards of punctuality and comfort. Overcrowding on suburban services was rife, leading Lord Chief Justice Russell to comment in the 1890s that 'men, women and children are forced into trains in a way they would not herd sheep or bullocks'. This was grist to the mill for bodies such as the Railway Nationalisation League, formed in 1895; and the Independent Labour Party, formed in 1893, included railway nationalisation as a key objective. The railway trade unions had also become a force to be reckoned with by the turn of the century, and even the moderate Railway Clerks' Association called for public ownership, putting forward some creative ideas on ways of involving both workers and businesses in what we would now call a 'stakeholder board'.

The first world war placed huge burdens on the rail network, and the system was placed under temporary wartime government control. At the end of the war the newly reorganised Labour Party called for national ownership of railways and canals. But what instead happened was the amalgamation of the disparate collection of existing companies into 'The Big Four' - the Great Western, Southern, London Midland and London and North Eastern Railways. The 'railway interest' had successfully fought off widespread demands for outright state ownership, and, despite the nostalgic image of railways between the wars and 'the streamline age', the reality of the Big Four's stewardship of the railways in the interwar period was under-investment and cost-cutting. The huge burdens of the second world war brought the system to its knees and made nationalisation inevitable, almost regardless of who won the 1945 General Election.

But railway nationalisation was more than just a pragmatic move by the Attlee government. It was the culmination of decades of campaigning by socialists and railway trade unionists, and great hopes were placed on the new people's British Railways. Michael Young, writing in 1948, said that 'the nationalised industries should be models of industrial democracy which can later be followed elsewhere' (*Small Man - Big World*). However, the approach adopted for managing the railways and other newly-state owned industries was top-down and centralised, with more co-operative or democratic forms barely considered. Herbert Morrison had already developed ideas for the London Passenger Transport Board, set up to run transport in London, and this became the form adopted for other 'public corporations'. There was no room for passenger interests, or even those of employees, and the board was run by appointed 'experts'. This then became the model for the British Transport Commission, which was given overall charge of transport, and appointed a Railway Executive to run the trains. As a sop to the unions, Bill Allen of the locomotive drivers' union Aslef was given a place on the Executive's board. However most of the key jobs went to senior figures from the old private companies. Thus the opportunity to develop a more popular and accountable form of public ownership was missed.

The experience of the railways under public ownership was mixed. The desperate need for modernisation, after years of under-investment and war damage, was to some extent met by the 1955 Modernisation Plan, which inaugurated the replacement of steam traction by diesel and electric, and provided for serious investment in infrastructure. But the tide was running against rail transport, as car ownership began to grow. Some degree of rationalisation was inevitable, and it was also necessary to cut out some of the duplicated routes that were a legacy of the brief age of competition. But what actually happened was the appointment of Dr Richard Beeching as chairman of the British Railways Board (as the Railways Executive had been re-christened), with a mandate to take an axe to much of the network, in order to achieve that increasingly impossible will o' the wisp, a profitable railway. His report, *The Re-shaping of British Railways*, published in 1963, was awesome in its implications, and left thousands of communities deprived of their railway services. Only a few of the threatened lines managed to survive the cull, and major routes fell victim, including 'the Waverley Line' that linked Carlisle and Edinburgh and served towns such as Hawick and Galashiels. The election of a Labour Government in 1964, with Barbara Castle as Minister of Transport, halted some of the closures, but most went ahead.

The closure programme had run its course by the early 1970s, but a new round of cuts was proposed under Margaret Thatcher in the early 1980s, in a report produced by Sir David Serpell. The Settle-Carlisle Line, which had managed to survive its threatened closure by Beeching, was once again proposed for abandonment. But the biggest campaign in railway history was mounted against the proposal, and in the end Conservative transport minister Michael Portillo bowed to the pressure and told BR to look instead at ways of developing the route. The fight for the Settle-Carlisle Line was the railway equivalent of the Miners' Strike. The campaigners' success in heading off closure made it difficult for either BR or the Thatcher government to contemplate further cuts in the network. The broadly-based campaign that had united Dales communities, trades unions and other supporters of the railway had paid off.

The BR that emerged in the late 1980s was increasingly at odds with the Thatcher government. A new breed of highly effective senior managers emerged who wanted to see an expanding, not contracting, railway. Management re-structuring led to a clearer focus on markets, with the emergence of InterCity, Network SouthEast (for the huge outer suburban network around London), and Provincial (later 'Regional Railways'). Each had talented managers who turned round the fortunes of a railway which had appeared to be in terminal decline. The British Railways Board was headed up by Bob Reid, who had the strength of character to take on the road-oriented civil servants in Whitehall - and by implication the Thatcher government itself.

As BR was renewing itself there was a parallel shift in local government. Barbara Castle had created passenger transport executives (PTEs) during her reign as transport minister in the late 1960s, and these had substantial powers to fund local passenger transport. The results started to become evident during the 1970s and early 1980s: Tyne and Wear got its Metro system, Greater Manchester began to develop a light rail network, and bus-rail interchanges were built at major centres in all of the PTE areas. Local rail services which had been threatened with closure in the Beeching report, such as the Leeds/ Ilkley/ Bradford/ Skipton network, were now electrified. Looking back on that time, many railway managers comment on how relatively easy and cost-effective it was to open new stations and introduce new services.

Despite the Thatcherite prejudice that state-run services were inefficient, by the late 1980s BR was probably the most efficient railway in Europe, working positively with the metropolitan PTEs to develop good quality local services, as well as investing in an InterCity network, which many continental railways rushed to copy. However, the tide was running against BR, and by the early 1990s various right-wing think-tanks were suggesting their favoured approach of privatisation. The John Major administration then bulldozed through the 1993 Railways Act, which ended the all-too-brief golden age of publicly-owned railways in the UK.

Rail privatisation: botched and bewildering

The structure that emerged after the 1993 Railways Act was based on the separation of operations and infrastructure, reflecting the neoliberal notion of 'freeing up' the railway network to the benefits of competition: a plethora of private operators could buy 'slots' to operate trains. However, there was a fundamental contradiction at the heart of the new system, given that passenger operations were in fact bundled up into more than twenty franchises, which were then put out to tender by the Office of Passenger Rail Franchising; only a small role was allotted to 'open access' companies, that of providing niche services that would be additional to the core franchised network. The first bids were won by a mixture of established private companies and some management teams, but the latter were quickly bought out by larger outfits. The establishment of the franchises in fact resulted in a network that was static, and dependent on state intervention for 'buying' in additional services. Far from freeing up entrepreneurial flair, the obstacles placed in front of potential open-access operators, particularly for the provision of passenger services, were immense; and open-access passenger services have never really taken off.

Freight was given a freer rein, with the former BR Railfreight business sold off in chunks, and encouragement given to other private operators to enter the market. Like passenger services, these did not own their infrastructure, but, unlike most passenger services, they could operate as long-term businesses, and were not subject to the control of the Department for Transport.

Railtrack was set up as an infrastructure company, to own, manage and develop the railway infrastructure, and its main income stream was from track-access charges levied on train operators. This created a fairy-tale land in which Railtrack appeared to be a profitable enterprise - but with its profits based on government-subsidised franchisees paying a heavily loaded 'track-access' charge. However, in addition to track-access charges, which were fixed by state regulation, Railtrack also owned a vast property portfolio, which was potentially far more profitable than running a rail network. None of this was likely to lead to safe and efficient management, and the company also suffered a haemorrhage of talent, as experienced rail managers left the company, either for retirement or for more lucrative pastures as consultants. Routine maintenance, let alone investment, in the rail network suffered accordingly. The result was the Hatfield accident of October 2000, when a train derailed at high speed owing to corroded track. In the words of former head of the Strategic Rail Authority Sir Alistair Morton, the system suffered a 'collective nervous breakdown', which ultimately led to the intervention of the Blair government. A new body emerged for the ownership and maintenance of infrastructure, structured as a 'not-for-dividend' company - Network Rail. It fell short of the nationalisation that the rail unions demanded, but it at least took the railway infrastructure away from the short-termism of a profit-making business that was only accountable to its shareholders. However the basic structure of the industry remained intact, with franchising continuing for passenger operations, and the market being increasingly dominated by large groups such as First, Stagecoach and Go-Ahead. And a growing number of European state-owned railways, such as Netherlands Railways, German Rail and French operator SNCF began to win UK franchises, in some cases as joint ventures with UK-based private companies such as First and Serco.

The biggest winners from UK rail privatisation have been the banks. At privatisation, BR's rolling stock was sold off at bargain-basement prices to whoever was the highest bidder. But not many companies wanted to take the risk of bidding in what was then an uncertain market, and most bids were awarded to management buyout teams. However it turned out that the new rolling stock leasing companies proved to be very lucrative cash cows, and their new owners quickly sold up to various financial institutions - including HSBC. The rolling stock companies have subsequently enjoyed a period of massive profits in what is a protected market: nobody else has access to a large number of trains and the rolling stock companies can - and do - charge very high rates for leasing their trains to the franchised operators.

The basic structure that was created by the Major government in 1993 and survived the Blair years (apart from the re-structuring of Railtrack into Network Rail) has met few of the original objectives of rail privatisation. Costs to the state have almost quadrupled, and few passengers would say the service now provided by the private operators is better than what was delivered by BR. There has been a dramatic growth in passengers, but this is mainly because of external factors, including growing traffic congestion and the economic boom of the Blair/Brown years. Rail patronage tends to rise in parallel to economic growth (though growth has in fact continued in the last two years, albeit at a lower rate).

Britain's railways today

There's no doubt that passengers and staff (including many managers) are far from happy with the current structure and how it delivers. Fares are much higher than in other parts of Europe, while reliability compares poorly with some continental networks. And passengers are bewildered by the complexities of the privatised system.

Following the calamity of the Hatfield accident of 2000, the performance of Britain's railways is showing some steady improvement; more trains are running on time and a degree of confidence has returned to the system. Investment totalling over £9 billion announced by the Coalition government in summer 2012 will see many routes electrified and some lines re-opened. But it is at a cost. Apart from the government having to pump four times the amount of public money into the railways as it did in the last year of BR ownership, the cost today of doing things like opening new stations, providing new infrastructure or procuring rolling stock is also far greater than in pre-privatisation days. Part of this problem is caused by the large number of interfaces within the industry, with each component wanting its slice of the cake - adding profit onto profit. When the 2011 McNulty Review reported on the potential 'savings' it had identified for the railways, this did not extend to any attempt to curb the super-profits made by the banks that own the rolling stock companies, or the plethora of other supplier organisations. And while the profits being made by the train operator owning groups are not so extreme as those of the rolling stock companies, nonetheless Northern Rail, for example, made £30 million last year, most of which went back to Serco shareholders and Dutch Railways: only about a tenth of that profit was invested back in the railway.

Devolution has made a difference to some parts of the system. Scotland has had rail re-openings, electrification and new trains. So has London. Even Wales, with a far less dense population, is seeing railways re-opened which would not stand a chance of getting approved in England. And in the North of England, passenger transport executives have seized the opportunity offered by the partial devolution of powers over rail to a subnational level: a new body - Rail in the North Executive - is emerging which may take on wide responsibilities including franchising powers (see below).

But many parts of the UK - particularly England outside of London - are stuck with an ageing fleet and serious overcrowding on many routes, and a lack of infrastructure capacity for the handling of any increase in traffic. The most urgent need is new rolling stock to extend existing train lengths, but this is immensely expensive given that most rolling stock companies are owned by the large banks. Investing in the infrastructure to allow more trains to run will take time, and this is what makes the most pressing issue now the provision of greater seat capacity.

A people's railway

A strategic national body

There is much that a centre-left government could do that would be electorally popular, deliver a better transport system, and save money. In particular there is a great need for a co-ordinated strategic vision for the UK's railways (this was to some extent provided for a short period by John Prescott's brainchild the Strategic Rail Authority, but it was abolished in 2006). A new strategic public body - National Rail - could give rail the sort of overall vision and direction it desperately needs.

Such a body would have different divisions that could operate with a degree of autonomy from the parent body. These could include infrastructure (Network Rail), Research (involving universities with specialist expertise), High-Speed Rail development, Rolling Stock, InterCity (currently 'Directly Operated Railways'), Freight Development, and Regional (which would operate with the involvement of devolved governments and authorities). The governance of National Rail should include a stakeholder board that gives a strong input to passengers, employees and the wider community. Via its InterCity UK division, National Rail would operate a strategic network of routes, but would leave regional services to devolved governments (Scotland, Wales and the English regions). It would manage existing franchises until they come up for renewal, but these would then be taken back into public control. National Rail would not operate freight services directly, but would encourage freight development through research, grants and infrastructure facilities.

Network Rail itself is already set up as a not-for-dividend company. However, it has little accountability either to government or the public - let alone its employees. Yet the current structure could relatively easily be transformed into a more accountable structure, which could then form the basis of a more strategic National Rail body. This approach would incentivise the staff, give them a real say in how the company is run, and ensure that senior managers and directors were accountable (and not being paid huge bonuses). It would ensure high standards of efficiency and bring more activities in-house, so that excess profits would no longer be being funnelled into sub-contractors' pockets. Surpluses, including those made from any savings, would go back into the railway to help deliver higher maintenance and safety standards.

The regional networks

The franchising system ushered in by the 1993 Railways Act has not worked. Costs have risen dramatically, and the collapse of the West Coast franchising process ought to be the final nail in its coffin. Franchising delivers a demoralised workforce, and employees who have little or no loyalty to what is likely to be a transient employer. Management is also demotivated, because franchise specifications leave little room for commercial initiative, and short-term franchises don't allow for investment by the franchisee unless specified in the contract.

Railways - beyond privatisation

It has been argued that if you get the franchise specification right, it doesn't matter who runs the trains, subject to appropriate safeguards. Yet there are a thousand and one issues which could never be enshrined in a contract which are absolutely critical to how a service is perceived by passengers, and what the company is like to work for. These are encapsulated in the notion of 'culture' - and creating one that combines entrepreneurial flair with social responsibility and excellent customer care. We need a new kind of rail operator that combines entrepreneurial initiative with an ethical approach, is founded on co-operative values, and recognises that there is more to the business than the financial bottom line. There must also be a social and environmental bottom line, which ought to be of equal importance. In fact many senior railway managers would welcome becoming part of a social enterprise, rather than having to work at the whim of faceless international groups whose only concern is narrow profit.

Regional franchises should be re-structured as licences, with new forms of accountability. They should be subject to periodic reviews, but not to compulsory re-tendering. If performance is good, why have to go through the turmoil and cost of a new competition? It's not good for passengers, for the employees, or for the wider public interest. This would allow for more long-term planning.

A 'social enterprise' train operator could be composed of several constituent bodies: employees need to have a stake, but so do passengers and other stakeholders such as local businesses. (Back in the early 1900s the Railway Clerks' Association (today's TSSA) argued for boards of socially-owned railway companies having chamber of commerce representation!)

On the more rural parts of the network, community rail partnerships have transformed the fortunes of many routes, but their capacity is now at the limit. A new approach to community railways is urgently needed, with devolved management and freedom to raise local funds to expand services and facilities. During the last twenty years some of the most successful private operators have been quite small (e.g. Chiltern, Merseyrail, Wessex Trains). Getting a mix of small, medium and even some larger-sized operations focused on distinct markets and regions is likely to deliver huge benefits.

We need to move on from franchising and encourage not-for-profit regional operators that are accountable to democratic devolved/regional bodies. An obvious place to start is Wales, which has a Labour government and a franchise that expires at 2018. (Ironically, it is currently operated by state-owned German Rail (DB) which owns Arriva, the franchisee.) When the franchise expires, the Welsh Assembly should set up a new body to run the railway network that would be accountable to local institutions and people. Another place where change could be brought about in the near future is Scotland. The ScotRail franchise will shortly come up for renewal, and the SNP government would like to explore the scope for a publicly-owned railway. The North of England is another area where there are huge opportunities, with a rail network that is desperately in need of investment, but subject to the whims of a London-centric Department for Transport.

The national and inter-regional network

If devolved agencies are best suited to co-ordinating local and regional services, the UK also needs a single 'InterCity' operation that connects all the main centres of the country. As noted above, we had this under BR and it worked: in fact many other European operators copied the idea, and you can see it today, operating superbly, in Germany, France, Sweden and many other parts of Europe.

There is already the basis to achieve this. The government has its own operation - Directly-Owned Railways - which is currently 'the operator of last resort'. At the moment it is already running East Coast - a major part of the national network. If it hadn't been politically embarrassing, it would also have taken on the West Coast line after the bidding fiasco, thereby effectively putting a majority of the main InterCity network in public ownership! However the government's current intention is to privatise East Coast when the current franchising mess is sorted out - if indeed it ever is. An incoming Labour government would have another option: to transform Directly-Owned Railways into a reconstituted 'InterCity' network, as part of the strategic body, National Rail.

It may well be that the West Coast shambles is still not resolved by 2015, meaning that it could easily be added to the InterCity UK portfolio owned by National Rail. The same could be done with Great Western, which is also due for renewal. That would leave in the private sector only the Midland Main Line (currently part of East Midlands franchise) and CrossCountry. These could also be taken into InterCity UK when those franchises expire.

Rail freight

Freight is a hugely important part of what rail can deliver. Currently there is a moratorium (and threat of abolition) on the Freight Facilities Grants that offered incentives for switching freight to rail. This 'cost-cutting' measure is a major backwards step, which will stymie future rail freight development. Though investment in infrastructure capacity will benefit freight as well as passenger operations, there also needs to be ongoing investment in depot and rolling stock resources - and without FFG that is far less likely.

Freight companies should be allowed to get on and win business, with support in the form of freight facilities grants, low track-access charges and other 'supply side' measures that could be delivered by National Rail. In the USA and Canada several short-line freight railroads are co-ops, and it would be good to see that evolve here, with government assistance. A future centre-left government could help freight, and indeed some secondary passenger operations, by establishing a social enterprise development agency (such as existed in the 1970s) with a remit to assist co-ops and social enterprises with expertise and soft loans or grants.

Conclusion

Any future incoming Labour government will be faced with acute financial constraints, and its policies will need to reflect that. But the suggestions made here would not be costly and can be implemented gradually - for example as franchises come up for renewal. The gradual absorption of franchises into InterCity UK, or as regionally-specified concessions, will actually be cheaper than the current costly franchising process, and they will deliver much greater benefit. Developing National Rail as a new strategic body - with the involvement both of UK and devolved governments, and of employee and passenger organisations - would not be a hugely expensive undertaking, while bringing more services in-house would help to control costs. Devolving routine maintenance to a more local level in some areas will also help reduce costs, as would using local skills for basic work (e.g. fencing, station maintenance, etc). If train operations became the responsibility of social enterprises we would see profits recycled back into the business, rather than being (literally in many cases) exported. But the biggest prize is rolling stock. Developing a strategy to take back rolling stock from the banks will not be easy, but if we are serious about bringing costs down and ensuring a supply of new trains to meet rising demand, it is a prize worth fighting for.

But the future of our railways is not simply a question of cost-cutting. What we need is an expanding railway - carrying more passengers and freight, and making a bigger contribution to sustainable economic regeneration.

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