Lessons from a Railway Privatization Experiment

Bill Bradshaw

This article addresses three key questions. Was privatization a necessary step in the development of Britain's railways? What has been the emerging experience of privatization? What should happen now that the privatization method adopted in Britain appears to be failing?

Was Rail Privatization Necessary?

This question is easily answered. It would have been difficult to argue, especially following the privatization of nearly all the other transport-related industries as well as the public utilities, that the railways should have remained in the public sector. There are two main reasons for this. First, the government could not but continually interfere in what were essentially managerial decisions, often in a way that was invisible to the public but was enormously inhibiting to efficient management. Fare increases, industrial disputes, changes in services and orders for new trains and equipment were all subjects of a constant stream of phone calls passing between government and the British Railways Board (BRB) and these interventions were usually designed to protect or enhance political reputations rather than promote commercial or operational logic. Second, no government, at least in the current financial climate, would ever provide finance on the scale needed to reinvigorate the railway. There are always more politically important targets for public investment, such as schools and hospitals that push railways to the back of the queue. As other industries, escaped these cloying influences, it became clear that privatization offered a more attractive alternative than continued public ownership. But with the rail industry in need of continuing subsidy, the question was whether a mechanism could be devised to transfer both the management of the industry and the responsibility for raising the necessary investment to the private sector. Previous articles in *JRTR* have described the policy debate in Britain that led to the choice of the mode of privatization and the alternatives that were considered. A decision was made to separate infrastructure ownership and management from train operation, to sell all the passenger rolling stock to leasing companies, to franchise the passenger train services in 25 parts and to sell the freight business. The industry was placed under the supervision of the Office of the Rail Regulator (ORR), an independent government department.

Was the Best Method of Privatization Adopted?

The method of privatization chosen by the Conservative government was certainly complex. The key reason for this was the decision to move from a vertically integrated organization where operations, rolling stock and infrastructure are the responsibility of one company as in Japan, to the disintegrated solution of separate ownership of the various components of production. A primary reason for the breakup of the system was the desire to see competition in train operation but ministers also wanted to liberalize the rolling stock (including maintenance and major overhaul) and infrastructure service markets. To provide competition in supply of these services meant splitting many of the former British Rail (BR) activities into smaller parts and offering them for sale separately. In train operations, franchises were let, mostly for short contract periods and in defined regions. Services with different speed and marketing characteristics on a particular line were frequently divided between different operators. Emphasis was placed upon the fact that relatively short contracts would keep franchisees on their toes. On-rail competition was advanced as another way of securing benefits for users. This was the main justification for the decision to create a separate infrastructure authority as the independent manager of the timetable and of day-to-day management of signalling and operational control.

Competition has developed in supply of rolling stock and which now often includes maintenance contracts. But rolling stock supply would probably have

Class 57 *Freightliner Pioneer* in service since 1998 (Milepost 92 1/2)

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adopted its present course whatever model of privatization had been followed because the government was already seeking private sector financing initiatives in public-sector organizations. When in opposition and while BR was still in the public sector, John Prescott, the shadow Transport Minister, argued in favour of more leasing deals for supply of rolling stock, particularly in the debate leading up to the closure of the rolling stock works at York. However, the Conservative government at that time regarded these as financing deals that came within the scope of the Public Sector Borrowing Requirement (PSBR).

In the engineering field, the initial number of companies offering services such as track maintenance and renewal has declined to five as a result of post-privatization mergers and takeovers. Nine different companies purchased the 13 infrastructure and maintenance companies offered for sale at privatization. Although there is still competition, a few more mergers may blunt this and, as in the British bus industry, it is impossible to force big players to compete if they show no inclination to do so because tacit collusion (except at the margins) is a more attractive policy financially. We have yet to see the effect of a new competition law in Britain aimed at controlling anti-competitive behaviour.

It is true that, there was competition in the bidding for passenger rail franchises, especially the later ones. However, some bids have proved to have been overoptimistic in terms of the potential for revenue growth and cost reduction and have been surrendered and transferred to other operators.

The whole concept of on-rail competition looks like being a non-starter. It was always difficult to accept the free marketeers' dream of the traveller turning up at a busy London commuter station like Waterloo and having a choice of a red, blue or green train to Woking with a choice of fares. But with incumbent franchisees understandably not keen to let in competitors and Railtrack not enthusiastic about squeezing more paths into the crowded timetable, partly through fear of the possible effects on punctuality, there have proved to be few genuine opportunities to add competing services of value to the user. There will also be a temptation for potential operators to play games if the income sharing agreements continue automatically to give a share of revenue on a route to a new entrant. I hope this distortion arising from the ORCATS computer system, which allocates revenue between operators using a formula, will be removed as ticketing systems develop.

In the freight industry, ministers were forced to reintegrate the three Trainload Freight companies created by BR when they found that there was no market for them as separate entities. Almost all of BR's freight business was sold to the consortium headed by Wisconsin Central Transportation and now operates as English, Welsh and Scottish Railway (EWS). However, there is some evidence that the threat of open access is keeping EWS's prices considerably lower than they might otherwise be and this is welcomed by freight customers.

So was all the tearing apart necessary? It cost huge amounts of money—some estimate around £600 million (£1 = US$1.47)—just to set up the new administrative arrangements for the railway and running costs are still higher than they were under BR. Two years ago, I argued that privatization should bring a net financial gain to the government before too long, but this was dependent on franchisees being able to fulfil their current contracts. I also ignored any efficiency gains BR or a different successor might have achieved because their record was good in this respect in the years leading up to privatization. There has been only limited success in promoting competition. The myriad contractual relationships mean that any meeting between industry parties is likely to include lawyers and financiers where none would previously have been needed. Moreover, railway professionals are not blind to the huge salary differentials between themselves and these other professionals whom they have had to teach to do the job. In addition, the privatization process was drawn out over a long period, led to great uncertainty and created a hiatus in investment, especially in infrastructure and new rolling stock.

But has the tearing apart benefited the user? In terms of coherence and accountability, it is unlikely. With BR, it was clear who was responsible. Responsibility could not be avoided and even after disasters such as the Clapham crash in 1988, BR quickly accepted the blame. By contrast, 2 years after the Southall rail crash in September 1997 victims were still awaiting compensation. Inquiries into another crash at Ladbroke Grove in October 1999 revealed very serious shortcomings in management coordination within the industry. Many users are simply confused about who they are doing business with and the record number of passenger complaints is probably much to do with frustration resulting from this. Train performance is still poor with punctuality and reliability levels now worse than in the BR days. Initially, this occurred because of mistakes made by some operating companies attempting to cut costs by shedding too many staff, and the considerable increase in services since privatization. Running more trains has led to more congestion, resulting in more delays. The current régime of access charges gives Railtrack little incentive to alleviate infrastructure bottlenecks. Railtrack has gained a reputation for

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underinvestment in its assets, and there has been a lack of clarity about the extent to which additional investment would be rewarded by ORR through increased access charges at each 5-yearly review.

Perhaps the most telling commentary on the breakup of BR is the desire in many parts of the industry to reverse the process. This is evident in a range of examples, such as the agreement between Virgin and Railtrack on the West Coast Main Line, where the infrastructure company has an equity interest in the success of the upgrading project. As the process of refranchising passenger railway services develops, a number of the major Train Operating Companies (TOCs) have expressed interest in re-establishing a vertically integrated network.

Running an efficient railway is an immense team game where the user benefits most when all the players work together to provide a satisfactory experience. Many of the discontinuities introduced into the system during the dismemberment may make sense to theorists seeking to introduce competition and to professionals who advise them. But not only do they fail to produce effective competition, they are also contrary to the desire of users who want the seamless service that springs from cooperation.

In my opinion, the track authority model chosen by the Conservatives was wrong for all these reasons. While some service improvements have undoubtedly been made, there would almost certainly have been more—at a significantly lower cost—had a different method of privatization been used.

More Recent Developments 1997–2001

Although the Labour Party in opposition was very strongly against railway privatization, there was no serious suggestion that the process would be reversed either in their election manifesto or subsequently. The new Labour government was determined to establish its economic credibility and imposed stringent limits on public expenditure. It was anxious to make friends with the business community and committed itself to a number of constitutional reforms that occupied most of the legislative programme in the first term of office. More than a year was spent in producing a Transport White Paper. A new Transport Bill was not tabled until the third year in office and the proposals affecting railways did not take effect until the fourth year. The primary result was to create a Strategic Rail Authority (SRA) under its Chairman, Sir Alastair Morton. The Authority combined the previous task of the Franchising Director with that of producing a strategic plan for development of passenger and freight railways. Central to that task was encouraging the private sector to shoulder as much as possible of the investment costs.

The proposals for greater use of railways are set out in the Ten Year Transport Plan published in July 2000, which expects total railway investment over the next 10 years to be around £49 billion of which £34 billion should be private investment. Railtrack was intended to be one of the major sources of private-sector investment in the railways. However, the company's fortunes have been steadily eroded over the last few years by a series of crashes that have called its stewardship of the network into question. There have been serious cost overruns on projects and weaknesses have been found in management of contractors undertaking track maintenance and renewal. Many of these criticisms came to a head after an express train on the East Coast Main Line derailed at Hatfield in October 2000 as a result of the rail shattering under the train. The failure was caused by gauge corner cracking and the problem was soon found to be network-wide. Many months followed with so many temporary speed restrictions that the timetable over much of the network was disrupted and still remains unreliable. Morton described the industry as having had a nervous breakdown. The Chief Executive of Railtrack resigned and the company's share price collapsed. For the time being, there is no prospect of using its profits to contribute to the investment needs. Railtrack also had great difficulty in providing timely and accurate work cost estimates. This makes planning development of the network almost impossible.

Although many commentators have recognized that there are problems with the track authority model, future policy still emphasizes working within the constraints of the present system rather than a full-scale reorganization of the British rail industry. Chris Green, Chief Executive of Virgin Trains, says that one reason for this is because British railway managers have become world leaders at restructuring as a result of so much reorganization over recent decades—perhaps it is about time they were able to concentrate solely on running trains.

A key reason for the present weakness of the system is that Railtrack failed to take a strategic role in development of the industry. This was supposed to be based on a Network Management Statement that the company is obliged by ORR to prepare each year. The task of providing coherent leadership embracing the whole industry has now passed to the SRA, which has replaced the Office of Passenger Rail Franchising (OPRAF) and the former BRB and has also assumed some consumer-protection duties from ORR. It also has a role in future development of rail freight. The track authority model of rail privatization could be made to work under the leadership of the SRA if several key improvements are made in the areas of cooperation and competition, regulation and investment. The question today is whether Railtrack

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is strong enough financially or technically to encompass the task or whether a more radical approach is necessary.

Cooperation and Competition

The emphasis on competition in the rail industry should be reduced. Although competition has a limited role to play, privatization will work better if regulators, politicians and others continue to allow the industry to reintegrate those parts of the business where it can be demonstrated clearly that users will benefit. Companies should be allowed to seek economies of scale in their operations and reintegration might be vertical, horizontal or both. In terms of on-rail competition, it must be remembered that most railway users, except London commuters, do have a choice of other modes of transport. One task of ORR is to protect captive customers from abusive behaviour and it may be better to rely on this mechanism rather than contrived competition that may or may not arise from the possibility of open access. Travellers, especially those with no realistic alternative to trains, must be protected from exploitation by monopolistic train operators by regulation of service quality and fares. But rather than encouraging open-access competition it may be more worthwhile to focus on development of alternative competitive routes such as between Birmingham and London, Manchester and London, and London and Scotland. This will also have the advantage of providing alternative routes when the most direct is unavailable, such as when carrying out modernization. It will enable yardstick comparison and encourage TOCs to focus on the real competitors—other transport modes.

Regulation

If competition is to take a back seat, then tough regulatory régimes must be put in place to protect consumers. One way might be focus regulation more upon the desired *outputs* rather than expenditure totals. Consideration would be given to targets such passenger miles and freight tonne miles with appropriate weightings being attached to those that are generated when the busiest and most-congested roads are under the greatest pressure. Existing output targets should also be clear and honest so that everyone understands what is being produced, even if this means that standards appear to fall in the short run. For example, punctuality should mean on time for all trains rather than the current 5 or 10 minutes late. In setting targets and indeed in such matters as revenue allocation between operators, perverse incentives should be identified and rooted out.

Performance régimes imposing large financial penalties on the infrastructure owner or TOC for delays attributed to them create perverse incentives. If large fines are imposed for lateness, it is likely that Railtrack and the TOCs will adopt defensive timetabling strategies with slower and more easily achievable point-to-point running times and deliberate timings to miss connections at junction stations. Neither outcome is what the customer wants and such timetables would actually waste track capacity by reducing the number of paths available to other operators and freight trains. It is important that the performance measures address and encourage better outcomes for users, not simply measure what it is most simple to measure.

Decisions on safety, disabled access and other features with very significant cost implications should be taken more transparently—organizations such as the Health and Safety Executive (HSE) should be required to justify both their own levels of expenditure and the cost benefits of the recommendations they make. It would also be informative if they were to show intermodal comparisons of safety standards and costs. In the end, the consumer or taxpayer pays for these decisions and people have a right to know all the implications of recommendations.

One of the least-satisfactory results of rail

Class 332 Heathrow Express standing at London's Paddington Station (Milepost 92 1/2)

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privatization is Railtrack's monopoly status. While Railtrack may hold competitions between suppliers of infrastructure equipment and services, it is very difficult for an external agent such as ORR to determine whether the expenditure levels represent value for money. It would be ideal to reach a situation where instead of telling Railtrack how much money it should spend, ORR should specify outputs in terms of infrastructure quality and capacity to be achieved. As an example, this might mean that the Regulator would require average journey times to fall by 5% over 5 years.

The Regulator has used consultants to investigate the efficiency of Railtrack's spending but it is difficult to be as satisfied as one might be were Railtrack to be divided, with comparisons between different organizations in the same business field. Whether this conundrum can be solved without breaking up Railtrack is uncertain, although any breakup might herald the regrouping of the railway into vertically integrated entities. There is also the charge levied by Ed Burkhart (the former CEO of EWS) that the cost of maintaining the freight railway in Britain is far higher than in the USA. Remembering that similar comments by Burkhart on the cost of domestic wagon building proved well founded, this issue deserves consideration. Maybe some thought should be given to the possibility of transferring the responsibility for maintaining some lines mainly used by freight trains to the freight operator.

The Need for Investment

The increasing use being made of the railways in the last few years is being cited both as a measure of the success of privatization and as a reason for the overcrowding, infrastructure failure and other shortcomings in the standard of service. It is important to view the increased use in a historical context and in relation to changes in the economy more generally because there is close correlation between GDP and railway use. Yet other factors with a bearing on railway use are the relative costs of train travel and motoring and the worsening congestion on the road network. One by-product of the privatization was the imposition of price caps on some rail fares and these will probably have increasing impact over the years if they remain in place. Given the drastic scaling down of the road building programme, it is also likely that the road network will become more congested for longer periods and over greater distances and this may be affecting rail use. If they are to remain profitable, all TOCs require growth in passenger numbers—some more than others—and increased investment in both infrastructure and rolling stock will be of paramount importance if their aspirations are to be met.

Considerable pressure to reduce haulage costs was exerted on the government by lobby groups such as the Road Haulage Association seeking cuts in Vehicle Excise Duty and fuel taxes on lorries so that they are nearer to European levels and also to allow lorry weights to increase to 44 tonnes. This pressure accompanied by blockades of fuel depots by hauliers was successful in influencing the government. Both EWS and Freightliner have invested heavily and have seen growth since privatization. However, the likelihood of these businesses winning substantial traffic from roads will depend upon requiring them to pay only very low track access charges. It will require incentives to be offered to customers and terminal operators, many of whom have never used rail, to adapt to using trains. What privatization has achieved is a much more positive attitude towards freight as well as the substantial investment in new locomotives and wagons. But there still remains the problem of fitting freight trains into a congested network at times when the freight needs to be moved and to find the money necessary to meet the costs of new freight infrastructure both on the track and at terminals. Much of this spending will need to come from public funds and will require justification in social cost benefit terms.

Before taking office as the first Chairman of the SRA, Morton described his priorities as investment, investment and investment. While many users might have hoped to see the word 'quality' included, Morton's message was basically sound. But before he even addressed the issue of where the money would come from, he had to overcome two prickly problems. The first is that investing in railways takes so long. The new government's legislative proposals for 2001–10 are likely to include an overhaul of planning procedures with a view to speeding up the process as it affects large-scale projects. The second is the infrastructure owner must have the technical staff and money to do the work.

Sources of Investment

Before Railtrack's recent troubles, finance for new railway investment was seen as likely to come from four main sources: Railtrack, TOCs and Rolling Stock Companies (ROSCOs), public funds, and the farebox. There has been some discussion about the limits of such finance and the answer is that there should be no limit other than the market should be satisfied that the railway can generate sufficient revenue to meet the cost of the capital. This financial capacity is one of the potential gains of privatization because even in previous good times it was rarely possible for the railways to persuade the Treasury to meet investment needs. However, if the

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Virgin Class 220 *Voyager* running south of Oxford (Virgin Trains/ Milepost 92 1/2)

performance of the industry is unsatisfactory, it will be impossible to raise private funds and will be difficult to convince the government to spend more public money.

It is important to keep the cost of borrowing capital to improve the railway as low as reasonably possible—a fact recently acknowledged by ORR. As well as poor performance, the cost of capital can be driven up by regulatory uncertainty, by political risks and by imposition of unreasonable cost burdens on the railways in respect of issues such as safety and disabled access where very marginal improvements can be extremely expensive to achieve. It was thought that Railtrack would be able to borrow extensively on the strength of its balance sheet as long as investors were satisfied that future revenue streams were strong and certain enough to support the debt. The necessary funds would come from existing track access charges (much of this source is, of course, underwritten by the Treasury), revenue sharing deals with operators or public–private partnerships with the SRA.

The second source of investment funds is the TOCs and ROSCOs. While there has been considerable investment in rolling stock and some other improvements in security and information systems, many of the passenger companies have short franchises and are already coming to the end of the initial expenditure programmes that they committed to. Rolling-stock manufacturers now talk about the potential for another hiatus in orders like that between 1993 and 1996. Despite the fact that one reason for establishing the ROSCOs was that they could take a long-term view of investment, some franchisees, notably Great North Eastern Railway (GNER), claim that it is not possible in the remaining years of their franchises to order and take delivery of new trains to supplement their overstretched fleets. This argument is proving particularly strong where a franchisee needs rolling stock that is not readily transferable to another franchise area. This leads to a higher residual value risk. The same problems apply to any infrastructure works with long payback periods, such as new stations or major car park extensions that franchisees were expected to contribute to.

The potential for such investment pauses was always a weakness of the franchises as they matured so it was thought necessary to address the subject of premature franchise renewal to keep investment flowing. There is no doubt that some franchisees are willing to commit themselves to significant programmes if they are allowed long-term extensions or renewals. One difficulty in the refranchising process is that some operators will not surrender franchises early to permit open competitive bidding for renewal. In the absence of such competition, any negotiator acting in the public interest will find it difficult to satisfy critics that the best bargain has been obtained for the user and the taxpayer.

In this latter context, it is also important to be clear about what constitutes a good deal for the taxpayer. While in very simple terms this can be defined as the lowest subsidy or highest premium that meets the specifications set out by the Franchising Director, there is no doubt that many interest groups will be seeking higher quality standards as opposed to best bids judged in purely financial terms. The government, with its commitments in the 1998 White Paper, is proposing alternative transport options to reduce dependence on the car, such as road pricing, congestion charging, pollution controls, taxation of private non-residential parking and green commuter plans. It is very unlikely that any of these policies will prove politically acceptable without a major change in the quality of public transport. The Franchising Director has already published criteria for evaluation of bids, but many quality features are not easily amenable to economic assessment and a degree of pragmatism will be required in assessment. This is difficult territory for public officials and requires a clear statement of objectives and decision criteria.

The SRA saw the renegotiation of franchises as a means of generating new investment in new rolling stock, improved service levels, new stations and, through revenue-sharing deals with Railtrack like that agreed to fund the West Coast Main Line upgrade, new lines, better line speeds and a range of other amenities. It also provided the opportunity to include a number of features that were ignored in the first round, such as station staffing and security, cleanliness and adequacy of car

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and bicycle parking. At the first franchising, it was assumed that the new private-sector companies would keep trains and stations clean, employ sufficient staff to sell tickets and staff stations and would be concerned about providing secure parking for cars and bicycles. This assumption proved wrong and renegotiation opens the possibility of imposing minimum standards in these areas. It is clear that what is not in the contract cannot be demanded and that cost reduction still ranks very high in the priorities of some franchisees despite evidence from others that investment in quality is worthwhile. However, renegotiation did offer a real opportunity to draw in more investment funds and while it may be difficult to rank bids in solely financial terms it would have been possible to compare best practice and set benchmarks of quality and attempt to secure commitment to ratchet up standards. Thus strong pressure in the form of yardstick competition can be brought on management, companies and shareholders that fail to deliver.

Some other franchisees have had to admit they have committed themselves to impossible targets and, while it may be tempting to squeeze these companies into bankruptcy, it is difficult to do this and not hurt customers and potential customers of those companies. Consequently, some franchises have become available for reallocation with the possibility of being broken up into more sensible businesses. The original division of BR into 25 franchises was not regarded by the SRA as immutable and it is probable that decisions taken in haste when the original franchises were let, represented the best that could be achieved at that time.

The third main source of investment is public funds. In the government's Ten Year Plan, the SRA was allocated £29 billion made up of £12 billion in support for passenger franchises and freight operations, £7 billion in the Rail Modernization Fund as a contribution to the investment needed to secure the growth targets, £4 billion for capital payments towards the cost of upgrading the West Coast Main Line, and £5 billion to complete the Channel Tunnel Rail Link and new terminal at St. Pancras. This funding had only just been announced when ORR announced the final conclusions of its 5-yearly Periodic Review of Railtrack's Access Charges. A period of intensive negotiations involving the government and the SRA followed and brought forward £4 billion. The effect is to deplete the investment capital available to the SRA. Furthermore, the costs to Railtrack of the repairs and compensation arising from the Hatfield crash are to be reviewed by the Regulator, presumably with a view to increasing track access charges.

Very Recent Developments

Railtrack announced 'devastatingly poor' preliminary financial results on 24 May with a business plan showing a gap of nearly £4 billion between projected expenses and revenues. Following the June 2001 general election and the appointment of Stephen Byers as the new Secretary of State for Transport, it was announced that he had instructed the SRA to concentrate on negotiating improvements for passengers within existing franchises and make early replacement of franchises the exception rather than the rule. Morton has announced his departure from the SRA and has been replaced by Richard Bowker.

The greater part of the privatization lies in the ruins that many forecast. While the principals may blame each other, longer-term analysis will probably show that the fragmented nature of the industry and of responsibility within it was the fundamental flaw.

The financial logic of the Ten Year Plan was that the cost of franchises would be held at a steady level rather than continuing to fall. This would provide headroom for new franchises stretching as far as 20 years ahead with substantial private investment in new trains. In anticipation of higher track access charges from a busier railway, Railtrack was to borrow to finance investment and the SRA would add capital grants to enhance the network, particularly in easing congestion.

However, Railtrack has not been able to contain costs, which according to Roger Ford, a prominent railway commentator in Britain, have risen to two or three times the level that they were under BR. It is clear that Railtrack will not deliver the needed investment and that the quality of the network has deteriorated.

The refranchising programme is halted and Railtrack can neither fund nor manage infrastructure projects.

Railway Gazette International says that 'the prospects of a national rail investment programme have all but evaporated.' It is very difficult to see a programme being restarted without a major review of the structure of the industry. Ministers have so far avoided this possibility because of pressure on legislative time. However, it is hard to see that 2-year extensions to franchises will produce the benefits for passengers that Ministers want before the next election bearing in mind that investment in extra rolling stock and even modest infrastructure enhancements will not be achieved in such a short time-scale.

What conclusions can we draw from the British experience at this stage?

First, the notion that it is possible to have widespread competition between passenger train operators on the same tracks is flawed. Such competition requires penalty and performance régimes that are difficult and expensive to administer.

Second, splitting ownership and

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responsibility for infrastructure away from trains, which was done to facilitate open access and competition, is also flawed because the interface is so crucial to safe and reliable service delivery. Subcontracting maintenance and renewal work needs significant technical management and supervision that Railtrack did not have in place. While the physical work can be subcontracted, the responsibility cannot.

Third, it has proved difficult to specify quality in delivery of passenger train services. While the best operators have raised standards, there are others where quality has been poor and has not improved. There appears to be little effective sanction within the present franchising system against operators who choose to secure short-term cost savings rather than build a reputation for service quality.

Franchising of railway services in Britain was based on the theory that the franchises could be short because major investment responsibility would rest with Railtrack and the ROSCOs, leaving the franchisees to employ only the directly involved labour force (train and station staff) and to market the services. In reality, Railtrack had very little incentive to undertake the investment required by franchisees. If franchisees are to invest, they in turn require longer franchises, in effect conferring monopoly rights. This in turn calls for effective regulation to prevent abuse of dominant positions.

These are problems that the inevitable review of the structure of Britain's railways will have to address. The state in the form of the SRA will probably have to reassume ownership of the infrastructure. It may be possible to transfer management of the infrastructure to new long-term franchisees but this will involve simplification of the franchise map. To bring further simplicity, the SRA should be responsible for regulation, refranchising, safety and for securing capacity for freight operators within the network.

Finally, people in Europe and elsewhere advocating separation of train operations from track ownership should pause to reflect on the British experience. ■

Editor's Note

The latest developments after the arrival of this article are picked up below from news reports:

On 7 October, the government announced that Mr Stephen Byers, Transport Secretary, had succeeded in his petition to the High Court to put Railtrack PLC into administration, following his refusal of Railtrack's request for additional government funding. He put in place funding arrangements for the administrator to ensure that the railway continues to run safely and normally. He also said that the public interest obligations of the rail network operator would, after the administration, be better achieved through a private company without shareholders—a private company limited by guarantee.

On 29 November, the government announced the appointment of Mr Ian McAllister, Ford UK chairman, to make preparations for a new company to take over from Railtrack. His team will put forward a proposal to the Railtrack administrators, who will evaluate the plan before putting a proposed transfer scheme to Mr Byers for approval. Mr McAllister said that the new company would be running in four to six months.

On 3 December, Mr Richard Bowker, the new head of the SRA , signalled a possible cut in the number of train operators on Britain's railways and called for speedy solution to the uncertainty over the future of the failed Railtrack business.

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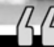

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Lord Bradshaw worked for British Rail for 30 years where he held three of the most senior executive positions before retiring. On leaving BR, he became Chairman of Ulsterbus and Professor of Transport Management at the University of Salford. During the BR privatization, he advised the Transport Select Committee of the House of Commons. Currently, he is a fellow of Wolfson College, Oxford, a member of the Oxfordshire County Council, and Vice Chairman of the Thames Valley Police Authority. He became a Working Peer in July 1999.

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