# Britain's Railways—5 Years after the Completion of Their Privatization

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## Introduction

This article sets out to evaluate the state of Britain's railways after 5 eventful years since the completion of their break-up and privatization. In the normal course of events, 5 years might not be a sufficient period of time over which to judge the success or otherwise of the UK railway privatization. (I thought it necessary to leave a 10-year gap before judging the success of the JNR privatization described in *JRTR* 13, pp. 39–45.) However, these particular 5 years (1997–2002) have seen several significant events such as the placing of the infrastructure company, Railtrack, into financial administration, the occurrence of a number of fatal accidents on the railway network, and the bailing out by the UK government of several of the franchise operators who have also been in financial difficulty. In view of this lack of 'normality,' it seems reasonable to take the opportunity of the recent 5th anniversary to make a judgement regarding the impact of the privatization policy on the state of the British railway network.

## The British Rail Privatization

The central tenet of the railway privatization proposal in the UK embodied in the Conservative government's July 1992 White Paper *New Opportunities for the Railways* was the principle of separating track and train operations to be implemented by the creation of a new track authority named Railtrack. The White Paper's proposals were incorporated into a new Parliamentary Bill, which became law in November 1993 as the Railways Act.

The next few years saw the sale of the former British Rail (BR) rolling stock assets packaged into Rolling Stock Companies (ROSCOs) with lease agreements with passenger train operating companies (TOCs); the devolving of Railtrack's track maintenance and renewal responsibilities to separate, regional British Rail Infrastructure Companies (BRISCOs) with exclusive contracts with the infrastructure authority; the flotation of Railtrack's shares on the London Stock Exchange; and the granting of 25 franchises to the TOCs to operate passenger rail services, each franchisee having an access agreement with Railtrack for the use of track, stations and other operating facilities.

The BR privatization was completed in early 1997, leaving the UK railway system consisting of the separate elements of Railtrack, the ROSCOs, the BRISCOs and the TOCs, the extent of whose services varied widely but in all cases was effectively, regional in scope. While these elements were separate, they all shared one common factor—private ownership. Railtrack shares were sold to private investors in May 1996 shortly after the ROSCOs had been acquired by private sector bidders. Ownership of the BRISCOs also passed to private hands (now mostly private engineering companies). Finally, the TOC franchisees are private enterprises (many being subsidiaries of UK and European transport companies) for whom profits are the first priority.

## Political Background to BR Privatization

The UK Conservative government proposed BR privatization in 1990; this policy initiative marked the culmination of a long privatization programme initiated by Prime Minister Margaret Thatcher in the early 1980s. That the Conservative government concluded the highly complex BR privatization in a relatively short period of time (less than 5 years from the 1993 Railways Act to the issuing of the last franchises) is a testament to the political skills of that administration. However, the Conservative government lost the 1997 General Election and the incoming Labour government was forced to alter its stance from one of opposition (while in opposition) to the rail privatization to one of having to make it work.

It might have been expected that the incoming Labour government would have adopted radical alternatives to transport policy from its Conservative predecessors. Initial impressions supported this view with John Prescott (Deputy Prime Minister) quickly being put in charge of a new super-ministry encompassing transport, the regions, and the environment. However, this outward show of enthusiasm for dealing with transport issues was not reflected in any immediate new policy initiatives and it took virtually all of Labour's first 4-year term in office to legislate the proposals from its first White Paper on transport. Moreover, these years saw a decline in the level of public investment in the rail network. Bound by Gordon Brown's (Chancellor of the Exchequer) stringent financial constraints, the Labour government committed itself to leave the previous government's spending plans unaltered, resulting in a significant reduction in the level of subsidy available to the TOCs (falling until the end of the 4-year term by some £200–300 million per annum from £1.8 billion in 1996–97 (£1 = $1.40)).

There were also major rail accidents during Labour's first administration with 31 people killed at Ladbroke Grove in October 1999, and four more in the Hatfield derailment, 1 year later. Both accidents raised serious questions about safety standards on Britain's railways in the post-privatization environment. In the public's mind, the drop in public sector funding for the railways was seen as a contributing factor to the accidents *and* declining levels of service. To quote

Intercity trains passing each other on non-electrified East Coast Main Line in 1980s (EJRCF)

from Christian Wolmar, 'As people's expectations, raised by the promises made during the privatization process, had not been met, the number of complaints soared, reaching the million mark for the first time in 1998/9, over half of which were about lateness or cancellations. The inability of the private companies to provide good customer care may have been unexpected, but is not really surprising. The way that the franchises were structured meant that cost-cutting had to be the first imperative to make up for the rapidly declining rate of subsidy.'

Clearly, rail users' perception of the state of the UK railway network was rather different from the optimistic picture painted by the incoming Labour government in 1997.

## Labour Government's Ongoing Transport Policy

One item of significance for the future administration of the railway network did emerge from Labour's first term—the creation of the Strategic Rail Authority (SRA). The SRA attained official status in 2001 (having existed in 'shadow form' for the previous 18 months) with Sir Alistair Morton—former Chairman of Eurotunnel—as its part-time Chairman. This new body replaced the Office of Passenger Rail Franchising (OPRAF) as the organization tasked with awarding the passenger rail franchises and monitoring compliance with government guidelines. The Rail Regulator also works in conjunction with OPRAF and oversees the contractual relationships between Railtrack and the train operators.

The SRA thus became the key body in implementing the government's new policies for operation of the railways, supplementing Railtrack's management of the infrastructure as set out in the White Paper *Transport 2010—The 10 Year Plan*. This plan to solve Britain's transport problems proposed spending £180 billion on rail, road and other transport modes from 2001–10. However, the issue of how this investment was to be financed in the climate of government financial restraint was crucially important to the railways.

Despite its overall constraints on public spending, the government was still optimistic that the new framework for railway investment was sustainable. However, this optimism took insufficient account of the severity of the impact of the Hatfield crash and its aftermath on Railtrack's finances. The combination of the post-Hatfield speed restrictions, chaos caused to the travelling public, and subsequent compensation claims by the TOCs inflicted a terminal blow to Railtrack's balance sheet. The crisis in Railtrack's financial position became clear in July 2001 when it asked the government to indemnify its borrowings. After considering a number of alternative solutions to Railtrack's financial problems and declining to provide unlimited guarantees for the company's debts, in October 2001, the government decided to appoint administrators (Ernst & Young) to dissolve Railtrack.

The sense of crisis that had been developing among the TOCs was undoubtedly exacerbated by the disruption to rail services following Hatfield, but it further reflected an increasing struggle to cut costs enough to offset the continuing decline in subsidies. By the time of Railtrack's demise, the government had agreed to bail-out MTL Trust Holdings and Regional Railways North East; their franchises were taken over by Arriva Trains Merseyside, which was then paid considerably more subsidy, at considerable cost to British taxpayers. Several other franchises were also in financial difficulty, particularly those operating outside major cities and without commuters to rely on for a regular revenue stream.

## Britain's Railways since Railtrack's Demise

A number of further significant events have occurred in the year since Railtrack was placed in administration. Railtrack has become Network Rail, a 'not-for-profit' body charged with running the rail

Virgin Class 220 *Voyager*—Virgin Rail improved its cross-country services through the introduction of faster and more comfortable rolling stock.
(Virgin Trains/Milepost 92 1/2)

infrastructure. The SRA has acquired a new Chairman in Richard Bowker, formerly of London Underground and Virgin Rail, who replaced Morton in late 2001. Mr Bowker's proven skills (in his previous management positions) in raising private capital for public-sector projects were undoubtedly a key factor in his appointment. The SRA's new strategy document drawn up shortly after his appointment centred on a private finance initiative by calling for almost half of the £70 billion then planned to be spent on the railways over the next 10 years to come from the private sector. Under Bowker's leadership, the SRA has also adopted a more proactive role in the running of the new Network Rail and has sought to impose clearer specifications on the operations of the franchises.

The TOCs have continued to suffer financial problems and a significant proportion have had their subsidies increased to levels substantially above those agreed with the government in their franchise agreements. Connex South Central (Govia since August 2001) is a typical example, recently receiving £58 million in additional subsidies on top of the £30 million provided at the outset of its operating contract.

Finally, major investment projects, notably speed-up of the West Coast Main Line and other major track and signalling improvements, have been put on ice pending a further review of the government's strategic plan for transport. This will consider the investment requirements in both passenger and freight operations in the light of the railways' deteriorating financial position and will reassess the practicality of the commitments made in the government's *Transport 2010—The 10 Year Plan*.

## State of UK Railway Network 5 Years after Privatization

The BR privatization introduced a radically new structure to Britain's railways, with infrastructure and operations separated, and both track and passenger lines run by private companies. After 5 years, the UK railway network is in a far greater crisis than at any time before. While there are examples of service enhancements (such as Virgin Rail's improvements to its cross-country services through the introduction of faster, more comfortable *Voyager* trains), the overall standard of passenger service provision has undoubtedly deteriorated. The knock-on effect of this decline in service has been to contribute to a reversal in the growth in rail usage seen in the initial post-privatization years. A further significant factor in the decline in passenger usage has been safety with the fatal railway accidents (Paddington, Hatfield and Potters Bar in 2001) acting as a spur to resumption of car use for both commuting and longer journeys.

The deterioration in the financial position of the TOCs has no doubt also contributed to the decline in passengers, with necessary service improvements being delayed or cancelled through lack of funds. The prior evidence of public funding being used to increase subsidy levels to existing franchises and the likelihood of more generous terms having to be offered in the forthcoming re-negotiation of franchises suggest that government subsidies for train operations will increase significantly in the near future rather than fall as had been hoped. Moreover, Railtrack's dissolution and its replacement by a public trust (Network Rail) will do nothing to alleviate the government's funding problems. Indeed, the costs of servicing Network Rail's borrowing requirements is likely to be substantially in excess of its earnings from track access charges, leaving an increased requirement for the Treasury to foot the bill.

Two questions need answering. First, to what extent was the BR privatization to blame for the current state of the country's railways? Secondly, where do we go from here?

It may be too harsh to argue that it was the privatization *per se* that caused the current problems. After all, the British railway system was in pressing need of restructuring by the early 1990s to deal with issues of refinancing government subsidies for train operations and of funding for future capital investment. However, to many observers, it seems that the decision to split the track infrastructure from operations was a disaster, contributing significantly to the deterioration in safety standards on the railways and to the decline in services to the travelling public. Wolmar is adamant that the Hatfield crash was a direct result of the BR privatization process noting, 'The accident at Hatfield was not caused by a broken rail. It was caused by total mismanagement by Railtrack and its contractors….Indeed, Hatfield was the perfect example of an accident caused by the way that the railways had been fragmented.'

Moreover, Railtrack's financial collapse has further complicated the issue of financing major investment projects. While the new SRA chairman brings a reputation of success in putting together private–public partnerships to fund transport projects, the pressure on government finance and the recent downward revision of projected growth rates for rail usage will not inspire confidence in prospective private investors. (On 17 December 2002, the *Financial Times* reported Mr Alistair Darling, the Transport Secretary, as having stated that, '…pledges to increase rail passenger numbers and improve service were also behind schedule.')

Indeed, the SRA, having forecast in its original strategic plan last year that some £34 billion (out of £70 billion) of its projected spending over a 10-year period would come from the private sector, may now have to be more realistic in expecting a maximum of £20 billion to come from private investment sources with the rest having to be underwritten by the government.

Where do we go from here? This is a question to which the UK government has no ready answer. Mr Darling is the third Transport Secretary since the announcement of *Transport 2010—The 10 Year Plan*, which does not give the impression of consistent leadership for transport strategy.

In an ideal world, a further radical restructuring of the railways might well be implemented but the Labour government is likely to achieve little more than continued muddling along. Things might be different if Prime Minister Tony Blair was more interested in transport issues. Unfortunately, the evidence is that he shares a common trait with ex-Prime Minister Thatcher—a lack of interest in transport and especially railway policies. Wolmar takes the view that a fundamental review of the running of the railways is required; in his book, he writes, 'The government should use its present position as effective owner of Railtrack to restructure the whole industry, breaking up the infrastructure into a series of regional companies, which would then be melded in with the train operators.' He concludes that 'The railways are a nineteenth-century invention which have a great future in the twenty-first, but only if they are nurtured by a sensible government.'

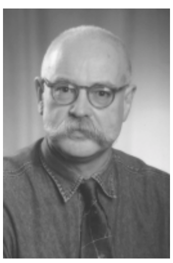
In terms of the critical issues of ensuring continuity of passenger service provision (through renegotiations of the franchise contracts) and of funding major investment projects (through encouraging involvement by the private sector), much depends on the commitment of the SRA Chairman.

As *Scotland on Sunday* (10 November 2002) put it, 'After so many years without effective leadership, politicians and the railway industry—and even long-suffering passengers—must be pleased Bowker is so eager to do the job nobody else wants.' ■

## Further Reading


C. Wolmar, *Broken Rails: How Privatisation Wrecked Britain's Railways*, Aurum, London 2001.

SRA Chief Defends Rail Authority's power, *Financial Times*, 4 December 2002.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