

The Reform of UK Railways —Privatization and Its Results

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This article presents the results of a detailed analysis by the High Council of the Railway Public Service (CSSPF)¹ of the reform of UK railways 5 years after their privatization. Privatization was a difficult process that had been put off for a long time. It was carried out in great haste by the government, who first opted for excessive fragmentation of the rail sector and establishment of Railtrack as a private ‘landlord,’ to manage the infrastructure, and then—despite the initial intentions—had to renounce real competition between the franchised Train Operating Companies (TOCs). Although traffic increased, the mixed results were much criticized in Britain, because the quality of services deteriorated considerably and the railway infrastructure has been poorly maintained and managed. This situation led the British government to place Railtrack in administration on 7 November 2001 and a new organization called Network Rail was announced on 3 October 2002 (see *JRTR* 33, pp. 32–40).

Reform—Laborious and Risky Venture

Denationalization or not?

Reform of UK railways was part of the vast programme of privatization undertaken by Margaret Thatcher’s Conservative government in various sectors of the economy, including telecommunications, water authorities, air and road transport, and maritime ports. However, the rail network was not an obvious choice for denationalization and took place through a long privatization process lasting from 1979 to 1997. The British government was perfectly aware of the unique difficulties posed by the rail transport sector because British Rail (BR) was very different from other industries. These

differences included:

- A very low market share (about 5% of the overall market) and a seemingly irreversible decline in rail transport
- Great dependence on large subsidies
- Presumed vigorous opposition from local residents to line closures and network downsizing

Prime Minister Thatcher and her cabinet were extremely cautious about the idea of privatizing railways, judging the issue to be complex and ‘potentially unworkable.’ The Prime Minister ‘...felt that Middle England held an inexplicable affection for its railways and that to tinker with BR would precipitate a political disaster.’²

The initiative came from both Norman Fowler, the Transport Secretary, and from the British Railways Board (BRB) itself. Both favoured privatization of BR subsidiaries. Above all, Fowler saw a way to reduce subsidies, while the BRB hoped for more investment in the rail sector. This did not happen; once united within the same holding company, BR subsidiaries were sold off gradually between 1981 and 1989.

Precedent of BR reorganization by business sector

The privatization of UK railways was facilitated by the reorganization undertaken by BR in the 1970s. The aim was always to reduce BR’s need for public subsidies. At the heart of reform efforts was partial reorganization emphasizing operations (business sectors) and using the existing structure based on regional offices. The latter were then limited to operating trains. The business-sector offices designated people who were responsible for managing their sector and achieving objectives, especially in marketing, costs, and investments.

According to the privatization supporters, this separation of business activities would lead to a more responsible, innovative, and customer-oriented management style—the older organization had been designed more for dealing with operating constraints than for satisfying market needs. In 1991 and 1992, an additional step was taken with the introduction of *The Organizing for Quality (O for Q)*, which would lead to abolition of the old regions and establish profit centres within each business sector. The BRB assumed overall responsibility (for general policy, finances, technical standards, etc.), while each profit centre had its own management. The high degree of autonomy and the new *O for Q* organization provided managers with experience and principles that would prove invaluable when the railways were privatized. To a large extent, this BR reorganization created favourable conditions for privatization.

Long road to privatization from 1988 to 1997

BR privatization became a top priority for the government again only in 1988 under the initiative of Paul Shannon, Transport Secretary. Even so, the government wavered between three options:

- Regional division, following the model provided by the old private networks in the pre-BR period
- Separation by business type into intercity, regional, and freight
- Physical separation of infrastructure and operations by establishing a Track Authority

The 1992 White Paper *New Opportunities for the Railways* reached the final choice; its intent was ‘To harness the management skills, flair and entrepreneurial spirit of the private sector to provide better services

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to the public' by creating guidelines for the privatization process and following the spirit of preceding privatizations. The chosen method was to:

- Separate infrastructure and operations
- Create a single manager for all infrastructure (Railtrack)
- Divide BR into some 20 operating units
- Adopt a franchise system for passenger services

Why privatize?

Despite her first reservations, Thatcher finally rallied to the principle of rail privatization. However, she was deposed as party leader and it was Prime Minister John Major who oversaw the BR privatization after Parliament adopted the difficult 1993 Railways Act. The Act obtained royal assent on 5 October 1993 but 3 more years were needed to achieve a functioning business structure.

In promoting privatization, the government had three objectives:

- Reduce the level of government subsidies for rail transport over the long term
- Open the transport sector to competition to improve services, increase railway productivity, and reduce administrative sluggishness
- Respond better to market needs, thereby meeting demand and improving financial results

Privatization opponents ascribed ulterior motives to the process, including the government's desire to relieve public finances from the weight of investment necessary to improve a network that had suffered from 20 years of chronic under-investment, by transferring responsibility to the private sector; and the desire to reduce the 'paralyzing' influence of the transport unions. Although privatization was legitimized by the new European policy of opening the rail sector to competition and separating infrastructure



Commuter train at London Victoria Station before BR privatization

(EJRCE)

from train operations, the British government's decisions went well beyond these measures.

Fragmentation of BR Operations

The chosen option ultimately divided UK railways into some 100 separate entities summarized as follows:

- Railtrack became the sole owner and manager for the entire railway infrastructure including tracks, signalling equipment, electrification equipment, stations, depots, shops, etc.
- Twenty-five TOCs were established with franchises to run passenger operations for durations of between 7 years (18 franchises) and 15 years;
- Eurostar, an international company, began managing joint operations with French National Railways (SNCF), Belgian National Railways (SNCB), and Eurostar UK as a 26th operator.
- Four freight companies were established: English, Welsh & Scottish Railways (EWS, the most important), Freightliner, Direct Rail Services (DRS), and Combined Transport Ltd. (CTL).
- Three Rolling Stock Companies (ROSCOs) were established. They

purchased BR's rolling stock and let it to the TOCs.

- Many subcontracting companies were created, mainly to maintain and improve infrastructure according to 'modern equivalent' rules.

The TOCs have a monopoly on the lines they operate on, although other operators can use some track sections. The same applies to stations and depots, which were leased by Railtrack to a TOC (a Station Facility Owner (SFO) in charge of track operations and management). Competition is limited because very few services compete on the same infrastructure. There is competition in awarding the franchises, but there is very little in the market itself.

Despite total privatization of the railway freight sector, the rail freight companies have a quasi-monopoly status (although this is entirely relative, because roads account for 94% of the freight market) and each carrier is very specialized (combined transport, nuclear, aggregate, etc.).

Railtrack—A Private Monopoly

Before being taken into administration on 7 November 2001, Railtrack was the sole

owner of the railway infrastructure. It was created by the 1993 Railways Act and was initially organized under public statutes. The company was privatized in May 1996 and listed on the London Stock Exchange with 665,000 shareholders owning £1.9 billion (£1 = \$1.58) in stocks, placing the company in the top rank of initial public offerings (IPOs). By this measure, the sale of Railtrack was a success. The management's public-relations campaign had a strong impact; Railtrack enjoyed the confidence of institutional investors who appreciated the soundness of the new structure, the security of its future resources, its relative flexibility, and the weakened transport unions.

In 1996, Railtrack owned 16,649 km of lines (1611 km dedicated to freight) of which 5166 km were electrified; 50 tunnels; 40,000 bridges and viaducts; 2508 stations; 1500 signal boxes; 9000 level crossings; and 90 shops and depots. (For comparison, SNCF operates 31,735 km of lines of which 14,206 km are electrified). Railtrack administered 14 large stations directly, and leased the remaining stations and depots to their principal TOC, which at that time, had the status of either an SFO in the case of stations, or a Depot Facility Owner (DFO) in the case of depots.

The duration of the lease was basically the same as the franchise. Because stations and depots may be used by several TOCs, the SFO or DFO had to guarantee access to the others users. Station (or depot) access agreements specified the capacities and services available to the users. In addition, users had to sign a supplementary collateral agreement with Railtrack. The entire process was regulated by the National Station Access Conditions, which determined the responsibilities of each party. SFOs (or DFOs) are generally responsible for the operation, maintenance and provision of certain services to other users. Railtrack was

responsible for major repairs and maintenance, assuming the responsibilities incumbent upon an owner. The proper operation of the system was monitored by the Regulator who had powers of arbitration in case of conflict. The creation of a private monopoly holding the entire railway infrastructure posed problems for the other players, especially the government. Railtrack was in a strong position when demanding public subsidies for investments in safety equipment and attaining standards of comfort with little or no effect on profitability because Railtrack was not conceived with responsibility for these tasks using its own resources.

Railtrack's main functions

Railtrack's main function was to provide network access to the operators and to assign time slots.

To enjoy access to lines, stations and depots, a TOC must possess a licence from the Office of the Rail Regulator (ORR). The definition of standards and approval of new rolling stock is the responsibility of a non-commercial office of Railtrack, supervised by Her Majesty's Rail Inspectorate (HMRI), which is a specialized department of the Health and Safety Executive (HSE). In this area, Railtrack was heavily criticized for '...its bureaucratic operations, its inability to quickly provide builders with reliable information on mandatory safety standards, continuous changes in those standards, the impossibility to access the network to perform tests, and excessive slowness in approval procedures.' The result was inordinate delays in making new rolling stock available, with several hundred carriages backlogged in builders' yards. This created problems for TOCs in meeting the heavy increases in traffic and for their customers in suffering from cancelled services, etc.

With regard to capacity, track-access contracts between Railtrack and the TOCs

provided a core of guaranteed slots (firm time slots permitting train operations), which were tacitly renewed unless a TOC wished to reduce them. Requests for additional slots, especially requests from competitors (other TOCs or freight companies), were considered during twice yearly planning conferences between Railtrack and the operators.

The second important function of Railtrack was to organize and manage train traffic according to the pre-established timetables.

Railtrack had two command levels for this function: regional centre supervisors who were responsible for several main lines, and signal box traffic managers. Both groups worked in cooperation with the TOC operations centres. This separation of command did not create problems when trains were on time, but required arbitration after a delay to determine whether the TOC or Railtrack was responsible for the delay, and which company would compensate the other impacted company or companies. This forced Railtrack to record all train delays, to determine responsibility, and then to decide the amount of compensation to be paid. Railtrack compensated impacted operators from its own funds when it was responsible for the delays, or imposed penalties on responsible TOCs determined. The size of the compensation often amounted to many millions of pounds sterling.

In these disputes, Railtrack was both judge and litigant, which acted as a disincentive to work for the public interest in minimizing all delays. For example, Railtrack sometimes decided to delay an on-time local train so that it could be overtaken by a late InterCity train, although the overall delay (local + InterCity) would have been less by not doing so.

The third important function of Railtrack was to ensure maintenance of the network.

Figure 1 UK Rail Passenger Traffic 1994–2000 (billion passenger-km)

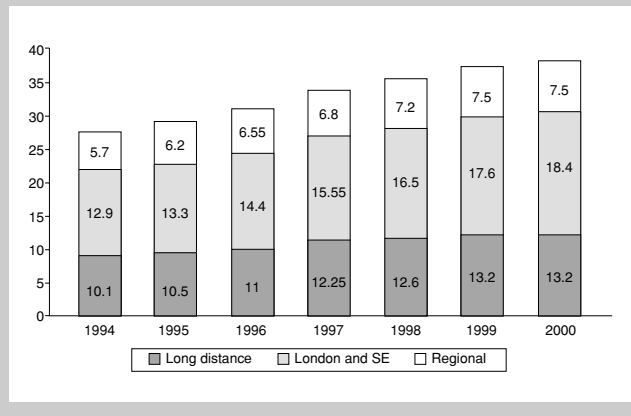
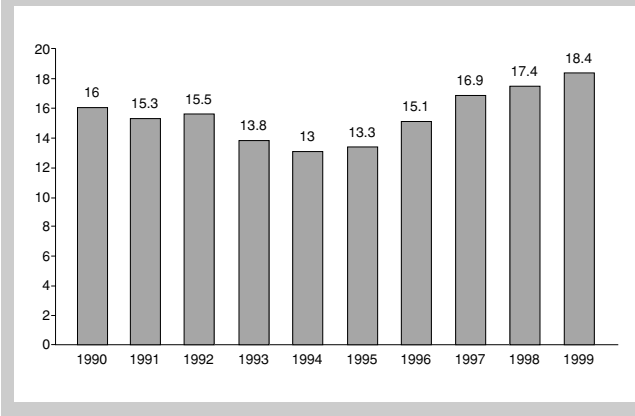


Figure 2 UK Rail Freight Traffic 1990–99 (billion tonne-km)



Railtrack's mission was defined at a time when prospects for growth in rail traffic seemed very limited and the network configuration and equipment appeared capable of satisfying demand. Thus it was expected to maintain its infrastructure in a state that would guarantee performance and, in due course, to replace the components with modern equivalent equipment, assuming more or less constant traffic levels. However, unforeseen growth in passenger (+36%) and freight (+42%) traffic between 1994 and 2000 changed the situation considerably (Figs. 1 and 2). Capacity bottlenecks appeared at many locations and required new infrastructure with much larger unforeseen investments.

The fourth important function of Railtrack was to guarantee train safety.

Railtrack was one of the main entities responsible for train safety and was also responsible for ensuring the reliability of the infrastructure. It also enforced traffic management procedures and safety regulations. Several accidents over the last few years (see *JRTR* 33, pp. 32–40) cast considerable public doubt on the integrity of the track, signalling equipment, and safety systems, and played a major role in the government's November 2001 decision to take Railtrack into administration.

Railtrack's Resources —Fees and Public Subsidies

In principle, Railtrack's financial resources came only from fees paid by the TOCs (85% of revenue) and freight transporters (6%). The remaining 9% came from income on real estate and miscellaneous proceeds. Access fees were negotiated between the TOCs and Railtrack based on complete-cost (full-cost) standards determined by the Regulator. This principle led to deliberately high fees intended to give Railtrack an adequate financial base for procuring funds in the market without dependence on government guarantees or appropriations. Originally, access fees were comprised of a fixed part representing 90% of the total, which was supposed to cover the 'price' of capacity, and a variable part. But this led to cases where extra trains could not cover their marginal cost. With a view to managing network capacity problems better, the Regulator decided to modify the complete-cost standard by reducing the fixed part to 78% and increasing the variable part according to traffic levels.

Following the Hatfield accident in October 2000, the Regulator cut freight access fees by about 40% in order to stimulate freight traffic, which had been badly affected; it was also decided that

fees would be calculated henceforth on the much more favourable basis of short-term marginal cost. The estimated lost revenue over 5 years of £416 million was to be compensated for by government subsidies.

Railtrack also received government subsidies (and sometimes from local government) which were projected to amount to £8 billion over the 2001–06 period. This amount was increased to £15 billion after Hatfield when the accident report highlighted the need for massive investment to make the network safer. However, there is a risk that even this massive subsidy will be insufficient to prevent postponement of completion of numerous projects, such as the West Coast Main Line linking London, Birmingham, Manchester, Liverpool and Glasgow. This cost of this project has ballooned from £2.2 billion to £5.8 billion, requiring additional public subsidies of £2.6 billion—three times more than originally expected. There is even talk of a need for £6.3 billion!

Railtrack's Operations

Railtrack employed some 11,000 personnel working in regional rail operations centres, switch boxes, etc.,



Crowded London Waterloo Station in 2001

(EJRCF)

with responsibility for regulating train operations. Even so, Railtrack suffered a debilitating loss of talent; privatization and the massive increase in subcontractors led to the departure of many experienced operations managers and engineers. The attrition was so bad that Railtrack sought to recruit engineers from other parts of Europe, India, South Africa, North America and elsewhere.

Railtrack's total sales increased from £2.3 billion in 1996 to £2.5 billion in 2000 with 85% of all receipts coming from TOC access fees. The main expenses were for renovations (51%), infrastructure maintenance (28%), and investment in improvements (18%). Net profits rose to £360 million in 1999–2000, but after the Hatfield accident and the burdensome verification, maintenance and improvement work that followed, Railtrack recorded a pre-tax loss of £534 million for FY2000–01. Prior to being taken into administration, substantial losses were projected for the 5 following years, possibly reaching £8 billion in 2003.

In addition, Railtrack called upon some 20 subcontractors for maintenance and renewal of the network infrastructure. These subcontractors were mainly regional BR divisions purchased by civil

engineering companies, such as Balfour Beatty, Tarmac, Jarvis, Fastline, Amec, and Amey, and research offices. The Parliamentary commission of inquiry into the Hatfield accident criticized Railtrack for a lack of control over its contractors, lack of communication between them, and lack of experienced professionals responsible for defining needed infrastructure improvements.

25 New Franchisees in 1996 and 1997

The UK rail network was carved into 25 franchises awarded by the Office of Passenger Rail Franchising (OPRAF) within the framework of the 1993 privatization reforms. The franchise contracts vary in duration but generally run for 7 years and stipulate the level of services and subsidies. This division into many franchisees led to a reduction in the length of lines operated by a single entity (several hundred km for 16 franchisees, with only 9 franchisees exceeding 1000 km).

Two factors played a major role in the Conservative government's actions regarding franchises:

- Significant and strenuous opposition

to BR's privatization from the opposition Labour Party and unions. Even some Conservative MPs took the same initial position as that of Prime Minister Thatcher, opposing any reform judged to be politically risky and difficult to accomplish technically and financially.

- The urgent need for the government to arrive at a quick conclusion before the anticipated spring 1997 elections. Lord Roger Freeman, Conservative MP and Minister of State for Public Transport, is reported as saying, 'We had literally daily meetings of senior officials and ministers. We had a clock at the back of our minds aimed at the last possible election date.'

A further factor was the apparent contradiction between the franchise system and free access to infrastructure. It was soon evident that nobody would bid for a franchise unless they were certain of profits. Just the idea of another operator running on the same line and skimming off the most lucrative markets would undermine confidence in the revenue source. It followed that competition and, even more importantly, free access to the network would have to be limited. This decision was inevitable, although many privatization supporters found it difficult to accept because they felt that the main reasons for privatization were to introduce and encourage competition while reducing subsidies, create new services, and increase supply. It became necessary to demonstrate that the free-access model was not viable. The opposition Labour Party was keen to point out that the proposed reforms would simply replace a public monopoly with a private monopoly run by Railtrack. Labour MP John Prescott complained on 2 February 1993 that, 'We shall be replacing the public monopoly with a private one.' John Swift, the Rail Regulator said, 'Railtrack would run a monopoly....It would control network access of

franchisees who will themselves be protected from competition....Under such conditions, how could I promote competition among operators?’

The answer came in the *Moderation of Competition Regime*, which regulated the access of new entrants by setting three access stages:

- Exclusive access rights to companies franchised until 1999
- 2000–02: Competition allowed up to a limit of 20% of a franchisee’s revenues
- 2002–05: Competition allowed up to a limit of 50% of a franchisee’s revenues

Aside from the difficulty of applying such a measure, it only dealt with possibilities, not obligations. The TOCs were opposed to it and the measure was not adopted and no longer seems to be on the books. Then, what were the reasons behind privatization? What was the meaning of a reform dedicated primarily to opening the entire network up to competition? Did the reform measures, which were a complete reversal of previous transport policy, not clearly demonstrate a lack of foresight that originally prevailed in the design of the new organization? At any rate, it was no longer possible to turn back the clock without having the entire privatization process derided once more by its opponents, which would have made it impossible to meet the spring 1997 deadline.

The first two franchises were awarded on 4 February 1996, and 13 had been awarded by 31 December 1996. The remaining 12 franchises were awarded with some haste during the first quarter of 1997—seven were awarded ‘just on time’ in March.

The privatization of BR’s passenger operations was achieved by 1 April 1997, meeting the government deadline and

making the process irreversible. However, competition between the operators was almost non-existent. When two operators used a certain line section, the competition is more apparent than real, because the competition does not entail major origin–destination connections. Instead, it involves different supply and service (speed and price) levels.

The current situation

The *Shadow* Strategic Rail Authority (SSRA) decided to renew the franchises, beginning in October 1999. The intent was to proceed before the end of the franchise terms by issuing invitations before the end of 2001 for tenders for short-term franchises (7 or 7.5 years), while reducing the number of franchises. However, it soon became evident that this timetable could not be met and that the most probable horizon was 2003. Moreover, given the post-Hatfield situation and the need to reorganize the sector, Transport Secretary Stephen Byers announced his intention to place the process on a new foundation by permitting the TOCs to promote medium and long-term investment policies. On 16 July 2001, Byers invited the SRA to propose 2-year extensions to the short-term franchisees, and to concentrate on negotiation of advantages for passengers within existing franchises, which would provide a 2-year period of stability to reorganize the sector. In total, 25 franchises are currently distributed among 11 groups, with two groups holding half the franchises. A number of these groups were already heavily involved in the transport sector.

Privatization of Rolling Stock

The allocation of rolling stock to companies other than the TOCs was a necessity, due to the incompatibility between service life and amortization of

the equipment on the one hand, and the much shorter duration of the franchises on the other.

Creation of ROSCOs

The government established three companies: Angel Train Contracts, Eversholt Leasing, and Porterbrook Leasing. If common logic had been followed, the passenger rolling stock (about 9000 carriages) would have been assigned to the three operation sectors—InterCity, Regional and Network South-East. But the aim was to create competition between the new companies. The device that was adopted consisted of distributing the rolling stock between the new ROSCOs in a way that would permit TOCs to call upon several suppliers for the most up-to-date equipment. The most widely used carriages were distributed between all three ROSCOs; less commonly used carriages were divided between two ROSCOs and series with just a few cars were assigned to one ROSCO. Selling the three ROSCOs proved difficult. Finally, the GRSH consortium stepped forward to buy one, while businesses launched by former BR managers bought the other two (so-called management buyouts).

Angel and Porterbrook were sold in January 1996 for £696 million and £528 million, respectively, while Eversholt was sold in February 1996 for £518 million.

The three companies invested in new trains to cope with the rapidly growing market, but the new owners were soon heavily criticized when they resold in the space of just a few months between August 1996 and December 1997. Due to the substantial and rapid appreciation in stock values (between +40% and +58%), the sales realized short-term profits of £910 million, mitigated somewhat by the considerable dividends paid to the government prior to privatization. The beneficiaries emphasized that the London stock market had grown by comparable

proportions during the same time but even so the difference remained considerable and difficult to justify. The controversy focussed mostly on the considerable personal profits realized by the company managers. The National Audit Office (NAO) was asked to analyze the situation, and determined that political considerations at the time of the privatization affected the government valuations and sales. The NAO determined that the total value of the three companies had actually been about £2.5 billion. This finding launched a debate that has not yet been resolved and cast suspicion about the conditions of the entire privatization.

Role of ROSCOs

The ROSCOs lease rolling stock to the TOCs for their operations. In theory, the ROSCOs are responsible for major overhauls, with ongoing maintenance done directly by the TOCs. However, the ROSCOs actually do not have maintenance workshops while the TOCs do. Consequently, the ROSCOs are forced to conclude various types of maintenance contracts with the TOCs as follows:

- Contract between the ROSCO and TOC contracting the TOC to perform overhaul of the rolling stock it rents from the ROSCO for the ROSCO
- Contract with one TOC to perform overhaul of the rolling stock leased by the ROSCO to another TOC

The ROSCOs can also conclude contracts with independent workshops for major maintenance operations. Two private companies purchased BR stock for spare parts. Porterbrook handles the majority of contracts involving financing of new rolling stock, and wants to equip itself with a fleet that it would make available to TOCs needing it, either as a short-term rental or as a lease.

All-in-all, the system is incredibly complex. There are a multiplicity of contracts and agreements creating

inflexible circumstances that hinder the system operation and increase costs, especially in the case of stations and relationships between Railtrack, TOC SFOs and ordinary user TOCs.

Direct orders

Many TOCs believe that the prices charged by the ROSCOs are abusive and have tried to escape the ROSCO middlemen by buying rolling stock directly from rolling stock builders. These attempts are supported by the current efforts to lengthen the duration of the TOC franchises.

New rolling stock is now being used by about a dozen TOCs. More than 3300 carriages were ordered after privatization, and nearly half were in service by the end of 2001. However, deliveries have proceeded slowly (184 in FY1999–2000, 257 in FY2000–01), and 511 vehicles that were supposed to enter service in 1999 or 2000 had still not been delivered by 1 June 2001.

Realizing that difficulties in certification of equipment and resulting delays would have extremely negative consequences for both passengers and operators, the SRA coordinated efforts with builders to develop a National Test Facility, guided by procedures followed in Europe and North America.

Maintenance Companies

Who maintains infrastructure? Railtrack had a monopoly over infrastructure and was directly responsible for its maintenance and replacement. However, in practice, Railtrack subcontracted all maintenance operations to specialized companies formed during the break-up of British Rail Infrastructure Services, which was established by BR the 1990s as a new organization for activities in 13 different sectors. These specialized companies were sold in 1996 mainly to major British

engineering companies with a few to management buyouts. Although the sector still remains fragmented, some management buyouts were resold after 1997, following the trend towards concentration.

Who overhauls rolling stock in addition to TOCs? The same process was applied to British Rail Maintenance with the sale of the seven largest units—four to ABB (becoming AdTranz and then Bombardier); two to Railcare (a Babcock International–Siemens joint venture); and one to Wessex Traincare, a management buyout. This had the effect of absorbing a large part of BR's in-house expertise and helped promote the smooth functioning of the maintenance sector.

Tailor-made Freight Transport Organization

Rail's share of the UK freight sector has declined continuously for 50 years, both in absolute value and market share (from 40% in 1954–56 to about 6% by the early 1990s). This decline was accelerated by restrictive government policies that imposed strict budgetary reductions on BR, causing it to divest some freight operations. The closing of Speedlink accentuated the process by encouraging transfer of freight to roads except for trainload freight shipment. Traffic minimums were imposed in the form of high-volume guarantees or minimum annual payments and customers who could not reach these minimums had to endure rate increases that could reach 200%! Some terminal operators were compelled to reduce operations and close some freight platforms while others went bankrupt. Parallel with these developments, BR businesses encouraged their customers to invest in modern equipment (including purchase of locomotives) that BR could not buy itself. The government's original aim was to promote a high degree of competition by

calling for tenders for rights to a relatively large number of companies. *Rail Freight Privatization: The Government Proposals* recommended the creation of six companies derived from BR. Competition between the companies was planned through incursions into competitors' regions.

Ambition to reality

Privatization of freight was not a matter of granting franchises to operators (as done for the TOCs), but of completely privatizing freight business and permitting establishment of private companies that were not obliged to maintain service levels and that could buy operating licences, own their own rolling stock, and operate in a very open environment. Their only obligations were to acquire a licence, respect safety regulations, and negotiate access terms directly with Railtrack.

Initially, there were no buyers. Ed Burkhardt, President of the successful and prosperous Wisconsin Central, was shown the proposal by the British government and declared, 'This structure is crazy.' He criticized the separation of operations and infrastructure, the insistence on free access, and the break-up into six companies in a sector with just 6% of the total market. He also sharply criticized the plans as '...the brainchild of a bunch of ideological consultants, economists, public servants of various types, all very intelligent and capable people, but no one with a true knowledge of what it means to run a railway.'

Finally, five companies were sold to an American consortium led by Burkhardt, primarily Wisconsin Central, Berkshire Partners and Fay-Richwhite. The new company took the name of English, Welsh & Scottish Railway. The consortium made the purchase with great hesitation, regarding the rail freight entity as '...a business losing a million pounds a week.'¹³ Only Freightliner, a management buyout, remained independent. Two specialized

Table 1 Main Functions of OPRAF

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|---|--|
| <ul style="list-style-type: none"> • Awarding franchises after calling for tenders • Administration of franchises
Negotiation of Franchise Agreement contract awarded to each TOC stipulating: <ul style="list-style-type: none"> – Level and content of services – Amount and timing of subsidies – Duration of franchise • Negotiation of Franchise Plan, stipulating TOC commitments with regard to supply improvements, new trains, reliability and punctuality objectives, connections with bus companies, station furnishings, etc. • Payment of subsidies to TOCs (in cooperation with the Passenger Transport Executives) | <ul style="list-style-type: none"> • Management of financial flows implicit in performance incentives and penalties established to ensure acceptable level of services • Regulation of fares with social character, representing about 48% of total receipts of 25 TOCs. These rates were indexed to the Retail Price Index during the 3 years after privatization, then to the same index minus 1% • After the final awarding of franchises in late 1997, the government determined that protection of passenger interests was OPRAF's most important priority |
|---|--|

companies were created: Direct Rail Services (for core equipment) and Combined Transport Ltd. (to handle transport to and from the continent).

However, free access remained theoretical. Some manufacturers showed an interest in transport operations on their own, but ran up against numerous barriers such as the cost of the 'Safety Case,' involving prohibitive insurance (premium of £0.5 million for coverage of only £1 million or £2 million). Another problem was the difficulty in recruiting and training new drivers.

New Privatization Framework

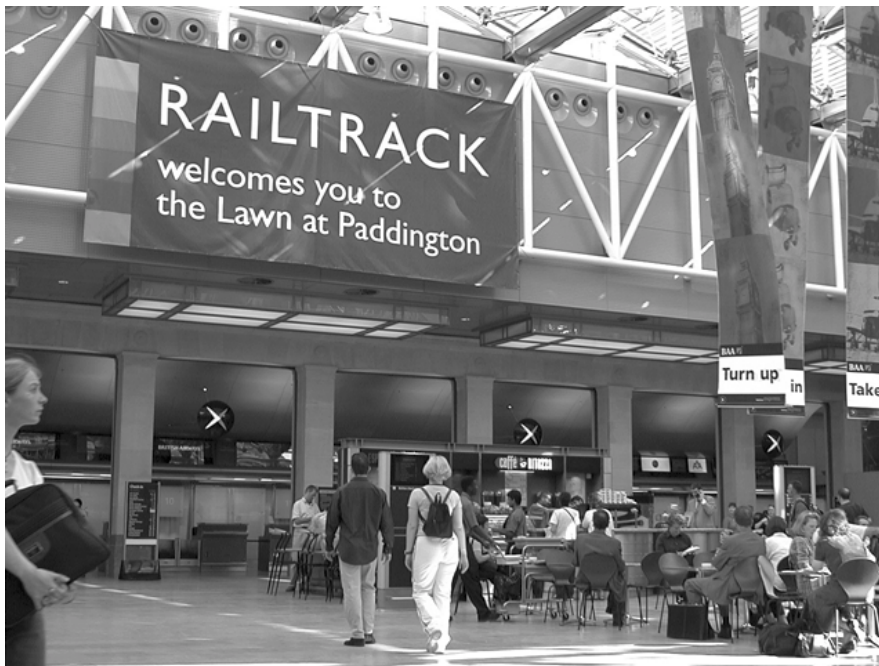
For the supporters of privatization, the goal was simply to make rail transport more efficient. Nevertheless, after considering the unique nature of rail services, the public's general perception of rail services and the belief that any change was an attack on 'its' railway, the government soon realized that market forces alone would not safeguard the greater social good. Obviously, regulation was essential to maintain the coherence and integrity of the national network and to protect consumer interests.

The retained system shared responsibilities between ORR and OPRAF. Although these two organizations were supposed to be complementary, in

reality numerous overlaps caused difficulties, increased transaction costs, and conflicts between various players sharing control of the sector including, HSE, HMRI, The Rail Passengers Council (RPC), and BRB.

Office of Passenger Rail Franchising

OPRAF is an independent public authority financed directly from the Treasury. Its main function is to award franchises to TOCs. Within this framework, OPRAF was made responsible mainly for determining minimum levels of service and performance standards, fares for 'captive' passengers, subsidies to TOCs, and control over services (Table 1). Consequently, OPRAF both negotiated the award of the 25 franchises and also ensured conformity of agreements signed by the franchisees and other newly privatized companies. The aim was to quickly establish commercial entities that would pay Railtrack fees for the use of infrastructure and stations, and leasing of rolling stock by the ROSCOs. OPRAF's 1998–99 budget was approximately £11 million with a staff of 109 coming from government offices and BR. It received a subsidy of £1.2 billion in FY1998–99. Initially, OPRAF's operations were supervised by the Department of the Environment, Transport and the Regions (DETR), which established objectives and



Huge Railtrack banner at London Paddington Station in 1999

(EJRCF)

provided guidance set out in *Objectives, Instructions and Guidances*. This arrangement placed OPRAF under strict government control but its functions were later assumed by the SRA.

Office of the Rail Regulator

The Regulator is an independent magistrate, appointed for 5 years. His or her functions are:

- To protect the interests of passengers
- To promote the use of railways for shipment of freight
- To promote the use and development of the rail network
- To promote competition and efficiency
- To monitor the safety of rail transport
- To monitor maintenance of the network
- To ensure that through-ticketing agreements are respected
- To monitor the financial situation of the sector

The Regulator grants operating licenses, supervises the TOCs' access to the infrastructure under fair competition, verifies TOC rates, determines regulations

governing competition, and ensures that passenger rights are respected. The Regulator also supervises Railtrack and the ROSCOs.

Generally, the Regulator ensures the cooperation of all parties involved in railway operations and the proper working of the entire system. He or she verifies that Railtrack's behaviour within the network is efficient and in the public interest, that competitors clearly respect the interests of passengers and, in cases of a monopoly, that the monopoly is duly controlled (particularly with regard to rates and profits).

To successfully perform his or her duties, the Regulator has an administrative office (ORR), funded by income from operating licenses and from DETR. In 1999–2000, ORR had a budget of about £13 million and a staff of 133.

The Regulator is not legally obliged to follow government instructions. He or she is more independent than OPRAF, receiving only advice from DETR. However, the Regulator is appointed by the Transport Secretary and the Regulator's mandate cannot be extended beyond that term.

The Health and Safety Executive

The HSE monitors adherence to regulations designed to protect the health and safety of the general public. HMRI is a specialized department within the HSE that is responsible for safety in the rail sector and has control over railway safety regulations and procedures by enacting standards for the design, construction and operation of railway equipment. In the broad sense, these standards cover rolling stock, infrastructure and all railway equipment. HMRI's functions also include improvement and modification of existing equipment that must be authorized after notification. HMRI also approved standards, systems and procedures proposed by Railtrack within the Safety Cases. HMRI's budget is £230 million and it has a staff of 90.

HMRI worked with Railtrack in accepting or rejecting use of new rolling stock. This arrangement created many difficulties, including cases where Railtrack and HMRI refused to authorize commissioning of several hundred new carriages.

The British Railway Board

The BRB was the only operator after WWII and has been retained after privatization with the following functions:

- To respond to the call for franchise tenders, if the call is unsuccessful
- To manage non-operating inherited assets (mainly real estate)
- To administer the British Transport Police, which is responsible for policing the railways
- To manage remaining debts

The Rail Passengers Council

The RPC is composed of a National Council, plus nine regional committees (for London, for six regions in England, and one each for Scotland and Wales). The committees were established in 1947 to represent regional and user interests. Their existence and function were reaffirmed in the 1993 Railway Act, which

clearly gave them the role of protecting consumer interests while acting as a 'watchdog.' The Act expanded their jurisdiction to cover a wide area, including fares, marketing, information, punctuality and availability of services, competition, timetable changes, crowded trains, sanitation, and comfort of trains and stations. The purpose is to have the RPC contribute to the control of private monopolies and ensure a good balance between operators. It likewise has a say in decisions to close or open stations and lines, having successfully urged the opening or reopening of more than 300 stations, the transfer of 600 km of freight lines to the passenger rail network, and the construction of some 15 new track sections totalling 60 km for passenger services.

The RPC does not act under its own power. It presents recommendations and advice to the Transport Secretary, handles individual and collective claims, opens inquiries, and transmits the results of its inquiries to the relevant departments and authorities. Its budget is around £5 million with resources coming from funds allocated by the Regulator and presently relayed through the SRA. Members are appointed after calls for candidates, and are chosen after consideration of their experience in, and knowledge of, the transport sector. However, they are not very representative of the population—the majority are managers, professionals, and farmers from rural areas and women are a minority. The RPC appears to be completely unhampered when it comes to expressing its opinions and levelling criticisms, as is evident from various documents and hearings. Even so, it depends on the government for financing. Other consumer organizations, such as Railfuture, are independent but have limited means. They participate in deliberations, mainly with regard to regional or local improvements. They have played an important role in the

Table 2 Major Objectives of *Transport 2010—The 10 Year Plan*

- | | |
|---|--|
| <ul style="list-style-type: none"> • 50% growth in total passenger traffic • 80% traffic increase in InterCity traffic • Greater InterCity service frequency • Faster InterCity operations • Increased frequency on suburban lines • Better east–west connections, for example: <ul style="list-style-type: none"> – across Pennine chain – new lines across London • Increased reliability and punctuality: <ul style="list-style-type: none"> – quantitative aims (15 out of 16 (94%) trains on time) – stipulated in new franchises | <ul style="list-style-type: none"> • Better integrated information on customers • Better service and better station quality • Significant increase in rail freight share: <ul style="list-style-type: none"> – +80% or additional 15 billion tonne-km projected for 2010 – Increase to equivalent of about 1 billion truck trips • More effective and competitive supply system |
|---|--|

reopening of lines and stations, mentioned above.

Why was SRA established?

The SRA was established to compensate for certain shortcomings and to ensure stricter control over the sector by working:

- To clarify the separation of responsibilities that were previously diluted between numerous players (primarily OPRAF, the Regulator, Railtrack, the TOCs and the BRB), and to specify the objectives of each and their respective roles, in order to avoid conflict and redundancy
- To promote a long-term vision, which was severely lacking previously, to plan development strategies for the rail network in order to ensure the effectiveness of the sector, and to propose ways to achieve greater capacity for passenger and freight transport
- To promote greater use of rail services within the framework of new policies to achieve a better balance among transport modes. *Transport 2010—The 10 Year Plan*, an integrated transport White Paper has been set as the objective (Table 2)
- To integrate various transport modes: Passengers—better connections with other modes of transport, Freight—modernization and creation of intermodal platforms.

The SRA has taken over all functions from OPRAF and the BRB; some roles previously held by the Regulator (mainly involving safeguarding of passengers'

rights, protection of the environment, line closures, and the role of spokesperson for consultative bodies) the relevant functions of the Transport Secretary, in the freight sector.

The SRA has a wide reach. First, it defines long-term strategies for the entire sector to promote rail transport, increase market share (particularly at the expense of roads), promote intermodal transport, and steadily ensure inter-operability of certain major British routes with the network in continental Europe. This new role is intended to compensate for the absence of a long-term vision since privatization in the strategies of important players such as Railtrack and the TOCs. Second, it regulates competition and application of controls to ensure conformity of services, and has taken over OPRAF awarding of franchises with the aim of calling for new renegotiated tenders. In return, new franchisees must commit themselves with regard to investments, service levels, subsidies, and the appropriateness of connections with other companies. (Too often, these factors were ignored in order to reduce delays and limit competition.) Third, it controls and coordinates the players through a previously lacking leadership role. Finally, it works in partnership with private investors.

Relationship between SSRA and SRA

SSRA officially started operation on 1 July 1999. This status was assumed while waiting for the conclusion of consultations and the legislative process required to permit formal establishment of the SRA

(on 1 February 2001). However, the SSRA was able to act in many areas, particularly in renewal of franchises, many of which had adapted poorly to market conditions. It also prepared and negotiated the Strategic Agenda with its partners, especially Railtrack. As Sir Alastair Morton wrote, 'agenda' means 'that which is required to be done.' The Strategic Agenda is not simply a plan but is a document with the following objectives:

- To highlight challenges the SRA must face
- To eliminate or reduce areas of uncertainty
- To achieve progress in defining the content of statutes
- To provide future orientation for SRA actions
- To open debate on and promote the future strategic plan

Nevertheless, establishment of the SRA did not resolve problems posed by the original OPRAF/ORR duality (although the Regulator's powers are somewhat reduced). The many problems and difficulties arising from this dualism still remain. The conflict between the SRA and Railtrack was even greater, since Railtrack

did not concede the roles of developing and extending the network, or maintaining the existing network to the SRA.

Legal and Contractual Agreements to Promote Operations

The complex relationships between the many players within the new system led to systematic legal or contractual agreements specifying (in the greatest detail), the conditions and obligations of each of the partners and the major transportation cost generators. The following sections explain the major contracts and arrangements.

Track-access contracts

Network access contracts constituted the foundation of relationships between Railtrack and the TOCs. The relationships were difficult to define. There was no reference baseline, so it was necessary to create the entire system from scratch, defining both commercial factors and technical form and content. Preparation of these contracts was affected considerably by the time constraints of the privatization schedule, and did not permit

OPRAF to complete a type contract. Progress was also hindered by constant government intervention due to its strong desire to complete the entire sale before the General Election in the spring of 1997. The process was undertaken urgently but pragmatically. The early contracts were quite different from each other due to specific circumstances but later contracts were more standardized.

Naturally, a key discussion point was the size of the track access charges. The government's key aim was to make Railtrack profitable, so the guiding principle was that track access charges must cover the total cost (operating costs + current depreciation + return on capital). Fees were calculated as a fixed cost representing 91% of the total. Such a concept was viable if traffic remained stable or decreased. (The latter condition was broadly expected by a number of political leaders and experts, who assumed that the railways were in a period of decline that should be managed as best as possible.)

However, this was not the official reasoning. It seems that there was a contradiction in using this principle for calculating track access charges while clearly indicating a desire to improve services, which should lead logically to increased demand and revenue. This is what subsequently occurred, although the rate determined for track access was not considered from this perspective. As a consequence, revision became necessary and the Regulator introduced a new element that took into account capacity problems that had become acute on certain sections of the network, and reduced the fixed cost portion from 91% to 78%.

Infrastructure maintenance contracts

Railtrack was persuaded to award 36 infrastructure maintenance contracts for terms of 5 to 7 years. Initially, the



Virgin Class 220 Voyager running through the countryside

(Virgin Train/Milepost 92 1/2)

government wanted to separate maintenance into ongoing maintenance, and track replacement and major works. Experts judged such a division artificial and not viable.

In the early stages (FY1996), contracted maintenance permitted an average 4% reduction in maintenance costs. However, although standards were respected in most cases, it was apparent that some instructions had not been followed satisfactorily and that increased follow-up monitoring by Railtrack was necessary. Unfortunately, Railtrack appears to have not been vigilant enough as the aging infrastructure came under greater stress caused by substantial, unforeseen traffic increases, leading to a subsequent series of accidents and widespread network closures, etc., following the Hatfield accident in October 2000 (see *JRTR* 33, pp. 32–40).

The Performance Regime

One common criticism expressed by privatization opponents was that BR would be fragmented, its activities parcelled out, and, most importantly, the single management centre would disappear. Opponents said this would lead to an overall deterioration in supply and performance.

It was evident that measures were needed so that the new companies, especially the TOCs, would collaborate in ensuring consumer satisfaction. This was the motive behind creation of the Performance Regime prepared during 1994 and 1995 and launched on 10 December 1995. The Regime principles are as follows:

- Railtrack: Reference targets termed the Permitted Delay were determined for a group of services for a specific accounting period (28 days). When target values were achieved, there was neither a bonus nor a penalty. When

values were exceeded, Railtrack received a bonus from the beneficiary TOCs. When the values were not achieved, Railtrack paid a penalty to the affected TOCs.

- TOCs: The same principle applied; TOCs paid penalties to Railtrack when they were responsible for delays. However, in order to encourage Railtrack to take steps helping the TOCs to improve punctuality, it received only 80% of the due penalties. If a delay caused by one TOC impacted other TOCs, Railtrack received penalties from the TOC causing the delay and distributed them to the affected TOCs.

Before the Hatfield accident, there were an average 3000 delays per day throughout the entire network. All delays are recorded by a computer system and the cause of each delay is identified from among 204 possible predefined causes. Responsibility for the delay is then assigned to a specific entity and/or manager. This system requires a ponderous organization, with 2900 checkpoints where train passage times are recorded (86% are done automatically but the remainder are done manually). A complex marking system, involving more than 1300 delay-attribution points, governs calculations of the bonuses and penalties. Follow-up of minutes lost, regained and lost again, in the course of various incidents, is not easy. Determining ultimate responsibility for delays is not easy either. Long, complex transactions ensue in disputed cases, and subsequent challenges or even legal recourse translate into high costs.

Although the system was established with ambitious objectives, its application depends on a very sophisticated computer system and its administration depends on people. It is this latter point that appears to pose the most problems, primarily due to the generated bureaucracy.

Management of the system was incumbent on Railtrack, which was both judge and litigant, even though it was itself the main cause of delays. Even more serious, the system had adverse impacts on overall traffic management. Railtrack was tempted to reduce its penalties by trying to reduce delays for which it was responsible, instead of minimizing all delays and placing priority on the general good. All parties agreed on the need to reform but it will not be easy to decide how to modify the system.

The Passenger Service Requirement

Determination of a minimum level of services was necessary before franchises could be awarded. This, together with the requested subsidy level, was a decisive factor in choosing a franchise applicant. Each franchise contract contains a Passenger Service Requirement committing the franchisee to a specific service level. There is clearly a contradiction between the flexibility directives governing the awarding of a franchise, the expressed intention of which is '...to permit maximum scope for the initiative of the franchisees, imposing requirements no more burdensome than are required to achieve your objectives.'⁴ and the framework objectives aimed at defining minimum service levels for passengers based on those offered by BR just before privatization.

The TOCs also commit themselves to maintain regularity and punctuality (sanctioned by the bonus/penalty system), and to follow the investment programme determined in the contract. They cannot close a line or transfer traffic to a road.

The Public Performance Measure

The Public Performance Measure introduced by the SRA provides for

Figure 3 Punctuality of UK InterCity Railways (before and after Hatfield accident)

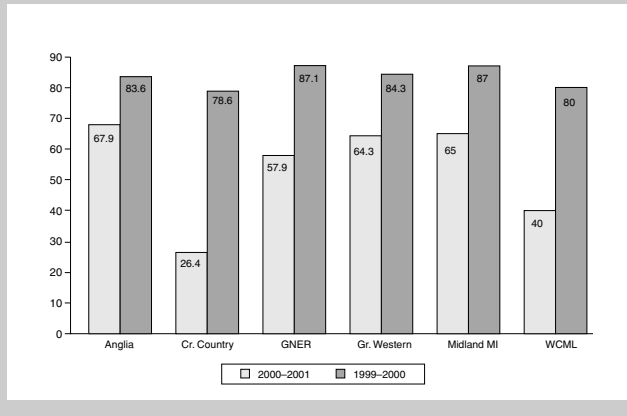
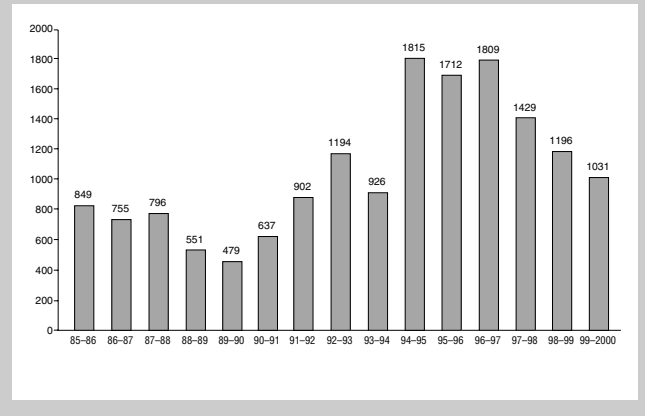


Figure 4 Subsidies to TOCs (£ million)



calculations that take into account the percentage of trains arriving less than 5 minutes late (10 minutes late for busy lines), as well as cancelled and partially cancelled trains, including authorized cancellations. To make up for such delays, certain stations are not served, although this is a cause of major disagreement. The RPC *Rail Passenger Franchise Replacement* study of September 2000 (before the widespread service disruptions after the Hatfield accident) compared the punctuality of BR trains during the year before privatization with the performance of the TOCs from 1996 to 2000. Eight companies were making progress; the services of 15 companies had deteriorated—nine substantially; and seven companies recorded more cancelled trains.

The performance regime led to a relative balance between bonuses and penalties (for all companies). The net balance (negative for TOCs) was £3.3 million for fiscal 1999–2000. The Hatfield accident reversed the situation, increasing penalties fourfold to £104 million and cutting bonuses in half, making a net loss for the TOCs of £92.5 million.

Was Privatization Failure or Success?

The answer is not simple. The commercial figures are clear; Figures 1 and 2 show there was substantial growth in traffic from

1994 to 2000 (+36% in passenger-km and +42% in tonne-km). There was also an average 34.5% growth in revenues from passenger operations. Although traffic started growing before privatization (+4.5% from 1994 to 1995) and a good part of the growth can be explained by external factors, it is true that the new operators played an important role in expanding rail traffic. They did this by introducing marketing operations that were unequalled at the time, increasing supply and adapting it to demand, modernizing stations, and improving customer treatment and staff behaviour. Railways in the UK have benefited from their improved image.

The external factors favouring traffic growth included sustained growth of GNP (+18%), full employment, a 22% increase in household consumption; a saturated road network; and high fuel prices. However, this assessment should be put into perspective. Over a longer period (1970–2000), growth in rail traffic was 29% in the UK and 71% in France. The reference year of 1994 used in most comparisons was a low point in British rail traffic after a fall of 16% between 1988 and 1994. There would probably have been some recovery in the market after any slight improvement in the economy.

Mixed service quality

After immediate improvements during the

privatization year, service quality deteriorated considerably. Passenger complaints in 1997–98 doubled over those in 1993–94 and tripled when compared to any year in the late 1980s. Most complaints centred around reduced punctuality (Fig. 3) and overcrowding during rush hour.

The price-quality ratio was judged harshly by 46% of all passengers. Here again, criticisms considerably exceeded the average in the case of companies serving London and the Southeast.

With regard to this latter point, it should be noted that rail fares in Britain are the highest in Europe. Depending on distance, they are double or even triple the fares in France, which are about average for continental Europe. A comparison with other transport modes indicates that rail fares in Britain are three times higher than the cost for a comparable journey by car, from 15% to 35% higher than air travel, and five times higher than travel on a long-distance bus.

No reduced subsidies—the first failure

Although reduction of subsidies was a main purpose of the reforms, subsidies to the TOCs almost doubled in real terms during the 1994–97 period and exceeded the pre-privatization levels (Fig. 4). The subsidies began declining significantly in 1998 in accordance with the original plan but the average level of more than £0.05

per passenger-km is still much higher than during the BR days.

Above all, it appears that massive investments are needed to modernize the system and increase capacity. The White Paper *Transport 2010—The 10 Year Plan* submitted in July 2000 sets out extremely ambitious objectives (Table 2) for traffic and services and proposes a colossal and unprecedented investment in the railways totalling £63 billion, almost £29 billion of which is in the form of subsidies. It should be noted that the planning process was somewhat paradoxical in a country not really accustomed to this type of approach.

Under the plan, the government undertakes to inject almost £3 billion per year into UK railways. This is three times more than subsidies before privatization (Fig. 5).

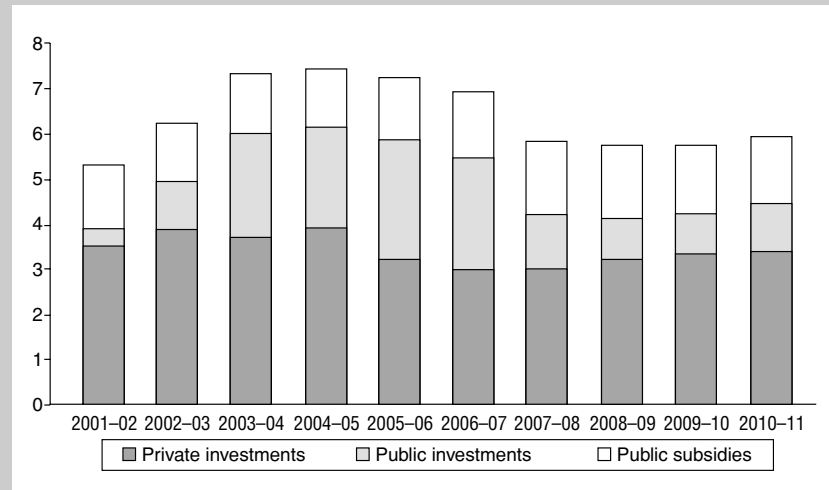
Still worse, the government was compelled to subsidize Railtrack to the amount of £1.5 billion to allow it to solve the most serious problems revealed during inquiries into the Hatfield accident. This is the ultimate criticism, because reform had been based on the principle that infrastructure subsidies ‘...were supposed to disappear forever when Railtrack was privatized in May 1996.’¹⁵

Safety—the second failure

Four serious accidents have occurred since privatization. The accidents were dramatic in their human consequences and exposed serious insufficiencies and multiple problems in safety systems and procedures, signalling equipment, and traffic control. The Hatfield accident was due to a broken rail that was subsequently revealed to be in an awful condition.

The Hatfield accidents led to a series of investigations, unprecedented levels of remedial construction, more than a thousand track restrictions, etc. (see *JRTR* 33, pp. 32–40). Prime Minister Tony Blair himself said that Britain experienced ‘absolute hell’ and ‘chaos.’ Remedial

Figure 5 *Transport 2010—The 10 Year Plan Funding Sources (£ billion)*



work was still underway in late 2001 and Railtrack refused to fix a time limit.

The results were lost time for passengers, and lost revenue for the companies.

The official report into the Paddington accident cast doubt not only on Railtrack’s management of infrastructure and trains, but also on the TOCs and even the administration in charge of controls. Former Railtrack Chief Executive Gerald Corbett said in August 2001, ‘I am afraid there will be another train crash again...and then it will become an absolute political imperative to do something.’ The official *Railway Safety Report* published in August 2001 likewise predicted ‘...an increase in the risk to rail passengers, with train derailments at their highest level since 1993.’

Far from being resolved, the problem had severe consequences for the TOCS whose losses could reach more than £1 billion. For example, Virgin Trains has claimed considerable compensation of £400 million from Railtrack. The situation has also placed achievement of the *Transport 2010* goals in doubt.

How Did this Occur?

In April 1994, John MacGregor announced BR would be split into no fewer than 70 companies. When the

process was complete, there would be almost 100. This massive fragmentation was the primary cause for criticism by many leaders. Chris Green, Chief Executive of Virgin Trains said, ‘The hurt was the fragmentation, not the privatization, and especially the artificial separation of the wheel from the rail.’ Professor Max Steiner at the London School of Economics said, ‘Privatizing the railways was a ridiculous decision...but separating management of the rails from that of the trains was worse yet, because the two systems could only operate profitably together.’ Railtrack Chief Executive Corbett said, ‘The British railway system was torn apart by privatization and its current structure is not the proper one for assuring passenger safety, optimizing investment or managing traffic growth.’

Prime Minister Blair said, ‘I think that the privatization (of the railways) was a disaster, not only because they were privatized, but also because they were fragmented. ...One of the great problems is that there is no coordination between the various large railway sectors.’

The division of BR into almost 100 independent entities, including 25 TOCs sharing a network of 16,000 km with just 3000 to 4000 km of major lines, replaced coordinated internal company relations with complex, formal, and costly

contractual relationships. In the final analysis, the break-up resulted in a heavy, inefficient bureaucracy, an opposition of interests and objectives, and a weakening of responsibilities among the many players who transfer blame and defer decisions to someone else, leading inevitably to expensive settlements and civil suits.

During a meeting of shareholders on 24 July 2001, John Robinson, the new Railtrack Chief Executive, said, 'I see a railway not performing well. I see internally a lack of a clear structure in many areas and an extremely heavy bureaucracy almost everywhere.'

Another consequence was an increasingly confusing fare structure. Passengers must deal with multiple service providers offering a wide array of fares (more than 90 categories), and often have difficulty finding the services and rates most suited to their needs. The system has reached

such a degree of complexity that even sales staff encounter difficulties. Commercial interoperability still has a long way to go. Here, too, the interests of TOCs would conflict with each other.

Separation of wheel from rail

Many criticize the separation of operations from infrastructure, underlining the integrated character of a railway, its rolling stock, its track and its safety equipment. Sir Alastair Morton, Chairman of the SRA, observed, 'Railtrack was getting a barrier between wheel and rail.' Professor Bill Bradshaw of Oxford University said, 'The separation of the infrastructure from the operations was a mistake.'

Just one example of the problems was the inability to take delivery of new rolling stock because of a technical glitch. New equipment, whether locomotives or carriages, can tend to create disruptions involving safety infrastructure. In the integrated BR, such problems were resolved quickly through internal coordination between the relevant technical supervisors. After privatization, Railtrack, the TOC, the ROSCO, the builder and the HMRI were sometimes unable to agree on a solution and on who should bear the cost. As a result, many carriages stood idle in builders' yards while the TOCs faced under-capacity because of increased traffic.

More serious are the considerable delays in compensating victims of accidents involving multiple litigants, including Railtrack, one or several TOCs, one or several ROSCOs, and even subcontractors.

We are forced to realize that the character of the privatized UK railways is aberrant. With the exception of Banverket in Sweden, private railway companies in the USA, Japan and elsewhere are all characterized by a vertical structure integrating responsibility for infrastructure and operations, because the interactions

between these two factors are so strong and their problems are so complex.

Lack of strategic vision

Railtrack was supposed to provide leadership, defining a coherent strategy based on a long-term vision. It did not. Perhaps such an entity, which manages only the infrastructure and is swayed by its own short- and medium-term interests, is simply incapable of assuming a leadership role. Railtrack likewise proved incapable of properly coordinating operations with other players. More generally, the entire British rail industry has been characterized by pursuit of short-term profits, which has translated into excessive staff reductions with a resulting decline loss of competency and less acceptance of responsibility by personnel. There has always been a gap between the aims of the 1993 Railway Act, the regulations and the organizations expected to implement the reforms. In other words, the British railway system lacks an overall strategic vision.

The task of developing a long-term vision now falls on the SRA as envisioned by its Strategic Agenda. According to the SRA, the government still needs to specify the financial resources it intends to make available.

'It's all about investment, investment, investment.'

This quote from SRA Chairman Sir Alistair Morton outlines how the British railway network has suffered from under-investment for decades (Fig. 6). Prime Minister Blair said, 'Privatization was an important factor causing chaos in the railways, but the true reason was under-investment.'

But the situation has grown even worse because of Railtrack—the least one can say is that Railtrack has not lived up to its responsibilities. The Regulator criticized it severely for its lack of competency, its lackadaisical management of the network,



1996–97 pamphlet of Chiltern Railways (EJR/CF)

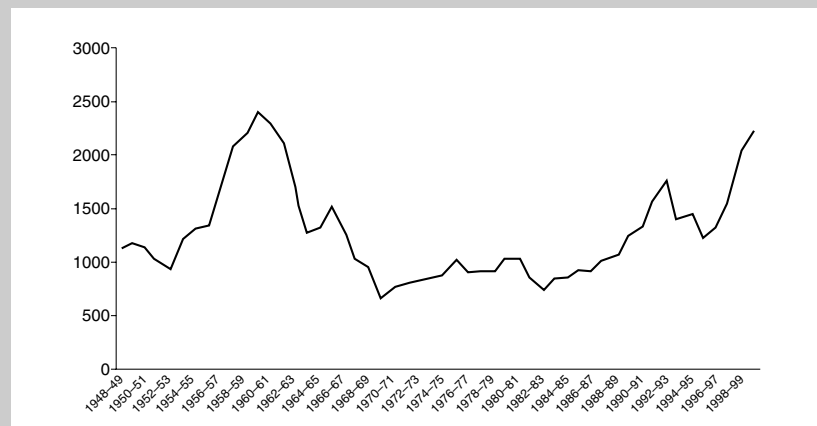
its failure to recognize the actual state of the infrastructure and ways to remedy it, and its at times erratic actions when managing the post-Hatfield crisis. It remains to be seen whether the unprecedented financial 'investment' from the public purse (an amount 5.5 times greater than that of France and double that of Germany in terms of GNP) will be enough to return the situation to normal.

A Private Monopoly Responsible for National Railway Infrastructure

The private monopoly factor is undoubtedly the most critical element in the privatization. When a private monopoly assumes responsibility for infrastructure, allocation of time slots, and the management of train traffic, it may find itself in the position of both judge and litigant. The question is whether a private monopoly, which works to achieve its own objectives under its own constraints, can manage a national rail network to the public good? The British case is unique in Europe where railway infrastructure is generally the responsibility of a public authority. The existence of a private monopoly in possession of rail infrastructure creates problems involving its relationship with government. Railtrack finds itself in a position of power, able to demand and obtain public subsidies in order to finance operations that have little or no profitability (which, unfortunately, is particularly the case with many safety investments).

But ultimately, Railtrack's poor management of the network and numerous accidents put its future into question. The issues are complex and fraught with financial, technical and safety concerns but, in the final analysis, no government can ignore the proper operation of its railways—even those that are privatized—and the safety of its citizens.

Figure 6 UK Railway Investment 1999–2000 (£ million)



On 7 October 2001, Transport Secretary Stephen Byers announced, 'The government has decided to put Railtrack under administrative supervision.'

The placing of Railtrack under administrative supervision marks the end of this chapter of the story. It is impossible to say how the new entity called Network Rail will be organized and whether it will succeed where Railtrack failed. What is certain is that the reform of UK railways is far from over. ■

Notes:

1. The complete report of the study conducted by Gérard Mathieu for CSSPF can be obtained free-of-charge from the head office of CSSPF. The Council is a consultative body attached to the Ministry of Transport. It is composed of Members of Parliament, local elected representatives, trade unionists, State representatives, the presidents of the SNCF and the RFF, qualified representatives of the transport sector and European business

interests, and representatives of consumers, customers, travellers, shippers and chambers of commerce.

2. Quoted in *Designing a method of rail privatization*, Jon Shaw [ed.], McGraw-Hill, 2000.
3. Ed Burkhardt retired from EWS in July 1999 after disagreeing with the Board who opposed his long-term 'speculate to accumulate investment strategy,' judging it to be incompatible with the interests of shareholders.
4. *Objectives, Instructions and Guidances to the OPRAF*, March 1994
5. Steve Bennett, *International Railway Journal*, August 2001



Gérard Mathieu

Mr Gérard has been a Transport Consultant since 1999 after retiring as Director High Speed at the International Union of Railways. He held various posts including Executive Director of the High Speed Development Department at SNCF between 1987 and 1996 and has published extensively on high-speed rail in France and Japan. He has a DEES postgraduate degree from Sorbonne University.