



A new deal for the railways

Table of contents

- [Foreword](#)
 - [The Government's Review of Railway Regulation](#)
 - [Passenger train operator performance](#)
 - [Integration](#)
 - [Infrastructure Investment](#)
 - [Rail freight](#)
 - [Action Since May 1997](#)
 - [Response to the Committee's Recommendations](#)
-

Foreword

1. Our Manifesto pledges on railways were clear: to establish more effective and accountable regulation, to ensure that public subsidy serves the public interest and to establish a new rail authority to provide a clear, coherent and strategic programme for the development of the railways. This document explains how the Government will implement those commitments, by putting passengers' interests first and putting the railway at the centre of a radical integrated transport policy.

2. The Environment, Transport and Regional Affairs Committee of the House of Commons published on 18 March 1998 its report, *The Proposed Strategic Rail Authority and Railway Regulation*. The Committee had held an inquiry between October 1997 and January 1998. The report reflects evidence taken from a wide range of organisations, including oral evidence from 15 organisations. During a House of Commons debate on the report on 25 March 1998, the Government welcomed the report and indicated that it would consider its recommendations carefully when finalising its plans for the railways. This document is the formal Government response to the Committee's report.

3. On 20 July, the Government published its White Paper, *A New Deal for Transport* (Cmnd 3950), which sets out a vision for the railway system at the heart of an integrated transport system. The policies in *A New Deal* reflect a number of the Select Committee's recommendations. The formulation of those policies has been greatly assisted both by the Committee's report and by the wide consultation and analysis which underpins it. Our proposals have also been informed by the consultation which the Government itself undertook last autumn on integrated transport. And of course we have been guided by how rail

privatisation has worked on the ground - and all too often how it has not worked. That has been central to our review of railway regulation.

4. This response to the Committee's report describes the findings of our review of railway regulation. It explains what we already have done to strengthen accountability within the constraints of that regulatory structure. And it charts the way forward to a better railway, part of a truly integrated transport system. In doing so, this document builds on the proposals for the railway set out in *A New Deal for Transport*.

The Government's Review of Railway Regulation

5. In May 1997, the Government began a thorough review of railway regulation to pinpoint the shortcomings of the present system, and to inform its thinking on how the aims and detailed responsibilities of the proposed Strategic Rail Authority (SRA) could rectify them. The review also considered the wider issue of how the Authority could best ensure that Britain's railways take their rightful place as a cornerstone of an integrated transport network. The Committee's report has greatly assisted that process.

6. The review laid bare major flaws at the heart of the regulatory regime inherited from the previous Government, many of which are also highlighted in the Committee's report:

- **There is no focus within the privatised industry for long term strategic planning.** Before privatisation, the British Railways Board was charged with monitoring passenger and freight demand and developing a strategy to provide the capacity to cater for it. Now, there is no equivalent planning body at work in the industry.
- **The Franchising Director's remit is too narrowly focused on the passenger railway.** As things stand, he has no powers in respect of freight on the railway and is heavily constrained in what he can do to support integrated transport initiatives.
- **A number of key policy decisions on the future of the rail industry, such as the introduction of open access competition, lie in the hands of a statutorily independent regulator.** The Rail Regulator is under no direct statutory obligation to take account of the Government's objectives for the railways.
- **There is confusion about the respective roles of the Office of the Rail Regulator (ORR) and the Office of Passenger Rail Franchising (OPRAF)** as regulators of passengers' rights. Each has a patchwork of responsibilities, and in many cases there are confusing overlaps. In their evidence to the Select Committee, both the Franchising Director and the Rail Regulator acknowledged the scope for confusion.
- **The sanctions available to the regulatory authorities are unwieldy.** For example, a train operator cannot be fined for a breach of the franchise agreement, however serious, if it is unlikely to recur. Sharper, more efficient sanctions are clearly required.
- **The views of rail users need to be given more prominence.** Passengers must in future have a greater say in the train services which are paid for with their fares and their taxes.
- **The public are not convinced that safety comes first.** There is a widespread perception that safety standards might be compromised by commercial considerations.
- **The rolling stock leasing companies are inadequately regulated.** The sale of the three ROSCOs has been sharply criticised by the National Audit Office as being a poor deal for the taxpayer. In contrast to the train operating companies, the ROSCOs are not regulated at all.

- **Investment must be a priority.** We must never again get into the position we found in 1997, where the Rail Regulator had condemned the level of Railtrack's investment expenditure as "wholly unacceptable".

Passenger train operator performance

7. In addition to these structural flaws, the performance of some of the 25 passenger train operating companies (TOCs) has been unacceptable, despite the increase in grant to the industry which accompanied privatisation. Too many trains are being cancelled or running late. OPRAF's January 1998 performance bulletin on the performance of the train operating companies in 1997/8 indicated that punctuality and reliability on roughly half of the route groups surveyed was worse than in the preceding 12 months. Although there have been some improvements by some operators since January, the picture remains mixed. In the OPRAF performance bulletin published in May 1998, the Franchising Director called for dramatic improvements by some train operators.

8. The Rail Regulator published on 1 July 1998 figures showing that there were nearly one million complaints direct to train operators in 1997/8. That is a huge number. What is even more disturbing is the Rail Regulator's view that these complaints do not fully reflect passenger dissatisfaction with the privatised railway.

Integration

9. As well as unacceptable levels of punctuality and reliability, there have been frequent and well-publicised shortcomings in a range of network benefits, such as impartial retailing of tickets, the National Rail Enquiry Service, and passenger compensation. Before rail privatisation, it was the responsibility of a single organisation - the British Railways Board - to secure the benefits of an integrated network. Privatisation was supposed to ensure that these network benefits were protected, so that passengers could make seamless journeys and receive consistent information to help them plan those journeys. But the fragmented railway system has not consistently delivered on that promise. The Government's review of regulation has concluded that the arrangements for network benefits need to be changed, so that rail users' interests are protected and integrated transport is promoted.

Infrastructure Investment

10. It is widely acknowledged that the railway network requires significant new investment if it is to be fit for the 21st century. Railtrack - the monopoly supplier - was last year judged by the Rail Regulator to be inadequately regulated with a significant backlog of investment, particularly on property. The Government found great concern that Railtrack was not responsive in dealing with proposals for increasing capacity, particularly for rail freight, and that Railtrack was not properly accountable to its major funder - the taxpayer.

Rail freight

11. For many years, too little was done to promote rail freight. The previous administration's modest budget for freight grants was regularly underspent. Investment in freight infrastructure and rolling stock was inadequate. There is no good structure for planning the development of the rail network in a way which recognises the Government's wider policies for transferring freight from road to rail.

Action Since May 1997

12. The Government's review of railway regulation has of necessity been a thorough one, reflecting the need to consider carefully the important changes needed to give the railway industry direction and leadership. But during the period of the review, we have been able to make some improvements within the constraints imposed by the current structure and legislation.

- On 6 November 1997, the Minister for Transport issued the Franchising Director with new Objectives, Instructions and Guidance (OIG) which deal with the real issues that matter most to passengers, including high standards of punctuality and reliability and the protection of passenger rights.
- As part of his new OIG, the Franchising Director is to produce an assessment of the type and level of services the network should provide, including an overview of Railtrack's investment plans, as set out in Railtrack's Network Management Statement.
- The Government has approved the Franchising Director's interim planning criteria, in order to provide an effective framework for developing and implementing worthwhile rail investment. These will be revised in light of *A New Deal for Transport*, to take account of the development of multi-modal appraisal techniques that establish a level playing field between the modes.
- Ministers have agreed a voluntary concordat with the Rail Regulator which gives the Regulator a clear indication of what the Government wants for the railways.

12. The new Objectives, Instructions and Guidance made it clear that the Franchising Director's top priority is now to protect passengers' interests. This allowed him to negotiate a "passenger dividend" package of benefits worth around Â£75m for Great Western Trains, North West Trains and Great Eastern, as part of FirstGroup's take-over of Great Western Holdings. In addition, as part of Go-Ahead Group's take-over of Victory Railway Holdings, the Franchising Director secured passenger benefits in respect of the Thames Trains franchise including Â£500,000 to be spent on station improvements, a new through service between Bristol and Oxford via Bath, Swindon and Didcot, and investment in bus, cycle and airport integration.

13. The Government has also taken action on rail freight. The freight grants scheme has been revitalised, and its budget increased, so that more freight can be encouraged to go by rail. In 1997/8 grants worth some Â£30m were awarded, nearly twice as much as the year before. The budget for 1998/9 has been increased to Â£40m. We renegotiated the terms of sale of Railfreight Distribution to allow for the Government to get a financial return from a big increase in Channel Tunnel rail freight. And, as part of the price for extending Eurotunnel's concession, the Government has secured commitments from the French Government and Eurotunnel designed to get a better deal for rail freight through the Channel Tunnel and beyond, not only by English Welsh and Scottish Railway but also by potential new entrants to the market.

14. On infrastructure investment, the Rail Regulator reached voluntary agreement with Railtrack last year, amending the company's licence so that the Regulator can better ensure that Railtrack invest in the network at the right levels and for the best results. It is still too early to say whether those new arrangements will work.

15. Railtrack published their 1998 Network Management Statement on 25 March 1998. The Government welcomed the greater level of detail about Railtrack's spending plans and management of the network. However, the Government noted the Rail Regulator's concern that the plan "contains very few firm commitments". On 16 July 1998 the Rail Regulator and Railtrack, in a joint statement, announced that Railtrack had given further commitments to improve network performance and track quality; to address network capacity problems; and to strengthen its processes for meeting the needs of train operators and funders.

16. The previous Government envisaged the introduction of open access to the rail network. There was a real risk that this would have meant competition at the expense of the network benefits which matter to passengers. Following representations from Ministers, the Rail Regulator has put in place arrangements to prevent a destructive free-for-all.

17. The measures the Government has taken on passenger and freight operations have been widely welcomed. Some passenger train operating companies have played their part by taking steps to improve the services they offer to the passenger. But the overall picture is still unsatisfactory and there is a lot more to be done. *A New Deal for Transport* contains details of other initiatives the Government will put in place, and these are expanded in the rest of this document.

18. A number of our proposals would necessitate new primary legislation. We shall bring that legislation before Parliament at an early opportunity.

Response to the Committee's Recommendations

(a) We support the Government's plan for a Strategic Rail Authority as a practical way of addressing the problems of the restructured railway. Although we accept that encouraging the integration of transport modes will be an important policy aim in the future, we do not recommend a strategic transport authority at this stage (paragraph 129).

20. We welcome the Committee's support for the creation of a Strategic Rail Authority (SRA).

21. We agree that setting up the SRA is only one step towards developing a properly integrated national transport policy. Our White Paper, *A New Deal for Transport* announced the creation of a new Commission for Integrated Transport (CfIT) to provide independent advice to government on the implementation of our integrated transport policy, to monitor developments across transport, environment, health and other sectors and to review progress towards meeting our objectives. The Commission will work closely with the SRA to ensure that the Authority's plans mesh with those of other transport planners and providers.

(b) The purpose of the Strategic Rail Authority should be to:

Provide a single body accountable to the Secretary of State for strategic planning, co-ordinating, and supervising the activities of the rail industry, and for the disbursement of public funds

Provide clear strategic direction for rail transport in Britain

Promote rail passenger and freight transport both within government and publicly, and to foster a climate that encourages private investment in the railway

Provide a link with other interested bodies such as the Scottish Parliament, the Welsh Assembly, Passenger Transport Executives and the proposed Greater London Authority and act as a sponsor for railway interests in discussions with these bodies (paragraph 130).

22. We regard the lack of strategic planning as one of the biggest weaknesses of privatisation, particularly in view of the rail industry's dependence on public subsidy. We want to create a pragmatic partnership with the private sector. It is clear from our discussions with train operators and others that the industry wants leadership and focus that only the Government can provide; and that the level of long term investment is directly related to the clarity of that strategic vision.

23. The SRA will meet this need. It will form an early view on priorities for developing the network, in consultation with the industry and other interested parties. It will tell the train operators what services and network benefits government wants to buy. It will ensure that the railway is properly integrated both with other forms of transport and with the plans of other key organisations. It will consider and promote rail options for addressing identified transport problems in a multi-modal context. It will ensure that the railway system is run as a network, not merely a collection of different businesses - particularly when franchises are re-let and if any are re-negotiated. And it will ensure that rail freight operators' plans are taken into account in the planning of the network as a whole.

24. The SRA will work closely with other key organisations. Passenger Transport Executives are co-signatories to a number of franchise agreements. The Scottish Executive will have power to instruct and guide the SRA on certain aspects of rail services which are wholly within Scotland¹. The Greater London Authority will be able to procure enhanced rail services via the SRA and propose changes to the pattern of services within London². The Welsh Assembly will be consulted on passenger service specifications in Wales. Such powers and rights of consultation will not however compromise the SRA's duties to plan the operation and development of the rail network on a strategic, GB-wide, basis.

1. The detailed proposals for the devolution of certain rail responsibilities to the Scottish Parliament and Executive were announced in Parliament on 31 March 1998 (Official Report cols. 1062 - 1064)

2. The detailed proposals for the Greater London Authority's role in commuter rail were set out in the Government's White Paper "A Mayor and Assembly for London", published on 25 March 1998 (Cmnd 3897)