

The Future of Rail - White Paper

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This White Paper extends to Wales and Scotland. It covers rail services within Wales, cross-border services and services within Scotland. Its proposals for Scotland are separate to those for England and Wales and refer to future devolution. Its proposals do not extend to Northern Ireland.

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The Future of Rail - White Paper

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Foreword



The railways are a vital public service. They are an essential part of the transport system, supporting a growing economy. Last year they carried over a billion passengers for the first time since the early 1960s, they are carrying 45% more freight than in 1995.

That is why we are tackling the long-standing problems the railways face. Historic underinvestment has been made more acute because of the increasing pressure that comes from a growing economy. We are putting that right with record levels of investment over a long period.

However, there are two further problems caused by privatisation in the early 1990s that remain. An inefficient and dysfunctional organisation coupled with a failure to control costs. This White Paper sets out a number of reforms that provide a coherent and effective management structure for the railway. It makes clear what is properly the job of Government, and gives Network Rail clear responsibility for day to day management of the network, whilst enabling train companies to build their businesses by carrying more passengers and improving their customer focus.

This new structure is robust enough to stand the test of time and will give the industry badly needed stability, but it also allows sufficient flexibility to respond to changing circumstances. It maintains the public and private partnership that is crucial if we are to encourage even more passengers to travel by rail.

Our proposals allow far closer co-operation between track and train, which experience has shown greatly improves performance. And the White Paper also sets out how we will devolve greater power and responsibility not just to the devolved administrations but to the London Mayor and to Passenger Transport Executives, and how we will streamline regulation.

These proposals, complemented by a commitment to continue sustained investment in the railway, will allow the industry to provide a public service on which we can depend.

Rt. Hon. Alistair Darling, MP
Secretary of State for Transport
July 2004

Executive summary

1. On 19 January 2004, the Secretary of State for Transport announced that his Department was to undertake a fundamental review of the rail industry. The review would consider the structural and organisational changes needed to enable the rail industry to deliver for its customers, as well as looking at the regulation of safety and the progress being made by the industry in improving performance and controlling costs.
2. This White Paper sets out the review's conclusions. They have been based on analysis of the past and current performance of the railways, and on detailed submissions from and discussions with key players from the industry and other relevant organisations. As agreed with the Chairman of the Transport Committee, this White Paper also serves as the formal response to the Committee's recent report on the railways¹.
3. The Government will implement these changes as quickly as possible, working in partnership with the industry. Network Rail and the Association of Train Operating Companies have indicated that they are committed to doing so. Where necessary, the Government will introduce legislation as soon as Parliamentary time permits.
4. The key priorities for the rail industry are to control its costs and live within the level of public funding available to it, and to improve its performance for passengers and freight users. Both are vital if the railway is to prosper and grow, and the industry needs to recognise that future funding will be contingent on success. The restructuring outlined in this White Paper is an important step towards achieving these goals.

What we are going to do

5. This White Paper outlines a new blueprint for the railways, which the Government has worked closely with the industry to develop. It is built on the principle of public and private partnership, and it recognises rail's status as a public service, specified by Government and delivered by the private sector. This new structure will be based on six key changes:

■ The Government will take charge of setting the strategy for the railways

It must be for Ministers, accountable to Parliament and the electorate, to set the national strategy for the railways, but in the current industry structure this is not the case. Under the new arrangements, the Government will set the level of public expenditure, and take the strategic decisions on what this should buy. This means that the SRA will be wound up, and its strategic responsibilities and financial obligations will pass to the Secretary of State. There will continue to be a crucial role for the independent economic regulator, who will protect the rights of investors and customers and ensure the Government pays the proper price for what it is buying. New regulatory and contractual arrangements will be put in place between Network Rail and Government, to run alongside, and provide the context for, the franchise contracts with train companies. Combined with more robust information, this will enable the Government to act as a strong client to the private sector industry, protecting the interests of taxpayers and farepayers alike.

¹ *Seventh Report from the Transport Committee, Session 2003-04, on The Future of the Railway, HC 145-I.*

■ **Network Rail will be given clear responsibility for operating the network and for its performance**

With no one organisation clearly in charge, improvements in reliability have been sluggish, and the railway has not delivered the performance that passengers expect. The changes outlined in this White Paper will give Network Rail a strengthened role as operator of the network, with overall responsibility for its performance. Government will set out what Network Rail it is expected to deliver for the public money it receives, and on that basis Network Rail will lead industry planning, set timetables and direct service recovery. Too often under the current system, companies have been able to pass the buck for poor performance. Under the new structure, Network Rail will be held accountable for ensuring that the network delivers a reliable service for its customers through an agreement with Government.

■ **Track and train companies will work more closely together**

The new structure will deliver more efficient working between Network Rail and the train companies at the front line, bringing track and train closer together operationally. The roles and responsibilities of each part of the industry will be clarified through new local agreements, and their incentives brought into line with one another. The number of franchises will be reduced and they will be aligned more closely with Network Rail's regional structure. The industry has made it clear that it is committed to ensuring that these new arrangements drive more effective working between Network Rail and the train companies in the interests of passengers. They will replace the current confrontational relationship with one based on aligned interests - and will create the scope for even closer working in future where all parties agree to it.

■ **There will be an increased role for the Scottish Executive, the Welsh Assembly Government and the London Mayor, and more local decision-making in England**

Central Government is not always best placed to take decisions on the transport needs of different communities. In future, the devolved administrations will take on increased responsibilities for passenger services and, where appropriate, infrastructure. In England, the Passenger Transport Authorities (which manage transport provision in some of the main metropolitan areas) will be able to buy additional services, and to transfer funding between rail and other transport modes. Transport for London will also have an increased role with regard to rail services in the capital. And the Government will promote the role of Community Rail Partnerships in improving the management of local branch lines.

■ **The Office of Rail Regulation will cover safety, performance and cost**

Bringing regulation of all aspects of the rail industry - safety, reliability and efficiency - together under a single public regulator will streamline the regulatory system, reduce bureaucracy, and ensure that these issues are looked at as a whole, and not in isolation from one another. This means responsibility for safety

regulation will pass from the Health and Safety Executive to the Office of Rail Regulation, and will remain independent of Government and the industry.

■ **A better deal for freight will enable the industry and its customers to invest for the long-term**

Because of the high up-front investment costs for rail freight, businesses using these services need to be sure about their access to the network. But this has to be balanced with the fact that freight users only pay for the cost of operating their services and not for the costs of the underlying infrastructure. Freight operators will be given greater certainty about their rights on the national network, and a group of key routes will be identified on which freight will enjoy and pay for more assured rights of access.



The importance of rail

6. The railways are a vital part of the country's transport infrastructure. As the economy grows, demand for good transport services increases, which the rail industry has an important role to play in meeting. The rail industry is making progress in increasing the number of passengers carried, as well as its share of the freight market, and in improving its customer focus and its levels of performance and safety. The Government wants to see this continue and accelerate.
7. But the railways are suffering from historic under-investment stretching back for decades, and from a flawed structure put in place at the time of privatisation. Substantially increased levels of investment are now being made to address this legacy, but the structure must also be changed if we are to build the railway that the country needs for the future.
8. The changes described above will create clarity of purpose and responsibility, with Network Rail and the train companies working together with aligned incentives to deliver a common goal. They will bring to an end the buck-passing and blurred accountability that too often characterise today's railway, and drive the improvements in performance that passengers demand. And the workforce will be better motivated, because it will be concentrating not on dealing with bureaucracy, but on providing a safe and efficient service to passengers.
9. This will form the basis of a stable partnership between the public and private sectors, with the Government offering clear strategic direction, a single independent regulator ensuring high levels of safety and protecting the rights of investors, and the private sector supplying the innovation, customer focus and commercial discipline. The industry will be able to plan ahead properly and take sensible decisions about investment and service patterns to meet its customers' needs. And with regulatory and contractual arrangements with Network Rail running alongside its contracts with the train companies, the Government will be a strong client working on behalf of taxpayers and farepayers alike - able to hold the industry to account if it should fail to deliver on its commitments.
10. The Government is determined to tackle the problems of the railways, which have been caused by decades of under-investment and compounded by a flawed structure introduced at the time of privatisation.
11. The process of reform has already begun. There are now record levels of investment being put into the industry. Network Rail - a private sector company operating in the public interest - is making progress in reducing delays and in getting a grip on costs. And the train companies are driving up their performance, and engaging with Network Rail in setting up joint control centres to improve how services are managed.
12. But more still needs to be done. The next step is to simplify the relationships within the industry, and put in place a new structure fit to deliver the improvements that the public expects. This White Paper sets out how this will be done.

Chapter 1 - The case for reform

The history

1.1.1 This year marks the 200th anniversary of Britain's railways. On 21 February 1804, a steam locomotive designed by Richard Trevithick made its first ever journey, hauling seventy men and ten tons of iron from Pen-y-Darren foundry to the Glamorganshire canal. The nine-mile journey took just over two hours.

1.1.2 Within thirty years, the first Railways Bills had been passed, and the first public railways opened by the Stephensons between Stockton and Darlington, and Liverpool and Manchester. By 1842, the rail route from London to Edinburgh had been completed, and four years later "railways mania" saw Parliament clogged by 272 separate Bills, many of which did not pass the initial planning stages.

1.1.3 The quality of these Victorian railways varied widely. Brunel's Great Western was an engineering masterpiece, designed for speed. But other lines were designed and built to lower standards, as engineers tried to deliver projects within tight budgets against a backdrop of soaring land prices. The railway we have today is a legacy of these design choices - for example, narrow tunnels and low bridges, which are an obstacle to using double-decker commuter trains in London or moving large containers to and from ports.

1.1.4 As the network expanded and the importance of rail increased, Government began to take a role in its development, regulating to ensure that the railways served society more safely and equitably - through, for instance, Gladstone's Parliamentary Trains and the "Lock, Block and Brake" safety legislation of 1889.

1.1.5 Government has also driven many of the subsequent organisational changes within the industry. After the First World War, the haphazard array of small companies that had grown up in the Victorian era was rationalised into the "Big Four" regional companies of the interwar years. This was followed by nationalisation in the 1940s and, most recently, by the flawed privatisation of the 1990s.

1.1.6 For the first 140 years of their life, Britain's railways were essentially privately financed. When the industry was nationalised and Government took over funding responsibility in the 1940s, the railway was in need of significant investment to tackle the wear and tear of two world wars. However, little Government funding was available for rail beyond the compensation that had to be paid to shareholders. By the time Government was in a position to back major rail investment, in the ill-fated modernisation plan of the 1950s, the railway was losing ground fast to the car and the lorry. Passenger and freight traffic was in decline. The modernisation plan did not reverse this trend, and the Beeching closures of the 1960s attempted to rationalise the haphazard Victorian network.

1.1.7 Over the decades that followed, successive Governments failed to ensure that sufficient investment was made in the network on a consistent basis - either in highspeed lines or in the basic infrastructure of track, earthworks and bridges. And where major projects have been taken forward, they have often been subject to false economies which still cause problems today - for instance, the electrification of the East Coast Main Line employed light-weight structures, which have proved vulnerable to high winds.

The privatised railway

1.2.1 The privatisation of the rail industry in the early 1990s assumed that private sector innovation and discipline would drive down the railway's public funding requirement and drive up quality of service, against a backdrop of falling demand. This was partially borne out in relation to the provision of passenger and freight services - although demand has, in fact, risen substantially - but proved entirely incorrect in relation to the operation of the infrastructure. In addition, the attempt to create a

commercial market relationship between the train and track companies failed. This was because it did not recognise that it must be for the Government to clearly define the outputs it wanted its funding to buy. The lack of a direct relationship of this kind between the industry and its primary funder led to distorted and inefficient incentives between the different parts of the industry.

Infrastructure maintenance and operation

1.2.2 Railtrack, the former owner of the network infrastructure, was privatised as a 'virtual company', retaining few core engineering skills. This was because, as a part of the privatisation, the then Government compulsorily outsourced Railtrack's engineering work to infrastructure maintenance companies, who were given responsibility not only for carrying out maintenance and renewals, but also for the specification and inspection of their own work. This led to Railtrack's knowledge of the state of its assets diminishing, and to a maintenance strategy that saw the condition of the track deteriorate rapidly.

1.2.3 The Hatfield accident in 2000 revealed the extent of that deterioration and the company's poor understanding of asset conditions, and prompted what one observer described as "a collective nervous breakdown" across the industry. The wholesale imposition of speed restrictions across the network caused a steep decline in reliability, and required Railtrack to make vast penalty payments to the train companies. The reaction to Hatfield and other accidents undermined public confidence in rail safety. Railtrack increased the level of maintenance and renewal work rapidly, but this caused a steep increase in costs.

1.2.4 These substantial cost increases, combined with a separate loss of control on the West Coast Main Line project, contributed to the company's worsening financial situation, which eventually led to its entry into administration.

1.2.5 Network Rail took over Railtrack's responsibilities for the management and operation of the network in October 2002. Network Rail is a company limited by guarantee, run on a commercial basis but without shareholders. This means any profits it makes are reinvested in the railway, rather than paid as dividends. It operates in the public interest and takes a long-term view of investment in the network. It has access to private finance and to private sector management skills, whilst still being accountable through its Members to the industry and to the wider interest.

1.2.6 The level of income required by Network Rail is independently regulated by the Office of Rail Regulation (ORR) via a process of five-yearly periodic reviews, and where appropriate interim reviews. In the course of a review, the ORR considers the level of work that Network Rail must carry out given its obligations to passenger and freight companies and the efficient cost of doing that work. That then forms the basis of ORR's judgement of Network Rail's income requirements, which the company receives in the form of access charges from train companies and direct grant from Government. Rail presents particular, unique, challenges for regulation, because of the level of direct Government funding, and the combination of a natural monopoly network with franchised passenger services.

Passenger and freight services

1.2.7 To provide passenger services, privatisation introduced passenger franchising. Franchises conferred the right to run passenger services for a specified period - typically 7 years. Train companies bid for franchises on the basis of the amount of funding they would require - or the premium they would be prepared to pay - in order to run these services. The winner was the company seeking the lowest subsidy or offering the highest premium.



1.2.8 In the first few years after privatisation, most train companies were successful in living within the financial constraints they had set themselves. Although cost reductions proved difficult to obtain, because British Rail had been adept at operating under a tightly constrained budget, these difficulties in improving efficiency were largely offset by revenue growth. This was stimulated partly by sustained economic growth and partly by the train companies' success in growing the rail market. Increased numbers of services were run and new ticket types introduced, and as passenger numbers increased so did the companies' fare revenues.

1.2.9 But more recently, with much less spare capacity on the network and following the decline in performance post-Hatfield, this has proved difficult to sustain. The original franchise contract offered little flexibility to respond to changing priorities, which meant that when some train companies found themselves unable to operate under the constraints set by their own bids, their contracts had to be renegotiated, increasing costs to Government substantially. Chapter 4 sets out changes to the franchise contract and bidding process which will reduce the risk of this happening in future.

1.2.10 Passenger franchise contracts are awarded and managed by the Strategic Rail Authority (SRA), which was set up to link together the different parts of the privatised industry and provide cross-industry leadership. As is explained in paras 3.2.3 - 3.2.4, however, there are limits on the ability of any body other than Government itself to set the strategic agenda for the railways, and therefore changes are needed to the leadership structure of the industry.

1.2.11 Engines and carriages have a working life far longer than the length of a passenger franchise contract, and are therefore not owned by the train companies themselves but by private sector leasing companies. There has been a thorough modernisation of the UK fleet since privatisation, with rolling stock companies (ROSCOs) investing £4.2 billion since 1996 and bringing 4,500 new vehicles into service. Leasing costs are a significant part of rail industry costs, with train companies paying over £1 billion to ROSCOs every year. The Government has a role to play in this - not only through its funding of train companies, but also through guarantees given to ROSCOs to provide assurance that rolling stock will continue to be required beyond the end of a specific franchise contract. The Government is determined that taxpayers and rail passengers should get value for money from this investment, and our approach in this area is set out in Chapter 4.

1.2.12 Rail freight has grown by 43 per cent from its low point in 1995, and has also increased its modal share. New locomotives, wagons and handling equipment are all part of the long-term commitment that freight operators and their customers have made to rail freight. The number of containers moved by rail to and from major ports has grown by 20 per cent to over 700,000 in the past three years, and there have been significant increases in other industrial markets, such as petrochemicals and car exports. But rail freight is also developing new markets, with a number of high street stores increasingly using rail for distribution throughout the UK. Britain is one of the few countries in Europe which has succeeded in reversing the decline in rail freight. The private companies running freight services are more focused on growing the business by meeting customer needs than was possible under BR, for whom freight was a marginal part of its business.

1.2.13 There are a number of lessons to be learnt from the history of the UK rail network. Firstly, maintaining a Victorian railway and adapting it to modern needs requires sustained investment, which the railway has not received. The Government's investment plans are now providing substantially

increased funding for the industry, but a legacy still remains which will take time to address. Secondly, delivering a successful railway requires a balance between engineering, operational and financial priorities. Thirdly, the relationships between and within the public and private sectors must be properly structured so that the industry's primary funder, the Government, specifies clearly the outputs it is buying, rather than relying on a distorted commercial market. And finally, there needs to be a clear understanding of what rail does best and of its place in a coherent and balanced wider transport strategy.

1.2.14 But under the current structure of the industry, none of these is the case.

The railways today

1.3.1 The involvement of the public and private sectors working together has brought some real benefits for the rail industry and its customers. It has brought access to private sector skills and commercial discipline, as well as to private finance which, backed by public support, has enabled an unprecedented programme of investment to take place. This year, the Government and the private sector are each spending around £3.8 billion on the railways, and the rail industry:

- is building a major new line (the Channel Tunnel Rail Link);
- is upgrading one of the three main rail arteries (the West Coast Main Line);
- has completed the Train Protection and Warning System programme to improve safety by reducing the risk of trains overrunning red signals;
- is modernising the power supply south of the Thames;
- renewed over 800 miles of track last year (compared to as little as 200 miles a year under Railtrack); and
- is replacing all of the mark 1 slam door rolling stock on the network.

1.3.2 Each of these initiatives will bring benefits for passengers and freight users in terms of improved reliability, reduced journey times or increasing safety levels. No such programme of investment ever took place in the nationalised industry.

1.3.3 The attention to detail and to customer service provided by the best train companies have also led to improvements for passengers, although there is some way to go to bring all train companies up to the standards of the best. Passenger information has improved, with electronic information boards now at most stations and on many trains, and off-peak travellers can benefit from a wider range of tickets and fares from the train companies.

1.3.4 There has also been an unprecedented increase in passenger numbers and service levels. Passenger journeys have grown by over 26 per cent and there are 1,600 additional train services every weekday compared to 1996/97. The franchise model for passenger services incentivised companies to increase their markets, and last year, over a billion passenger journeys were made on the railways for the first time since 1961, when the network was much more extensive than it is now. And, as set out in the following chapter, the train companies, working with Network Rail and the SRA, are tackling many of the causes of poor performance.

1.3.5 Network Rail is also addressing the legacy left behind by Railtrack. Its management team has substantially restructured the company and is taking maintenance back in-house. These reforms are delivering benefits in terms of cost efficiencies, slowly improving reliability, and higher morale. Network Rail is also taking steps to increase the role played by its Members in company governance, and to improve its knowledge and understanding of its assets. The clear consensus of the submissions put to Government in the course of the rail review is that, whilst Network Rail still has a long way to go, real progress has been made in the first eighteen months under new management.

1.3.6 The Government wishes to see all of these improvements continue and accelerate, but is concerned that the current industry structure too often hinders progress. It is not the individual elements of the privatised railway that are most problematic. It is the complex interfaces between them that are at the root of its difficulties.



1.3.7 The railways are a public service, heavily dependent on funding from the taxpayer, and that - in common with most other countries in the world - is not going to change. Experience has shown that the market alone will not deliver the railway that the public expects. The key challenge, therefore, is to ensure that a structure is put in place which brings the interests and activities of the private sector industry into alignment with the priorities of Government. The structure must make it clear where responsibilities lie, and not allow blame to be passed around. And it must recognise what private and public sectors do best, and allow them to work together: with the private sector using its skills to deliver the railway specified by Government.

1.3.8 There are five key structural weaknesses that need to be addressed, which are discussed in more detail below. These are:

- a complex and confusing public sector structure, with too many over-lapping responsibilities and no clear command of strategy;
- a regulatory system and contractual structure which do not give the Government direct control of the level of public funding for the railways;
- an over-complex private sector structure, with Government often far removed from the impact of the decisions that it takes;
- a relationship between track and train companies based on false and sometimes perverse market incentives, that in many cases do not reflect customers' needs; and
- a lack of operational leadership in the private sector, with no-one clearly accountable for the delivery of improved performance and reliability.

The problems of the current structure

Public sector complexity

1.4.1 A serious issue for the rail industry, and one that was noted by the Transport Select Committee, has been the fragmentation of responsibilities in the public sector. Both the Department for Transport and the Strategic Rail Authority have responsibilities with regard to the overall strategy. Both the SRA and the ORR play a role in deciding Network Rail's outputs and performance targets. European Community law also has an increasing influence on rail matters. In safety, the Department for Transport, SRA, EC, ORR and HSE all have a role to play, plus the industry's own Rail Safety and Standards Board, and the Rail Accident Investigation Branch, the British Transport Police and the prosecuting authorities in the event of an accident.

1.4.2 There is a direct price to pay for this panoply of public sector bodies in their high staffing and administration costs. But the indirect costs are far more significant. As the Transport Select Committee noted, the lack of accountability and of a clear strategic direction has contributed to costs creeping up and projects getting out of control throughout the industry.

1.4.3 Government must tell the industry clearly and unambiguously what outputs are required, so that the private sector industry can then take responsibility for delivering them, with its front-line staff focused on their customers rather than on dealing with bureaucracy. And the Government needs to have binding arrangements with the industry, which will enable it to act as a strong client on behalf of farepayers and taxpayers alike.

The relationship between track and train

1.4.4 The structure of the privatised railway at the time of privatisation was based on the concept of a commercial relationship between the infrastructure provider and the train companies. In theory, the train companies paid access charges set by the Regulator to run services on the infrastructure, and then each party would pay penalty payments to the other for the delays that they cause. The access charge should have meant that the train companies were Network Rail's customers, with every incentive to drive Network Rail to provide better value from the money they pay.

1.4.5 But this has not proved to be the case. The nature of the industry has meant that the access charges paid by train companies now bear little relation to the specific costs that they impose upon Network Rail. There is no real commercial market between the train companies and Network Rail, and no real customer-client relationship as both are largely funded by the Government. Moreover, the train companies' franchise contracts with Government insulate them against any rise or fall in the access charge. This means that the access charge regime has not effectively encouraged either Network Rail or the train companies to control costs. Under the new structure, other arrangements will be put in place, including clear Government control of public funding and a binding arrangement between Government and Network Rail, which will ensure that cost control within the industry is improved.

1.4.6 This distorted market is typified by the current penalty payment regime. This allocates responsibility for actual delay minutes on the network to either a train company or to Network Rail, and then requires penalty payments to be made for each minute allocated. This creates a constant flow of money within the industry. In the three years to 2002/03, the train companies retained between £150 and £200 million of compensation paid to them by Network Rail. This meant that in each of the three years some train companies retained more compensation than their total operating profit. This can be a substantial distraction from the real tasks of improving performance and generating genuine income for the industry, as well as encouraging companies to seek to allocate responsibility for delays elsewhere rather than prevent them.

1.4.7 Another manifestation of this false commercial relationship is the system by which ticket revenues are allocated to train companies. Because revenues are allocated by numbers of services run, rather than by numbers of passengers, some train companies have been incentivised to run additional services even when they do not contribute to increasing passenger usage overall. For example, the rate of growth in inter-city train services has exceeded the growth in passenger numbers on most main lines. To prevent this occurring in future, there must be a single body clearly in charge of timetable setting, and franchise contracts must be clear about the pattern of services to be delivered.

1.4.8 Additional services of this kind can add to the costs of the industry as a whole, without attracting additional revenue or providing significant benefits to passengers. Moreover, as described in para 2.3.6, increasing numbers of train services can contribute to performance problems. To prevent this occurring in future, there must be a single body clearly in charge of timetable setting, and franchise contracts must be clear about the pattern of services to be delivered.

The regulatory regime

1.4.9 Under the current regulatory system, the Rail Regulator has had to determine both Network Rail's outputs for the operation of the rail network, and for its maintenance and renewal, and the price that should be paid for them, given its commitments to the passenger and freight companies. This, combined with the fact that train companies are insulated from the effects of increasing access charges (see para 1.4.5), has led to Government having no option but to foot the bill - regardless of its consequences on other parts of the transport budget, or even for other spending programmes. The Government agrees with the Transport Select Committee that this is unacceptable, as it must be for Ministers, accountable to Parliament and the electorate, to decide how taxpayers' money is spent. There is still, of course, a vital role for independent economic regulation to protect the rights of investors and ensure the Government pays a proper price for what it wants to buy.



1.4.10 The Government must also have binding relationships with both the train companies and Network Rail, which set out the outputs they are to provide and the price the Government is paying for them. This will allow the Government to ensure consistency between the outputs that it specifies for track and train, which is missing from the current system. And it will ensure that the Government has proper control of its total expenditure on rail. With such arrangements in place, the Government will be in a strong position as the industry's primary client to secure improved performance and cost control from both train companies and Network Rail. However, although this is in place with the train companies through the franchise contracts, there is currently no such arrangement between the Government and Network Rail.

The structure of the private sector

1.4.11 The split of responsibilities between Network Rail and the train companies has brought both benefits and problems. Train companies and Network Rail have been able to develop management expertise and focus on their own areas. The franchising system has improved knowledge of train company costs. And the delay attribution system has led to a better understanding of the causes of major incidents, which has helped both sides of the industry to reduce delays.

1.4.12 But costs have increased because of the complex commercial and bureaucratic relationships, the lack of clarity over responsibilities, and the misaligned incentives between each part of the industry. And performance has also suffered because the industry is unable to react quickly to incidents. Dealing with an incident requires consensus between Network Rail, freight operators and train companies - all of whom may have conflicting priorities. And this applies in other areas: for instance, timetable changes and signal placements are currently decided by committee.

1.4.13 Relationships at the front-line have too often been adversarial, with problems being passed up the chain rather than tackled through collaborative working. When performance has deteriorated, there has been scope for the two sides of the industry to blame one another and pass the buck, rather than working in partnership to deliver improvements for their customers.

1.4.14 As the Transport Select Committee has recognised, the system is over-complex, with too much ambiguity about the responsibilities of different organisations. This is a major contributor to the rising

costs and poor performance of the industry, and the roles and responsibilities of the different parts of the industry must be clarified and made explicit.

1.4.15 In addition, the Government currently has no direct relationship with Network Rail. Instead, the SRA funds train companies, who then contract with Network Rail and pass funding on in the form of access charges - though, as explained in paras 1.4.4 - 1.4.5, this relationship is itself flawed. There have also been some payments to Network Rail in the form of direct grants, but there is no clear arrangement between Government and Network Rail setting out the outputs it wishes to buy and the price to be paid for them. The Government is ultimately the major funder of both track and train companies, and so their primary commercial relationships should be with it. This is not the case in the current system, which makes it hard for Government to make choices between its support for infrastructure and for operations, and often keeps it at one remove from the consequences of its decisions, which can take years to become apparent.

A lack of operational leadership

1.4.16 The lack of any single body with operational responsibility for the whole railway at a national level lies at the root of many problems. Under the current arrangements, there has been no one body that automatically takes leadership of major projects, and is able to spot the implications of decisions (for instance, the need to upgrade the power supply following the replacement of the Mark 1 slam-door rolling stock). And, in some cases, there has been no-one to take a balanced view of the costs and benefits (in either financial, performance or safety terms) of new initiatives.



1.4.17 In the view of both the Transport Select Committee and many in the industry, this has been a contributory factor to both increasing costs - which can only be met by the taxpayer through increased funding, or by the passenger through increased fares - and to poor performance, as this lack of clarity has often led to poor decisions and perverse incentives.

1.4.18 The Government established the Strategic Rail Authority as a non-departmental public body, independent from Ministerial involvement, to tackle many of these problems. The SRA has had some notable successes. It has made a significant contribution to getting a grip on the West Coast Route Modernisation, and brought its projected costs back from a high of £13.5 billion to the current estimate of £7.6 billion. The SRA has been involved in the National Task Force to improve performance, and created Route Utilisation Strategies to ensure the best use of the network's capacity.

1.4.19 But as is set out in Chapter 3, the SRA is in a difficult position. As a public sector body, it cannot lead the industry from within, and there are limits to its ability to set the strategic agenda for the railways - which in practice must be the responsibility of elected Ministers. And as it is directly responsible only for a single transport mode, it has no flexibility to make changes within the wider transport budget to reflect changing priorities.

1.4.20 An improved model for industry leadership is required. The Government must have clear responsibility for setting the level of public funding and the strategy for the industry, but there must

also be proper operational leadership and accountability within the private sector for delivering reliability and value for customers and taxpayers.

Conclusion

1.4.21 Fundamental change will be required to address these issues. The public sector must be reorganised to provide clear strategic direction, and a reduction in bureaucracy and red-tape. The economic regulatory regime must be reshaped so that it continues to protect both the interests of investors and the long-term interests of the network whilst putting Government in control of its expenditure on the industry.

1.4.22 In the private sector, the complex interfaces between the different companies must be restructured to eliminate the current distorted market incentives. To enable track and train to work more closely together, there must be clarity over roles and responsibilities on all sides, and no opportunity for buck-passing. And Government must be able to specify for both train companies and Network Rail what they will deliver.

1.4.23 The changes that will be made to put this new structure in place are set out in Chapters 3 and 4 of this White Paper. And in Chapter 5 proposals are set out to improve decision-making at a local and regional level, as well as for an increased role for the devolved administrations, which will ensure that decisions on rail services properly reflect the needs of the communities they serve.

1.4.24 In order to understand why these changes are necessary, however, it is important to have a good understanding of the current state of the railway in terms of cost, performance and safety. The following chapter provides an overview of this.



Chapter 2 - Where we are now

Public sector funding

2.1.1 The 10 Year Plan for Transport, published in July 2000, announced an unprecedented level of public funding for rail in the 10 years to 2010/11. This level of funding, almost double that spent on rail in the previous 10 years, was intended to make up for the years of under-investment in the run up to and aftermath of privatisation. The outcome of the 2004 spending review will allow this increased level of funding to continue.

2.1.2 This public funding, currently totalling over £70 million per week, combined with similar levels of private investment, has enabled the industry to embark upon a massive programme of investment and modernisation. This is aimed at improving performance and tackling the backlog of maintenance and renewal that had grown up over the previous decades.

2.1.3 However, since the plan was published costs on the railways have risen, and the reasons for this are set out in detail later in this chapter. In accordance with the Rail Regulator's interim review conclusions, this increase in costs will have an impact on public expenditure from 2006/7 onwards.

2.1.4 Taxpayers and farepayers should expect to see good value from investment of this magnitude. The key priorities for the rail industry are to maintain high levels of safety, to improve performance and control costs. This chapter sets out how the industry is performing in these areas.

Controlling costs

2.2.1 The amount of money being spent on the railways has risen sharply since the publication of the 10 Year Plan for Transport. This year public funding for rail stands at £3.8 billion, up from £1.8 billion in 1997/98, and that will be matched by a similar level of investment from the private sector. Taxpayers and the Government need to see value for money from the investment that they are making in the industry. One of the railway industry's most urgent priorities must be to get a grip on its costs and deliver better value for customers, for private sector investors and for taxpayers.

2.2.2 Some of the additional spending since 1997 can be attributed to the fact that the industry is now running more services and doing more infrastructure work. However, some of the increase is due to inefficiencies. For example, in 2001/2 it cost approximately 25 per cent² more to replace a section of straight level track than it did in 1999. The reasons for these inefficiencies are complex, but a number of key factors can be identified:

- the structure put in place at the time of privatisation meant that the industry had few incentives to live within the budget set for it, and prevented Government from having direct control of the level of public funding. The poorly designed incentives between track and train companies and lack of clear accountability have also contributed to cost increases. The structural changes outlined in Chapter 3 and 4 will ensure that this is not the case in future;
- the sheer volume of work being done has stretched capacity in the labour and materials market, and has driven costs up, particularly when combined with poor supply chain techniques - a shortcoming which the Railway Industry Association's VIP programme is aimed at addressing (see para 3.5.11);

² Source: Network Rail analysis, quoted in Figure 3, SRA Strategic Plan 2003.

- with no single organisation clearly in charge, the industry's planning has often been poor: for instance, the increased power requirements of the new rolling stock were not taken into account when the Mark 1 replacement programme was originally planned. This has been rectified, and plans are now being implemented to upgrade the Southern Power Supply, but it has meant delays and cost increases for the replacement programme. In future, Network Rail will have responsibility for leading industry planning, based on a clear specification from Government of its desired outputs;
- Network Rail also has to pay for track possessions to carry out renewals and maintenance work, and its access to the track is constrained. This will also be addressed through improved industry planning led by Network Rail;
- Railtrack did not have a clear understanding of the condition of its assets, and of the work that needed to be done to maintain and renew them. This lack of knowledge was exposed by the Hatfield accident which led to a massive increase in track renewal, contributing to the market capacity problem. This is being addressed by Network Rail, and the information strategy outlined at para 2.5.14 will contribute to this; and
- the maintenance contracting strategy used by Railtrack, based on contractors both specifying and carrying out activity, had few efficiency incentives and led to a lack of transparency about what work was carried out and what that work cost. Network Rail is addressing this through its current programme to bring maintenance in-house.

2.2.3 Levels of public funding to train companies are higher than envisaged at the time of privatisation, as a number of franchises have had to be renegotiated with increased Government funding. These financial failures were partly attributable to a lack of realism in the bids made by train companies, but also to the genuine difficulty of forecasting revenues and costs over the lifetime of long franchise contracts. Train companies should not expect to be rescued by the taxpayer if they fail to deliver the financial performance which they promised in order to win their contracts. Our reform proposals in Chapter 4 address these points.

2.2.4 The industry has also performed poorly in specifying and managing large-scale projects. As set out in paragraph 1.3.1, a major programme of investment is underway, but many of these, and other smaller, projects have suffered from problems of cost escalation, delay and poor planning and implementation.

2.2.5 The most spectacular cost escalation occurred on the West Coast Main Line (WCML) upgrade, where Railtrack's initial budget of around £2.3 billion ballooned to some £13 billion before the project was brought under control. Even now, the revised project will still cost £7.6 billion - three times the original estimate. Elsewhere, project cost estimates have also increased dramatically as proposals have been developed. Thameslink 2000 was originally estimated to cost around £600 million, but is now proposed to be some £2.75 billion, while the estimated cost of the proposed East London Line Extension has increased from around £300 million to £1.1 billion.

2.2.6 There is no single cause for the difficulties experienced with major rail projects, but common factors - many of which have occurred because of the lack of clear leadership and accountability within the industry - include:

- reliance by Railtrack on unproven technology - especially for signalling - as with the original plans for the WCML;
- failure across the industry to identify consequential impacts and costs - for instance the need to upgrade the power supply for new trains, or to provide new rolling stock and/or depots for upgraded lines;
- failure, particularly by Railtrack on the West Coast Main Line, to fix project scope or outputs before committing to implementation;

- failure to establish a proper project management framework, with clear incentivisation to manage within a defined budget;
- lack of independent review of project plans; and
- a tendency on all sides to under-estimate costs and over-estimate benefits - the so-called "optimism bias".

2.2.7 The absence of clear industry leadership and joined-up planning, has meant that each major project in the past has tended to be developed in a different way, with decisions rarely based upon any strategic analysis across the transport system as a whole. For instance, the scope of the planned WCML upgrade was radically extended by a commercial deal linked to the launch of the West Coast franchise, rather than by Government decision. The changes set out in para 4.3.22 will address this issue.

2.2.8 Network Rail is also taking action to address its cost increases and already has some important initiatives in place:

- Network Rail has been set a 31 per cent efficiency target in the Rail Regulator's recent Interim Review;
- it is bringing maintenance back in house. This will allow it control over the work carried out, reducing management duplication and overheads as well as ensuring consistent application of high quality work;
- it is reorganising and streamlining its organisation to provide clearer focus to customers, simplify management, and allow easier efficiency comparisons between regions and greater sharing of best practice and common approaches; and
- it is reducing the number of non-operational staff.

2.2.9 These measures are beginning to drive costs down. Expenditure in 2003/04 on their core operations, maintenance and renewals work was £660m, or 10 per cent, below budget. The Government wants to see this drive continue.

2.2.10 The SRA have sought to increase efficiency in the train companies through a robust and competitive franchising regime. This is beginning to reduce costs but more needs to be done. For example, it is essential that decisions on the level of services to be franchised reflect the cost implications for Network Rail; this will help ensure that the interests of track and train companies are aligned. And Passenger Transport Executives must bear the true cost of the services they commission.



2.2.11 Every part of the industry needs to contribute to the drive to control costs. But the structure of the industry put in place at the time of privatisation, particularly the flawed commercial relationship between the infrastructure provider and the train companies, and the Government's lack of direct control over the level of public funding, can make this difficult. Reliable information on costs and their causes is also required by all parts of the industry if they are to succeed in this regard. These are some of the most important issues that need to be tackled.

Performance

2.3.1 Improving performance is at the heart of this review. Passengers and the Government want to see an industry which can deliver improvements in the quality of rail services, whilst not exceeding the level of public funding set by Government.

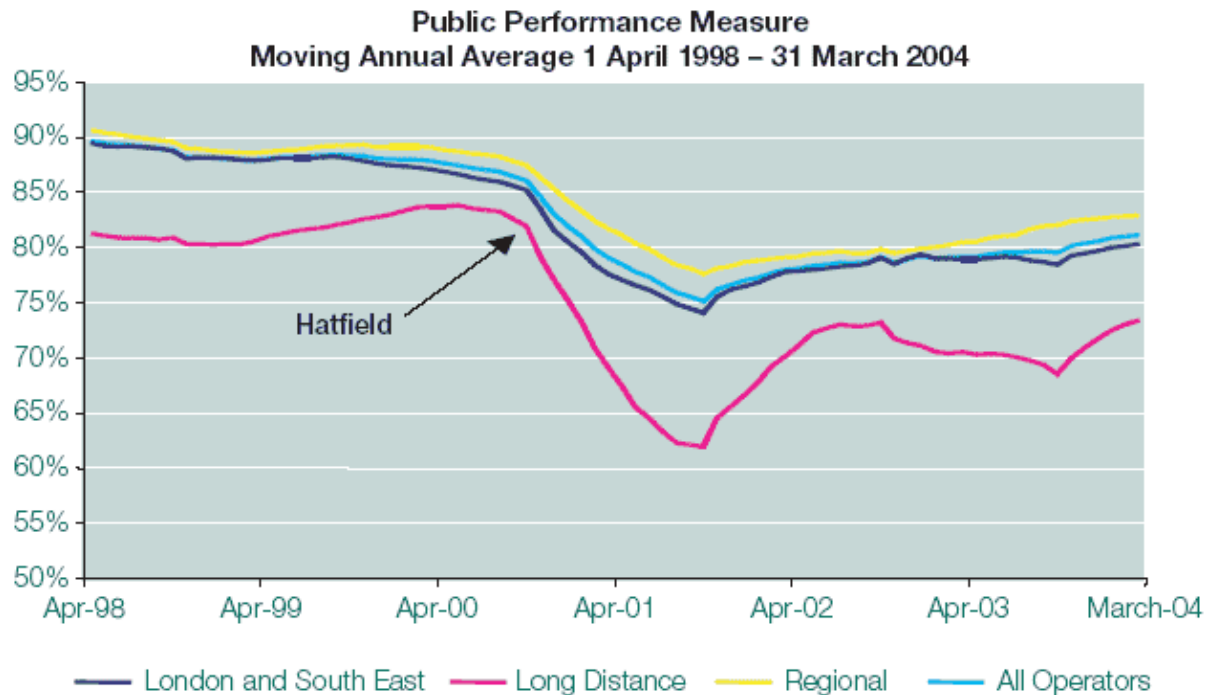
2.3.2 Much of the industry's activity has been focused on improving performance levels (which include punctuality and reliability, and which passengers consistently register as being their highest priority). But this is not the only factor. Evidence shows that passengers also value:

- cleanliness and quality of trains;
- quality of station facilities;
- improved journey times;
- personal security;
- good customer service;
- accurate and timely information; and
- trains not being overcrowded.

2.3.3 Over recent years the industry has made progress in addressing these areas - for instance, through the introduction of new rolling stock, or by improved station information systems. But the biggest question mark has been over the industry's ability to deliver major improvements in performance. This is an area that the industry has found very challenging in recent years.

2.3.4 The Hatfield rail crash in October 2000 was the watershed on performance. It revealed the degree to which the network had deteriorated under Railtrack and led to temporary speed restrictions being imposed across the network. The level of performance across all train operators for the 12 months pre-Hatfield was 88.4 per cent (though it had been declining slowly in the two previous years). Following the accident, there was a 10 per cent reduction in trains running and a collapse in punctuality.

2.3.5 Since then, improvement has been very slow. The following graph shows recent performance as a moving annual average (MAA) which smooths out seasonal variations. It also compares the three sectors - London/South East, regional and long distance (demonstrating how much more vulnerable long distance operators are to reliability problems).



2.3.6 These problems reflect a number of trends since privatisation:

- increasing numbers of train services are using the network, which is squeezing out its capacity to absorb shocks to the system (since 1996, train kilometres have increased by 18 per cent). This has an effect on the amount of time the network takes to recover from an initial cause of a delay, like a signal failure;
- this growth of traffic has also meant that some aspects of the current timetable have become unachievable. More passengers getting on and off trains means more time spent at stations. More cautious driving techniques and automatic braking systems can also increase the journey time between stations; and
- long-term deterioration of the infrastructure has made the network more fragile. Where the network is poorly maintained, temporary speed restrictions are imposed which reduce performance levels. And performance also suffers when high levels of work have to be undertaken on the infrastructure.

Track Maintenance

British Rail estimated that 500 miles of track needed to be replaced each year just to stand still. But in the lead up to privatisation less than 300 miles of track were renewed each year and after privatisation it dropped to just 200 miles. Network Rail replaced 853 miles of track in 2003-04, but has a long history of under-investment to overhaul.

2.3.7 However, the industry is now tackling these problems, and Network Rail and the train companies are putting programmes in place to reduce the major causes of delay;

- there are now targeted improvement plans based on analysis of the underlying causes of delay. These have had a real impact. Improved action plans for poor weather meant that in autumn 2003 delays caused by Network Rail reduced by 25 per cent compared to the previous autumn;
- Network Rail and train operators are working together more closely to co-ordinate their programmes - e.g. through integrated control centres like the one at Waterloo Station;



- train companies and their suppliers are participating in an industry-wide project to improve fleet reliability - in many cases sharing information with competitors at engineer and manager levels, in an effort to learn from each other and understand how different depots deal with breakdowns, maintenance and technical problems; and
- Network Rail and Carillion have put in place new working practices on the West Coast Main Line to cut the delays caused by line inspections - scheduling work at the least disruptive times, doing more work at night and putting high numbers of people on the job so that the line can be re-opened quickly. So far, just by planning daytime patrols differently, they have managed to cut the delays caused by these jobs by nearly a third.

Waterloo Integrated Control Centre

This is the first truly integrated centre where Network Rail and the train operator, in this case South West Trains, work as one single team, with one leader. The biggest change has been to incident recovery. Because of the complexity of the network at Waterloo, it can take up to half a day to get back to normal running after an incident such as a points failure, train breakdown or suicide. Problems are compounded because trains or crews are in the wrong place. The Integrated Control Centre makes communication much quicker, keeping disruption to a minimum. The key factors are:

- **Speed:** all the key staff know what's happening instantly, rather than having to make several phone calls. There's a shorter chain of command.
- **Passenger focus:** There is now a single control centre manager on each shift, taking decisions for the benefit of passengers and the network as a whole - the concerns of NR and TOCs get balanced more rationally and quickly.
- **Better decision making:** when an incident happens, decisions have to be taken quickly. Imperfect information means recovery plans don't work smoothly. The new control centre helps get all the facts out in the open, for instance where rolling stock, drivers and crew are, crowding at the station or the progress of any emergency maintenance work. It also gives one person clear responsibility.

The success of the Waterloo centre is proving the importance of integrated working. There are other key places on the UK network where this approach would deliver real benefits. Network Rail and train companies are planning new integrated control centres on the Waterloo model for each of the eight core UK rail routes. Seven will be open by the end of 2004. Kent Network Control based near Blackfriars station in London and Southern Network Control in Croydon have already gone live.

2.3.8 But the industry's efforts to improve performance remain hampered by structural problems:

- incentives in the industry are poorly focused and at times perverse. Train operators are incentivised to a limited extent through the compensation mechanism, which punishes them for problems they cause - eg, a faulty train - but the size of that "punishment" is out of their hands (because it is partly dependent on how long it takes Network Rail to manage the knock-on delay of that initial incident);
- Network Rail and train operators participate in a delay attribution system which is designed so that the company that originally caused a delay compensates the other parties. This system has had a beneficial effect in giving good information on the causes of delays but has helped create a blame culture, which the industry itself accepts has discouraged joint working and led to wasted management focus, causing increased costs and delays for the passenger. This system will be reformed;
- because of the complex interaction between the compensation mechanisms it is often hard for Network Rail to gain across-the-board support from train operators in support of proposed actions to make timetables more realistic, or to help in plans to improve arrangements for reducing the amount of time it takes to recover from delay-causing incidents; and
- there is a false "supply chain relationship" in the industry structure. In theory, train operators are in a position to "buy in" from Network Rail improvements to their sections of track, signals etc, and to exert customer pressure on them to innovate and improve. But this has not proved to be the case in practice. Closer working between track and train companies, combined with better industry planning and an improved approach to the use of new technology, is required to ensure that infrastructure work meets the needs of the industry's customers.

2.3.9 The new structure set out in this White Paper will address these problems, but the challenge in implementation will be to ensure that the industry is not distracted from the good work it has in hand. The Government will work closely with the industry to make sure that this does not happen.

Technology

Rail technology is a key factor in improving safety, performance and cost control. But the introduction of technical solutions on the railway is currently too complex and costly. The Department for Transport will work with Network Rail and other industry partners, drawing on lessons from other industries and countries, to:

- improve the delivery of technical schemes through better project management, asset management and procurement, and;
- identify those technologies that will drive performance improvements in the future.

The process of adopting new technology should ensure that it is well-developed and proven before it is introduced into service.



Safety

2.4.1 Safety is one of the most fundamental requirements of the railway. Passengers are entitled to assume that they will arrive safely at their journey's end. Staff are entitled to expect working conditions which are as safe as those in comparable industries.

2.4.2 Rail is a safe mode of travel and is getting safer. It is one of the safest forms of land transport in the UK, roughly six³ times safer than travel by car and with similar safety levels to those for bus and coach travel (see **Table 1**). Rail safety in Britain has improved steadily from approximately one significant train incident per million train miles in 1975 to today's figure of 0.2 (see **Figure 1**). There is no obvious sign that the rate of progress changed as a result of privatisation.

Comparisons with other UK transport modes (Table 1)

Passenger fatality rates by mode: 1992-2001 Per billion passenger kilometres												
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 ^P	2002*	92-01 Avg ^P
Rail killed	0.42	0.41	0.43	0.25	0.36	0.53	0.39	0.93	0.36	0.15	0.33	0.43
Bus coach Killed	0.37	0.74	0.46	0.78	0.23	0.27	0.37	0.24	0.31	0.22	0.37	0.40
Car Killed	3.55	3.17	3.15	3.11	3.15	3.10	2.89	2.86	2.81	2.91	2.84	3.06

Source: Figures derived from Transport Statistics Great Britain 2003 Edition Table 1.6.
 * Figures for 2002 provisional and currently unpublished.
^P Provisional

2.4.3 There have, nevertheless, been a number of tragic accidents since privatisation but the lessons from those accidents are now being taken on board. The Southall crash of 1997 and the Ladbroke Grove crash of 1999 were both caused by drivers failing to stop at red signals. Lord Cullen conducted a detailed public inquiry into safety in the rail industry after Ladbroke Grove and good progress has been made in implementing his recommendations.

³ Based on average figures for the number of fatalities and passenger kilometres travelled over the 10 years 1992-2001.

Figure 1
Significant train incidents per million train miles (1975-2002/03)



2.4.4 Both the public and private sectors have invested heavily in safety projects. The introduction of the Train Protection and Warning System (TPWS) was successfully completed by the end of 2003 as part of an industry-wide focus on reducing the number of signals passed at danger. TPWS has been fitted to all trains and to track across the network at a cost of £575 million and is estimated to mitigate about 70 per cent of the risk from signals passed at danger. Mark 1 rolling stock is being replaced with modern carriages that provide more security for passengers in the event of an accident. Efforts such as these have started to have real results, reducing the number of train incidents in 2002-03 to the lowest levels since current reporting methods began in 1996.

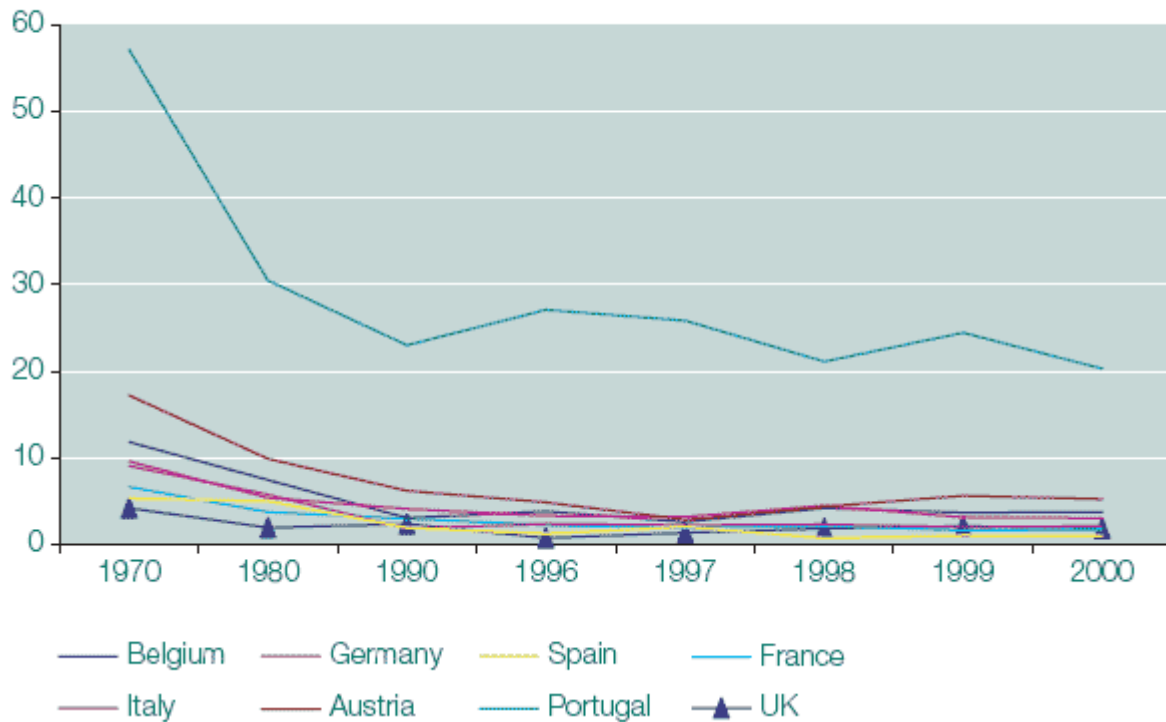
2.4.5 Maintenance shortcomings were implicated in the more recent rail tragedies at Hatfield (2000) and Potters Bar (2002). Subsequently Network Rail announced its intention in October 2003 to bring all maintenance contracts in-house in an effort to ensure high and consistent standards of work across the railway. It expects to complete this process in summer 2004.

2.4.6 Historically, the railway's record on employee safety has been less satisfactory than on passenger safety. It has improved significantly from an average of 15-20 fatalities a year in the 1980s to 3 fatalities in 2003⁴, but the tragic accident at Tebay earlier this year provided a stark reminder of the need for continued vigilance in this area.

2.4.7 The UK's record on rail safety compares well with other European countries. A study published in January 2000, shows the trend in total rail fatalities across EC member states between 1970 and 2000 (see Figure 2). Although the data in the table may not be collected on exactly the same basis in every member state, the graph gives a clear indication of how the UK is performing.

⁴ RSSB Annual Safety Performance Report 2003.

Figure 2
Fatalities (passenger and other) by 1000m pkm



2.4.8 There is, however, no room for complacency if safety levels are to continue to rise. The Government believes that there are a number of areas where the approach to rail safety could be improved, or where the industry's management of risks does not follow best practice. The proposals set out in this paper will contribute to tackling these:

- **Over-emphasis on standard-based safety procedures:** Whereas other industries have introduced procedures based around the careful analysis of risks, the rail industry's approach tends to be focused on a huge number of rigid standards, often based on expensive engineering solutions. While this helps ensure compliance with minimum standards, it does not always incentivise the industry to find the most appropriate or innovative solutions to safety issues, and can often mean investment does not address the most important problems. The industry clearly needs to tackle the plethora of standards and create processes based on a proper assessment of risks.
- **Tackling the most significant risks:** If safety levels are to continue improving, investment must be aimed at tackling the most significant risks. Following the implementation of TPWS, the risk of a collision has reduced dramatically. The highest risks are now from trespass and vandalism (including suicide), but safety management arrangements have not evolved to reflect this.

The benefits of rail

2.5.1 The Government's priority for rail has to be to secure the best value for passengers, freight users and taxpayers from its fixed transport budget, and to ensure that the transport needs of different users and of different regions and communities are met in the most efficient way possible. As set out in Chapter 5, the Government will be introducing a number of measures to help ensure that this is the case. The Government will also ensure that the service specifications set out in franchise contracts reflect an efficient level of provision, which will address the problems described in para 1.4.7.

2.5.2 Cost increases of the kind described earlier in this chapter inevitably have an impact on the programme of enhancement work that the Government can afford to support, and the Government will expect the industry to demonstrate that it has costs under control before it embarks upon major new schemes of this kind.

2.5.3 But the Government must still ensure that investment in rail is focused on the areas where it contributes most to meeting people's needs, and where it functions best as part of a balanced transport policy. This means that we need to understand what rail does best, and how demand for it is likely to change in future.

2.5.4 For instance, passenger rail is well-suited to deliver long distance business and leisure travel, and to serve concentrated markets such as commuters into large urban areas - 42.5 per cent of commuter trips into central London in the morning peak were made by rail in 2002 (77 per cent if the tube is also included).

2.5.5 Growth in the economy and in employment brings with it growing demand for passenger travel and freight transport of all kinds⁵. When demand grows faster than the supply of new transport services and infrastructure, problems are likely to emerge such as road congestion and overcrowding on public transport (which may in turn constrain economic growth). Investment in transport is needed to alleviate and prevent these problems and rail has a vital and essential role in this.

2.5.6 Encouraging more people to use rail rather than road also has a key role to play in meeting our environmental objectives. Carbon dioxide emissions from rail are generally around two-thirds of car emissions on a per passenger km basis⁶, although this picture will change over time as fuel efficiency rates change. Maintaining its competitive advantage over road in terms of fuel efficiency will be one of the major challenges for the railway in future.

2.5.7 Rail's environmental advantage is at its highest when loadings are high. Busy commuter flows perform particularly well compared with road, especially when the additional environmental benefits of congestion relief are taken into account. This means that the recent passenger km growth seen on the railways has had significant environmental benefits, although the extent of this depends on how much of this growth is driven by a shift from car to rail.

2.5.8 A range of demand forecasts have suggested that there will continue to be growth in rail demand, and it is likely to be concentrated on the more heavily congested routes. Alongside these heavily-used lines with high growth forecasts, there are other services which are lightly used, but which can deliver real benefit, particularly in remote rural areas, although at a high cost.

2.5.9 Decisions on where investment should be focused, however, can only be taken as part of a wider strategy that looks at all kinds of transport, and what part each should play in meeting an area or community's needs. Rail services must, of course, be considered as part of a wider strategy, which aims to maximise value for money from public investment in transport. This will mean investing in rail where it is most effective, but ensuring that where other transport modes can provide a more appropriate service for passengers, funding can be made available for this. As set out in Chapter 5, the Government will take steps to facilitate this at a local and regional level.

2.5.10 In taking decisions on investment in rail, how costs are divided between taxpayers and farepayers must also be taken into account. The Government invests in the rail industry because it provides important economic and environmental benefits. However, passengers and freight users, who benefit directly from the rail network, should also contribute to its costs. An equitable and sustainable balance has to be found between these two sources of funding.

⁵ The UK economy is forecast to grow at around 2.75% per year, with forecast employment growth of 7.5%, and expected population growth of 3% by 2010.

⁶ Figure 6.1, *Everyone's railway – the wider case for rail*, SRA, 2003.

2.5.11 To take decisions of this kind requires a full understanding of where and how costs occur in the rail industry and elsewhere, and of the transport needs of different areas. There is considerable variability of cost around the network and understanding what drives costs in different areas is crucial to identifying the most effective transport solutions.

2.5.12 The cost of renewing track is driven by track life and replacement cost, and varies significantly by type of line and line use. Infrastructure costs tend to be highest in urban areas and on busy sections of inter-city lines where there is high intensity of use and complex network interactions. But when considered on a per passenger km carried basis, infrastructure in these areas is significantly more cost-effective than less expensive but lightly-used lines.



2.5.13 The two biggest drivers of train company costs are rolling stock lease charges (including maintenance) and staff. Once a train set has been leased, its lease charge is fixed, but other costs vary with the number of services and passengers carried. How the train set is used to form a set of passenger services over the day is therefore key to getting the most efficient use of this 'fixed' leasing cost and the staff costs of the train. The dynamics of this vary quite dramatically by the type of route being served: one train set can make a large number of services on a short shuttle-type service, whereas a single return journey on a long inter-city route may use up a train set for the entire day. It is therefore more difficult to spread the train costs over a set of services on inter-city compared to shorter routes.

2.5.14 But whilst significant strides are being made in understanding costs - and the work being done by Network Rail to increase knowledge of its assets is a crucial part of this - more work is needed to ensure properly informed choices can be made. This will form a key element of the information strategy described opposite.



Data Needs and Information Management

For Government to make good decisions on the strategic matters which are its responsibility, it must be a well-informed decision-maker. It will need to have detailed understanding and robust information with which to plan, take decisions, measure and monitor progress. But unless the provision and collation of information is well-managed, it can create an onerous bureaucratic burden on the industry.

Data storage and information will be brought together in the ORR to ensure that there is one set of consistent data for use by Government and the industry. This will allow informed decisions to be taken at all levels across the industry and public sector. It will also significantly reduce a major bureaucratic burden on the rail industry, which results from the present requirements to provide information separately to a number of different public sector bodies.

2.5.15 Access to information in this way will enable decisions on investment and service provision to be taken which are based on robust data and proper consideration of the costs and benefits of different choices. The Government will also work with ORR and the industry to develop a shared network planning model to ensure that decisions are taken on an agreed set of data and assumptions. Where decisions deal with the national strategy for the network, they should be taken by central Government, and the changes to the public sector structures described in the next chapter will ensure that the Government is clearly in a position to do so.

2.5.16 However, the Government also believes that decisions which more directly affect local transport are best taken at a local or regional level, where there is a better understanding of the specific needs and priorities of the area. The current arrangements for involving local and regional bodies, as well as the devolved administrations, in decision-making on the railways do not reflect this view and are often inconsistent, leaving the relevant authorities unable to fully contribute to the process. Action is needed to address this, and in Chapter 5, we set out the new arrangements which we will put in place.

2.5.17 Taken together, these changes will mean that investment decisions can be taken by the right people, and based on the right information, within the context of a national transport budget and strategies clearly defined by Government.

2.5.18 Although the public sector must decide what services to support and where to concentrate investment in increased capacity, the future success of rail depends critically on the efforts of Network Rail and freight and passenger companies. The rail industry operates in a competitive market, in which many of its customers have a choice about how they travel, and it must respond to changes in customer requirements. As set out above, the Government's forecasts of transport demand show that there is growth potential for rail, but the industry needs to work together effectively to realise that potential.



Chapter 3 - The role of Government

3.1.1 This chapter sets out the changes to how Government interacts with the industry that will be made. These changes will enable the Government to keep clear control of public expenditure on the railways, and of the outputs that could legitimately be expected to be delivered from that expenditure. They will reduce the complexity of the regulatory structure, whilst still ensuring that the interests of investors are protected, and will cut down the level of bureaucracy faced by the industry. These were amongst the key recommendations of the Transport Select Committee's recent report.

Controlling the budget

3.1.2 One of the fundamental responsibilities of every level of government is to decide its public expenditure programme. Only elected and accountable bodies can allocate public funds between different programmes, such as education, health and transport. And only central Government can determine how much of the national transport budget to devote to strategic rail and highways, to local transport and to other programmes.

3.1.3 What has happened to date is that the ORR in carrying out reviews of access charges has had to determine both Network Rail's outputs for the operation of the rail network, and for its maintenance and renewal (OMR), and the price that should be paid for them, in the light of its statutory duties. The Government has then had to deal with the consequences for the other parts of the rail budget and wider transport expenditure programmes, as well as, if necessary, for other government spending plans.

3.1.4 This has risked distorting the Government's decision-making, because decisions on some parts of the railway budget have been divorced from decisions on other parts. A system is needed in which decisions on the totality of the rail budget are properly integrated, so that the Government can ensure that it obtains the best value for money overall and the rail industry lives within its budget.

3.1.5 But Governments must not decide a rail budget and then pretend that it can deliver more than is actually feasible. One of the benefits of independent economic regulation of the railway industry is that it protects the rights of investors by ensuring that the railway receives an appropriate level of funding for the outputs it is required to deliver. This benefit must be retained.

3.1.6 In future, therefore, the Government will decide the level of public funding for the railways, and will consider in consultation with the ORR the levels of capacity and reliability that it wants the railway to provide from that budget, whilst meeting its commitments on safety. The ORR will then determine the precise amount of income which Network Rail needs in order to deliver, or help to deliver, these. If this level of income proves higher than the available funding for rail, then the Government will be able to reconsider the levels of performance and capacity that it has set.

3.1.7 This means that there will need to be an iterative process, as follows:

- before the formal stages of a review begin, the Government will indicate the level of funding for rail it proposes, bearing in mind the resources available within its fixed transport budget, and will discuss with the ORR options for what the railways might deliver. The ORR will give advice on the expected cost (for total public expenditure on the railway) of each of those options;
- the Government will then define its preferred option and convey this to ORR in published guidance;
- ORR will then, on the basis of this guidance, proceed with the review which will determine, precisely and definitively, the income which Network Rail is to receive over the years that it covers;

- if it became clear, in the course of the review, that the cost of the Government's selected option would differ significantly from that previously advised by ORR, then the Government would have an opportunity to revise its statement of required outputs; and
- following the review, this statement of required outputs would become a "statement of reasonable requirements" for the purposes of Network Rail's licence. It would therefore be binding upon Network Rail, and the ORR would be obliged to enforce it.

3.1.8 In this way, the Government will have set clear outputs for the industry to deliver, a price will have been set for these, and there will be an effective enforcement mechanism. This will create a binding arrangement between the Government and Network Rail (see para 4.3.16), which will run alongside the franchise contracts with train companies, and means that the Government will have control over its total package of support for the industry. It will also ensure that the Government is better placed to make choices between operational and infrastructure priorities.

3.1.9 Under this process, the independent economic regulator retains the full and sole authority to price the outputs which Network Rail is to provide, and Government has the ability to decide how much public expenditure is to be devoted to the railway. To achieve this, the Government will have to take timely and well-informed decisions on the future strategy for the railway.

3.1.10 As a definitive budget will then have been set, the more that the industry - both Network Rail and train companies - can improve efficiency and reduce costs, the more money will be available for further investment.

3.1.11 If there was an increase in railway costs which was so large as to trigger an interim review by the Regulator, the Government would need to re-specify the railway outputs for both track and train that it wished to buy. This will reinforce Network Rail's accountability to the industry through its membership structure, as if it fails to deliver on cost control it will be the whole industry which feels the effects.

Setting the strategy

3.2.1 Because of the structure of the industry, the ability to provide clear leadership is vital. The SRA, since it was established in 2000, has achieved a great deal within the constraints of the present organisation and structure of the industry, and under the current Chairman and Chief Executive it has had some very significant successes.

3.2.2 It has helped get a grip on major projects which were running out of control, such as the West Coast Route Modernisation. It developed and is implementing a strategy to upgrade the electricity supply for rail services south of the Thames. It has begun the process of reforming the franchising regime, and is promoting better use of the network through its Route Utilisation Strategies. It has developed a stronger regional focus, and has worked effectively with ACoRP and others to promote community rail partnerships. And it has also worked hard behind the scenes to promote joint working between the different parts of the industry and to drive up performance. This progress across so many different fronts is a tribute to the whole SRA team.

3.2.3 However, when the SRA was conceived and legislation first introduced into Parliament, the scale of the industry's problems was not yet apparent, and a leadership model based on influence and persuasion seemed appropriate. In the light of changing circumstances, including the aftermath of the accident at Hatfield, Railtrack's entry into administration, and the subsequent transfer of its responsibilities to Network Rail, this has proved not to be the case. As infrastructure costs have risen, the Rail Regulator has played a more pivotal role, and without more direct powers the SRA has found itself in an increasingly difficult position.

3.2.4 It cannot act as an industry leader, because it is positioned outside the industry in the public sector, and where it has been successful in developing partnerships - for example, the National Task Force on performance - these have been voluntary in nature. And it could never have full responsibility for determining the Government's rail strategy, because that is a role for Ministers

answerable to Parliament and the electorate, and able to take decisions on rail in the context of a wider transport policy.

3.2.5 As the SRA's own response to the rail review recognised, this situation should not continue, and for that reason, under the new industry structure, the SRA will be wound up.

3.2.6 The SRA's strategic and financial responsibilities will pass to the Department for Transport. The Secretary of State for Transport will take responsibility for setting the national-level strategic outputs for the railway industry, in terms of capacity and performance. This will require a change in the skills and expertise within the Department for Transport, and the Department will take steps ensure that it has the capacity to carry out this role effectively. Operational matters will remain the clear responsibility of the industry.

3.2.7 Implementing these changes will require primary legislation, and we will introduce a Bill as soon as Parliamentary time permits.



Safety

3.3.1 The railway has a good and improving record on safety. But there is a strong consensus from inside and outside the industry that the current safety framework could be improved. This view is endorsed by the House of Commons Transport Select Committee's recent report on the railways.

3.3.2 As part of his public inquiry into rail safety, Lord Cullen considered various models of safety regulation, including that of the Civil Aviation Authority (CAA). He was not convinced that the CAA provided a helpful parallel for railways, in part because the CAA is required to fit into an international system.

3.3.3 In coming to its conclusions on the future of safety regulation, the Government has considered changes that have taken place since Lord Cullen reported in September 2001. In particular, just as the air industry has been subject to international obligations for many years, the European Community has an increasing role to play in rail safety and earlier this year it agreed a European rail safety directive.

3.3.4 Within the UK, progress on the move to a more-risk based approach to safety management for the rail industry has been slow. This type of approach would assess the severity of risks in specific circumstances, and aim to concentrate investment and other actions on the most serious risks. The Government has concluded that we need to take the opportunity to improve the regulation of rail safety by moving as soon as possible to the framework set out in the European rail safety directive, and will consider doing so through rail-specific transport regulations. The directive requires that rail safety be maintained at its present level and, where reasonably practicable, continuously improved. There is no question of delivering a lower level of rail safety, or of compromising the independence of the safety regulator.

3.3.5 The Government will also legislate to transfer all aspects of health and safety regulation from HSC/HSE to the independent Office of Rail Regulation. This is no reflection on the good work which HSE has carried out as rail safety regulator. Under HSE's regulation, the safety record of the industry has improved, and HSE has already begun the process of change.

3.3.6 Moving health and safety regulation, and experience and expertise, from HSE to ORR will simplify the regulatory structure of the rail industry and provide a fresh start to encourage cultural change across the rail industry. It will enable the development of an independent regulator with specialist economic and safety rail expertise and allow decisions which touch on both economic and safety regulation to be brought together. An interface will need to be identified between ORR and HSE, as exists between the CAA and the HSE, and will need to be set out in a memorandum of understanding between the two bodies. A clear definition will need to be established of the operational railway to be subject to health and safety regulation by ORR rather than HSE.

3.3.7 The Government accepts Lord Cullen's view that maintaining public confidence in the safety regulator's independence is extremely important, which is one of the reasons for placing safety regulation with the independent Office of Rail Regulation.

3.3.8 The ORR will continue the good work begun by the HSE to change the industry culture to ensure that it takes responsibility for undertaking risk assessments, rather than focusing on unquestioning technical compliance.

3.3.9 As well as the mainline railway, the present system of safety regulation applies to London Underground, other metro systems, heritage and light rail. We intend to make ORR the safety regulator for all of these rail-based systems, and will discuss the necessary transitional issues with the appropriate bodies.

3.3.10 No change is proposed for the Rail Accident Investigation Branch which is being established as the independent rail accident investigator on similar lines to the existing marine and air accident investigation branches.

3.3.11 The Government's view is that there are also a number of areas where the industry itself needs to take action. Industry leadership of safety still remains weak. The Rail Safety and Standards Board (RSSB) was established to provide safety leadership for the industry but it is very difficult to build pan-industry consensus across such a large number of member organisations. It is in everyone's interest that there is strong safety leadership by the industry and it should consider with the ORR how best to achieve this.

3.3.12 The evidence collected during the review showed that unquestioning compliance with railway group (industry-wide) standards and company standards, in cases where derogation procedures existed but were not used, could sometimes add to costs or harm performance, without significantly improving safety. RSSB has begun the process of simplifying and clarifying group standards (which impact mainly on issues affecting the wheel/rail interface, where both Network Rail and train operators have an interest) but more progress needs to be made.

3.3.13 Train operators and Network Rail have also begun reviewing their own company operating standards and, again, this work needs to be given added priority. They need to move away from a culture where standards are followed unquestioningly, whatever their impact, and move to a risk-based safety system where decisions are taken based on proper analysis.

Safety and security

3.3.14 Personal security is a major concern to many passengers. Assaults on staff are a continuing problem, and the rail industry, like many others, must also respond to the increased terrorist threat. The British Transport Police (BTP) have a key role to play in maintaining safety and security on the railway. The industry and passengers also receive significant benefits from a dedicated force, particularly from its approach to managing incidents, which is aimed at minimising delay. The Government confirms its support for the BTP continuing in its role as a specialist rail police force.

3.3.15 The Government remains committed to the principle that the costs of the BTP should remain largely funded by the rail industry. However, it is acknowledged that the recently abolished BTP Committee has left a number of legacy issues that need to be addressed. The Government will look to the newly created BTP Authority to improve business planning and ensure, with the industry, that the BTP is appropriately funded. The BTP also has a particular need for capital investment as highlighted in the recently published report by Her Majesty's Inspectorate of Constabulary. The BTP Authority has recently been established as a non-departmental public body by the Department for Transport. We will put arrangements in place for it to bid for capital funding.

A joint economic and safety regulator

3.4.1 As set out above, we will create a single economic and safety regulator, moving the rail safety regulation responsibilities of the Health and Safety Executive into the Office of Rail Regulation.

3.4.2 Following this change, the ORR will have responsibility for ensuring the industry maintains a high level of safety, as well as for protecting the legitimate interests of investors in and customers of the rail industry. Its specific responsibilities will be:

- to assess the cost of the outputs specified by the Secretary of State and to determine the size of Network Rail's income, as set out in para 3.1.7;
- to regulate access contracts and arbitrate between conflicting industry interests;
- to help ensure that the railway provides value-for-money for both the fare-payer and the taxpayer, taking into account safety, performance and cost;
- to enforce health and safety legislation in respect of the operational railway;
- to investigate and make recommendations on performance problems and cost overruns;
- to license railway operators;
- to exercise competition law functions concurrently with the Office of Fair Trading, where these relate to the railways; and
- to act as a single repository for rail industry data.



3.4.3 As train company franchise contracts will be aligned with the Government's binding arrangement with Network Rail, changes to one of these may require matching changes to the other. This will help to ensure that the industry lives within the budget set for it. The Government will discuss with the ORR and the industry whether the ORR should provide an arbiter role in this process in the event of disagreement.

3.4.4 This large range of responsibilities provides the ORR with a complex and challenging task and it will need to have adequate resources to perform its duties. The new Board of the ORR has recently been appointed on the basis that the body is an economic regulator. We will strengthen the safety

expertise of the Board, and ORR will need to plan carefully the assimilation and recruitment of staff with railway safety expertise from HSE and elsewhere. Once legislation has been enacted to transfer safety responsibilities, it will put in place a revised internal structure and working methods to ensure the necessary linkages are made at every level across the organisation.

Passengers, customers and suppliers

3.5.1 Passengers need a strong representative body to champion their concerns and the Rail Passengers Council (RPC) will continue to provide this role in the new industry structure.

3.5.2 The existing RPC and its structure of regional committees have a wide-ranging remit to represent passengers both at local and national level. It is funded by Government via the SRA, and received £5.9m of funding in 2003/04.

3.5.3 The RPC has worked hard to gain access to senior levels of Government and the rail industry to keep consumer interests at the heart of high profile rail issues. At the same time they have championed the needs of passengers on the ground. For example, the RPC has sought feedback from passengers on their needs and concerns through on-station surgeries, open days and meetings.

Research-based campaigning

The RPC's western England, southern England and Welsh committees worked together to campaign for the South Coast to Bristol and South Wales route, producing the report, "The Mainline They Shouldn't Ignore". Over 4000 passengers contributed to this report, which has stimulated much debate over the longer-term strategy for the route. Ministers have asked to be kept informed of the industry's response.

3.5.4 The RPC's approach has enabled the organisation to become involved in a wide range of local and national rail matters. But its formal federal structure has not helped its overall effectiveness. The RPC's public profile remains low and its involvement with both passengers and the industry could be better focused.

3.5.5 The RPC has taken important steps to improve its service to customers. From September passengers will be presented with a single point of contact to pursue their complaints. They have also been seeking direct input from passengers through passenger diaries (RPC Southern England's Commuter Diary) and use of the internet. The Government wants the RPC to build on this work.

3.5.6 The Government is supportive of the RPC's aim to become a more efficient and effective organisation, providing value for money and ensuring that the passenger voice is heard. In the future, the Rail Passengers Council will operate as a single national body reporting to the Secretary of State. A regional presence will be maintained, but the formal federal structure of the regional committees will be dissolved. The devolved administrations will discuss with the RPC what arrangements should be put in place in Scotland and Wales.

3.5.7 The RPC's independence to operate and its general duty to keep railway matters under review will be preserved, and it will continue to co-operate with other passenger representative bodies. But the organisation will need to adapt. Ministers have asked the Chairman to manage the transition from the current organisation to the new, stronger, more independent body.

3.5.8 The reformed RPC will provide a strong passenger voice and will champion passenger concerns both regionally and nationally. It will input effectively to national policy discussions and consultations, including passenger representation on industry groups. And it will provide a passenger perspective on the industry's performance.

3.5.9 Through greater devolution rail will become a more integral part of regional cross-modal transport strategies. The RPC will need to develop its contacts with relevant regional bodies. But it is important that the RPC maintains its national voice. To sustain these links the Scottish Executive, the Welsh Assembly Government and the Greater London Authority will each be able to appoint a

member to the Council, which will continue with up to 16 members. The London Transport Users' Committee will remain in place.

3.5.10 The Government will also encourage the RPC to develop its links with business representatives. This is in response to concerns raised by the business community that there is no formal voice to represent their interests as consumers of rail passenger services. Freight customers have more direct relationships with their suppliers, and rail freight has its own representative organisation (the Rail Freight Group).

3.5.11 The Railway Industry Association (RIA) represents rail industry suppliers. This independent trade association's members cover the full range of rail industry suppliers from rolling stock builders to component manufacturers. It has carried out particularly important work in export promotion and through its Value Improvement Programme. This aims to improve productivity and eliminate waste in the supply chain. Although membership is voluntary, RIA members account for a very large proportion of the industry's total turnover. The RIA remains well placed to meet the need for a single body that can represent the supply side of the industry as a whole.



Value improvement programme

The Value Improvement Programme (VIP) is a programme initiated by the Railway Industry Association (RIA) to improve productivity by eliminating waste throughout the industry supply chain. It was developed because a study found that railway industry supply chain techniques were well behind those in other sectors, and often characterised by adversarial relationships that encouraged unnecessary cost. The Programme's purpose is:

"to drive waste out of the supply chain - to achieve improved value and efficiency for all railway industry customers and suppliers throughout the supply chain using open and positive relationships and using established best practice".

The VIP is based on tried and tested formats used successfully in the automotive and aerospace industries. It addresses key issues of risk mitigation and communication using a Code of Practice and well-established management techniques. Early rail workshops have delivered significant efficiencies for the parties involved.

Network Rail are incorporating VIP into their efficiency work, and rolling it out with their track renewal contractors. The challenge now is to adopt the VIP across the whole rail industry in order to help drive down costs, raise productivity and quality, and reduce risk.

3.5.12 In setting the Government's strategy for the railways, the Secretary of State will need to take the interests of both customers and suppliers into account, as well as benchmarking against best practice in other countries and sectors. There will need to be strong links between the Department for Transport and each of these representative groups to ensure that their issues and concerns are well understood.

Conclusion

3.6.1 These changes to the structure and organisation of the public sector, and of the industry's representative bodies, will ensure that the Government is clearly able to set the strategy for the industry - whilst maintaining the principle of independent regulation, both to protect the interests of investors and to ensure the industry continues to achieve high levels of safety.

3.6.2 If the industry is to deliver a significant improvement in performance, changes to the public sector alone will not be enough. The following chapter describes in detail the Government's proposals to restructure the relationships within the private sector. These will create a single point of accountability for performance, and will enable track and train companies to work more closely together to deliver a better service for their customers.

Chapter 3: summary of key changes

- A new regulatory process will be introduced, which will give Government control of the strategic outputs for the railway, whilst maintaining the principle of independent economic regulation to protect the rights of investors.
- The SRA will be wound up and its strategic and financial responsibilities will pass to the Department for Transport.
- A single independent economic and safety regulator will be created through the transfer of responsibility for rail safety regulation from HSE to the ORR.



Chapter 4 - A better industry structure for delivery

4.1.1 As well as redefining the responsibilities of the public sector, as described in the previous chapter, the Government believes that the complex relationships within the private sector must also be changed to create an industry better able to deliver for its customers. This was also the view of the Transport Select Committee, and of the majority of submissions received by the Department for Transport in the course of the review.

4.1.2 The Government has worked with the industry to develop the new structure described in this chapter. It will align incentives to enable closer working between the different partners in the industry and will create clear lines of accountability for delivering improved performance. Government and the industry are committed to implementing these changes as quickly as possible.

4.1.3 As set out in Chapters 1 and 2, the Government and the industry have recently taken many steps to address the railway's problems within the current structure. Network Rail is beginning to improve its performance, and cost control and reliability are gradually beginning to get better. The different parts of the industry are also beginning to work together to address performance problems. These are initiatives which the Government supports and wishes to see developed further.

4.1.4 But while it is important that Network Rail and the train companies focus on the continued improvements that they have to deliver, there are other structural changes needed to eliminate the distorted market created at the time of privatisation and incentivise the industry to work together more effectively. The individual elements of the industry must continue to improve their performance, and incremental change will make a difference, but without tackling the flawed relationships within the industry structure, progress will be slow and patchy, and vulnerable to cost and performance shocks.

4.1.5 A step-change improvement in costs and performance, and a structure that will last requires a more careful allocation of incentives and responsibilities than the current framework permits.

The objectives of reform

4.2.1 The priorities for any new structure must be to restore the long-term efficiency and affordability of rail within the level of public expenditure defined by Government, and to recover performance levels, maintain high standards of safety, and enable the industry to meet its customers' needs. To achieve this, it will have to reduce bureaucracy and ensure front-line staff can concentrate on working in partnership to deliver improvements for the industry's customers. It must provide a single, clear line of accountability for performance, and eliminate the current culture of blame and buck-passing. And it must recognise rail's status as a public service delivered by the private sector, allowing Government effective control of strategy and of public expenditure at a national level, whilst not harming the rights of investors.

4.2.2 The Government believes that the best way to secure these objectives is through maintaining the principle of public and private partnership but without the poorly structured relationships and incentives which have hampered the industry in its current form. The structure created at the time of privatisation did not recognise that there are some things which only Government can determine in the public interest, and cannot be left purely to commercial interests. Equally, many customer interests are best served by private companies. In his statement to the House of Commons on 19 January announcing this review, the Secretary of State made it clear that the renationalisation of the rail industry was not an option. As well as delivering increased rail usage and a greater customer-focus for passengers (as set out in Chapters 1 and 2), partnership between the public and private sectors has brought access to private investment, currently totalling over £70 million a week, which has enabled the programme of investment described in Chapter 1 to take place.

4.2.3 Another solution that has been proposed by many outside commentators is a structure in which train and track are owned and managed by the same organisation. This is the structure that was chosen when the Japanese railway was privatised, and could be achieved by creating regional train companies

which combined the dominant train company on a section of the network with the relevant Network Rail region.

4.2.4 However, there are a number of characteristics of the UK rail industry which suggest that a structure of this kind would not be appropriate. The geography of the UK rail network means that a high proportion of track is shared by long-distance and local passenger traffic, and by freight users. With combined ownership of track and train, this could cause serious conflicts of interest between the dominant company in a region and the other passenger and freight users who would need access to their track.

4.2.5 In addition, given the high levels of public funding required by the UK rail industry (in common with other European railways), having train companies compete for the right to operate services can be advantageous in terms of delivering improved value for money. It would be much more difficult to secure effective competition if track and train companies were merged to create regional monopolies. Furthermore, although Network Rail is taking steps to address this, there remains the problem that the condition of its assets is not well understood.

4.2.6 Lastly, the break-up of Network Rail into regional companies would risk seriously weakening its bargaining power with suppliers, and would mean there was no organisation in a position to consider network issues at a national level. This would be very damaging and disruptive at a time when the main focus of the management team must be to secure the 31 per cent efficiency gain which is required over the next five years.

4.2.7 Structural models that separate ownership of track and train have been developed across Europe to deliver rail services in the light of European legislation and changing political priorities. In the Netherlands and most Scandinavian countries, there are separate infrastructure and operating companies, both of which are publicly owned. In Germany, train operations and infrastructure management are carried out by different companies, but united under a single holding company.

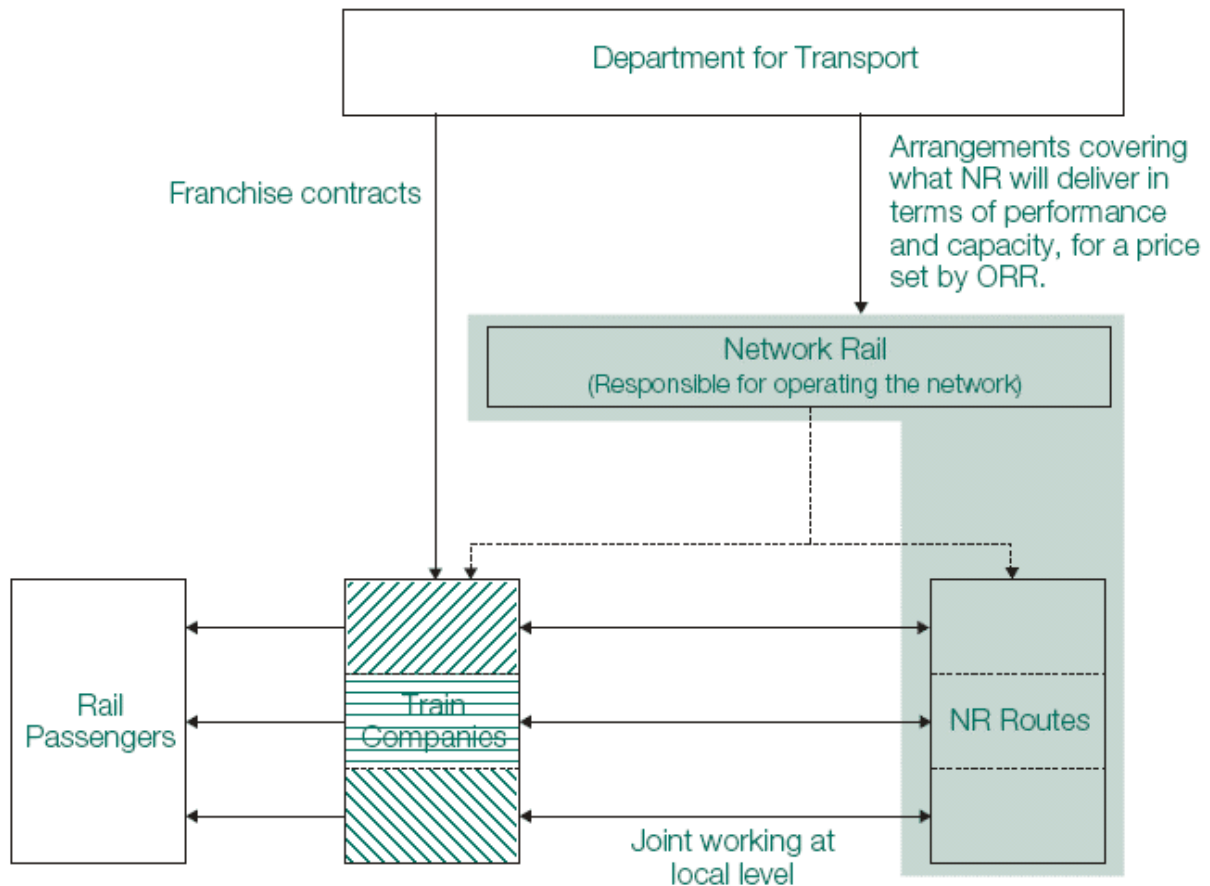
4.2.8 It is vital nonetheless, that track and train companies work closely together with aligned commercial interests at local level to deliver improvements for their customers. This means having clearly defined responsibilities and shared objectives, but it does not mean common ownership.

4.2.9 The weakness with the current structure of the British rail industry is the complex and adversarial relationships between the different parts of the industry. The Government believes that these will be better remedied without moving to common ownership, and avoiding the downsides described above. The remainder of this chapter sets out our proposals for achieving this.

A new structure for the railways

4.3.1 The diagram below illustrates the new structure that the Government and industry will put in place for franchised passenger services. This will create clear accountability for performance and reliability, and will focus the industry's efforts on delivering in partnership for its customers, not on counter-productive wrangling.

A NEW STRUCTURE FOR THE RAIL INDUSTRY



4.3.2 Under this new structure:

- Government will have clear control of the strategy for the railways;
- the ORR will ensure Government pays the correct price for the outputs it is buying, and will continue to protect the rights of investors;
- Network Rail will provide operational leadership and a single point of responsibility for performance;
- train companies will concentrate on their core strengths of customer service, marketing and train operation;
- Network Rail and the train companies will be incentivised to work more closely together at the front line; and
- there will be binding arrangements between Government and each side of the industry, instead of the current distorted market structure.

4.3.3 This chapter describes in detail the changes that will be made to put the new structure in place.

Sponsorship and strategic decision-making

4.3.4 A weakness of the original structure imposed at the time of privatisation was the assumption that Government could delegate its responsibility for the rail industry, and that market forces alone would drive up performance. Although it was assumed at the time that subsidy levels would decline, and that the industry might ultimately become self-supporting, in fact this left the taxpayer writing blank cheques for an industry that it did not control. As set out in the Chapter 3, the changes to the

regulatory process will ensure that the high-level specification of rail services is a matter for Government. But the Government is also proposing further changes to strengthen its role in specifying the industry's strategic outputs, whilst ensuring that the interests of investors are protected.

4.3.5 The key feature of this structure is the new relationship between Network Rail and the Government. The Government will specify the outputs Network Rail is to deliver, and these will be priced by the ORR. There will be appropriate enforcement mechanisms if it fails to deliver. Taken together, these will create a binding arrangement between the Government and Network Rail which is described in more detail in paras 4.3.15 - 4.3.23.

4.3.6 This means the Government will be responsible for deciding:

- the overall size and shape of the network;
- the key timetable outputs;
- policy on regulated fares;
- minimum performance targets;
- enhancement priorities; and
- policy on information provision and accessibility.

4.3.7 The franchise contracts between the Government and the train companies will be aligned with the Government's binding arrangement with Network Rail. They will contain a consistent view on performance, and the service frequency specified in the train companies' contracts will match the capacity that Network Rail is required to deliver.

4.3.8 Delivery will be the responsibility of Network Rail and the train companies, but under this new system they will each be accountable for any failure to meet the high-level specification. Train companies will be held accountable through the provisions in their franchise contracts, and Network Rail will be held accountable through enforcement by ORR in the event of poor performance or a failure to keep to budget. With consistency across the industry about the Government's specified outputs, Network Rail and the train companies will be properly incentivised to work together to improve performance and resolve problems, and the changes described in this chapter will enable them to do so.

A single point of responsibility for performance

4.3.9 The complexity and over-lapping responsibilities of the industry structure imposed at the time of privatisation have meant that planning and decision-making responsibilities have been dispersed across the whole industry, both private and public sectors. As a consequence, industry plans have often been drawn up and implemented in too slow and disjointed a way.

4.3.10 As set out above, the new structure gives Government a clear role in setting the strategy for the railway. But the private sector will be responsible for delivery, with Network Rail clearly taking the lead role through its new and binding arrangement with Government. This is because the network operator is the only organisation able to understand and deal with every aspect of the problems and incidents that arise upon it.

4.3.11 Network Rail will therefore be held accountable under the new regulatory and contractual arrangements for the operational management of the network, and for co-ordinating the industry's planning. It will retain its core responsibilities for operating, maintaining and renewing a safe national rail network. At a local level, Network Rail and the train companies will be incentivised to work more closely (see para 4.3.29). And it will also take on responsibility for:

- drawing up route utilisation strategies for agreement by Government that make best use of the network's capacity;

- devising efficient and clear timetables based on those route strategies, and input from train companies;
- directing network operations, and getting services back on track following incidents and delays;
- driving up the operational performance of the network;
- devising and delivering infrastructure maintenance and renewals, as well as delivering enhancements to the network as appropriate; and
- accounting publicly for performance.

It will be for Network Rail to ensure that it has the necessary skills and capacity to carry out these new roles effectively.

4.3.12 The industry is already moving in this direction by creating joint control centres, such as the one recently opened at Waterloo, in which a single person has responsibility for all aspects of service recovery - both track and train. The new industry structure will strengthen and build upon these changes.

4.3.13 It will be vital to ensure that in carrying out its responsibilities Network Rail gives priority to the needs of the industry's passenger and freight customers. In planning route utilisation strategies and timetable changes, Network Rail will draw upon input from passenger and freight operators, and from others involved in the supply and delivery of rail services, including passenger representatives.

4.3.14 Where changes are proposed which fall outside the Government's output specifications, or where a case has to be made for additional enhancement funding, then the Government's approval will be required. But other service changes will not normally require Government sign-off, and arrangements for delivering small-scale enhancements to the network will not be delayed or complicated by red tape.

People and skills

Improving the skills of staff at every level lays firm foundations for better performance and a more cost-effective railway. It creates progressive careers that promote and develop talent and invest in potential.

One of the consequences of privatisation was that the industry-wide approach to skills policy and delivery was broken down. In many cases individual companies and organisations moved to address their own requirements, but there was no overarching strategy. Lord Cullen's recommendation that the industry should increase its focus on skills and on training its workforce needs to be urgently taken forward. Skills policy within the new structure needs to be informed by the Association of Train Operating Companies (ATOC), Network Rail and other industry bodies working together, in consultation with other industry and education and training organisations. Network Rail is already putting in place plans to sponsor and invest in the development of an academically recognised centre for management training, which would be available to anyone in the industry.

A Framework for Skills for the Rail Industry was published jointly by the Department for Education and Skills and the Strategic Rail Authority in March 2001. This provides a strong foundation for an integrated skills strategy for the whole rail industry, but Government and the industry need to work together to raise the profile and sharpen the focus of the rail skills agenda, and to increase the level of commitment and investment in it.

The Government's binding arrangement with Network Rail

4.3.15 As set out in Chapter 3, the Government will set the high-level outputs for the industry, covering matters such as performance levels and carrying capacity on different parts of the network. Intermediate outputs which are consistent with these will then be set and priced by the ORR. For example, the high-level reliability outputs might be supported by more specific requirements to

reduce the number of broken rails and track-circuit failures. Similarly, the carrying-capacity output might be supported by more specific requirements on the volume of train movements that need to be accommodated.

4.3.16 These outputs would be set out in the Government's Statement of Reasonable Requirements and the ORR will have a duty to enforce Network Rail's delivery of them (see paras 3.1.7 - 3.1.9). There will also be an agreement which sets out how Network Rail will keep the Secretary of State fully informed on industry performance. This will mean there is a clear understanding of the outputs that Network Rail is expected to deliver, how it will be held accountable, and what enforcement action can be taken in the event of under-performance.

4.3.17 The ORR will also confirm that the timetable set by Network Rail will deliver the specified level of service, and will have general powers to obtain information from the industry and to access industry information systems to support its investigations.

4.3.18 Because the ORR can assess accurately the efficient economic cost of meeting these requirements, it can reassure investors that Government funding is sufficient to meet the outputs specified, and can reassure Government that it is securing value for money from its expenditure on the railways.



4.3.19 But the Government should not and will not be involved in Network Rail's management strategy for delivering the outputs that have been specified, or in its day-to-day operations. Operational responsibility must clearly lie with the company's own management team. They must decide how best to deliver the outputs which the Government has set. This means that they must decide where track needs replacing, and where to target their efforts on strengthening embankments or maintaining signalling systems, as well as on other local-level decisions.

4.3.20 Some additional key roles for Network Rail to discharge will also be specified. These include the vital role which Network Rail will play in injecting realism and robustness into rail timetables, building on work currently being done to develop route utilisation strategies. They will also include the company's responsibilities as network operator, particularly in ensuring that train services are brought back to normal as quickly as possible after major disruption.

4.3.21 The Government needs accurate information on costs and performance to set its strategy and monitor progress, as do Network Rail's Members. The industry needs it to improve its performance and control costs. As set out in Chapter 2, ORR will collect and hold rail data centrally in the new structure. But the Government's arrangement with Network Rail must make it clear what data the Government and the ORR need in order to monitor progress in delivering the outputs which have been specified.

4.3.22 Lastly, the binding arrangement with Network Rail will also cover investment. At present, there is an artificial distinction between investment in renewing an existing asset (e.g. resurfacing a station platform) and investment in new assets (e.g. extending a station platform). The former is funded through the ORR's reviews of Network Rail's income, whilst the latter is funded by the SRA and is subject to different value for money criteria. This adds complexity and delay to the approval of projects, and gives rise to disputes about where funding responsibility should lie. In the new regime,

this distinction will cease, and a simpler approach will be put in place for investment projects which are taken forward. This approach will be as follows:

- the Government will specify the very largest projects, such as the construction or upgrade of major lines, and will determine the overall approach and by whom they are to be delivered;
- medium-sized schemes (for instance, projects to increase capacity on existing lines) will be undertaken by Network Rail and costed by the ORR as part of the package of measures needed to deliver the Government's outputs; and
- Network Rail will also be given funding to take forward small schemes, such as station improvements, in consultation or partnership with local authorities and train companies. It will not need to seek approval or funding from Government for individual schemes of this type.

4.3.23 Network Rail is also free to deploy any profits that it earns as it sees fit in improving the network, which may include sponsorship of enhancement schemes.

Passenger franchise contracts

4.3.24 Franchised train companies will remain responsible for providing passenger services. Train companies will continue to sell tickets and retain fares revenue, so they will still be incentivised to increase passenger numbers on the services they run while keeping their costs down, to prevent fare evasion, and to improve customer service. But there will be fewer passenger franchises, more closely aligned with Network Rail's regional structure to make joint working easier.

4.3.25 The train companies will work with Network Rail to provide a commercial input into timetable setting. But once the timetable has been defined, they will not be able to add to congestion on the network and drive up Network Rail's costs by running additional services - which can sometimes take revenue from other operators without serving passengers' needs. Extra services will only be allowed where the benefits are not outweighed by the effect they would have on costs or performance, and would be subject to the agreement of the ORR. As set out in para 3.4.3 the ORR may also have an arbiter role where franchise contracts need to be changed because of alterations to the Government's specification of the outputs that Network Rail is to deliver.

4.3.26 The penalty regime between the train companies and Network Rail, which has not delivered improved performance, will be simplified to reduce bureaucracy whilst still ensuring train companies are compensated in the event of underperformance from Network Rail. Train companies need protection against serious or sustained poor performance by Network Rail. However, the current system under which Network Rail and the train companies compensate each other for every minute of delay will be reformed.



4.3.27 The franchise contract will also change, as will the bidding process. Train companies will bid to operate a defined timetable, and their bids will be judged not only on price, but also on relevant past performance, their commitments to improve train and crew reliability and their operational viability. Their contracts will include clearly defined penalties (including, as a last resort, termination) should they fail to deliver these commitments.

4.3.28 The contracts will include provisions on train and crew availability, which are by far the largest factors in delays attributed to train companies, and are clearly within their control. If companies fail to deliver in these areas, the contracts will specify clearly the actions that can be taken. Greater simplicity in the penalty regime will mean that there is less room for argument over failure.

4.3.29 At a local level, the train company and Network Rail will have clear and reciprocal obligations to one another. These may be set out in local agreements, which are aligned with their arrangements with Government and backed up by the Network Code, as explained in para 4.3.33. These agreements would include specific remedial actions for either partner to take should they fail to meet their responsibilities.

4.3.30 Train company contracts will also ensure that the balance of risks between the operators and Government is sensible. Train companies will continue to take revenue risk, but there will be arrangements to share this with Government. This will help to make franchises more stable. Where an operator does start to fail financially, they should expect that they will have to surrender that franchise, rather than receive any additional Government support.



Rolling stock

Each year the rail industry pays over £1 billion to the rolling stock operating companies (ROSCOs) to lease stock (e.g. engines and carriages). The leases are commercial agreements between private companies. However, as the Government ultimately pays for much of this through its funding of the rail industry, it is important to ensure that they represent good value for the taxpayer.

When the industry was privatised, it was envisaged that a competitive market for rolling stock would drive cost improvements. In addition, the returns earned from leasing existing rolling stock were based on an assumption that there was a high risk that the ROSCOs would find themselves with rolling stock they could not let once new stock came into use. However, this is another instance where assumptions made at the time of privatisation have not generally come to pass.

There are also continuing concerns in the industry about how maintenance responsibility is allocated, given the evolution in the roles of the different parties in the industry since privatisation. Taken together, the Government believes that these observations suggest the markets in rolling stock financing and maintenance established at privatisation are not working in the way they were expected to, and that there is a case for looking to see how the operation of those markets can be improved. Government remains committed to ensuring that risks are held by the parties best placed to manage them and to securing best value for the taxpayer.

To support this, the Government will develop a longer-term strategy for the rolling stock market, which will help the industry to plan ahead more effectively.

Relationships and motivations

4.3.31 It is important to get the relationship between Government and the industry right. But improvements in safety, reliability and cost will come from staff and management effort, not from contracts and agreements alone. As the industry has indicated, the most important relationship in the new regime will be the one at ground level between the train company and its Network Rail region. This relationship will be improved to minimise the scope to play games or hide behind contracts and to provide commercial incentives for both sides of the industry to increase collaboration and joint working, whilst still giving Network Rail the ultimate say on timetables and network operation.

4.3.32 The new structure which the Government is putting in place will enable track and train companies to work more closely together in this way by:

- aligning the incentives of Network Rail and the train companies, and by more closely linking the franchise map to Network Rail's route regions;
- clarifying how Network Rail and the train companies should work together at local level;
- reforming the performance regimes for train companies and Network Rail;
- giving Network Rail a clear role in directing service recovery;
- giving Network Rail sole responsibility to design a timetable that meets the minimum service specification provided by the Government (whilst respecting the access rights of freight and open access operators); and
- motivating train companies to maximise their revenues, but not in a way which damages reliability or increases the net costs of the industry.

4.3.33 This new relationship between the train companies and Network Rail will be set out clearly in the Network Code. This is the agreement between Network Rail and all the train companies which sets out their roles and responsibilities, along with arrangements for issues such as how timetables are set and disputes resolved. The current Network Code will be revised by the ORR, working with the industry and Government, to put in place these improved arrangements for joint working and partnership at a local level. It will describe what each side of the industry can expect from the other, and will set out what will happen should the partnership fail to deliver. This will result in greater clarity on all sides, and an improved focus on delivering for passengers.

4.3.34 By enabling joint working in this way, the new structure brings many of the benefits outlined in those submissions to the review which proposed common ownership of track and train, but without any of the disadvantages described in paras 4.2.4 - 4.2.6. There will be increased partnership working through combined teams and shared targets. The industry will have clear commercial incentives to move away from an adversarial relationship to one more akin to a joint venture, with common processes and goals. And in future, there will be scope for even stronger partnership arrangements to be put in place in areas where both Network Rail and the relevant train companies wish to do so.

Freight and open access

4.4.1 Rail freight operators do not need a franchise, but instead run services on the network through access agreements with Network Rail. They are free to apply to run passenger services outside the franchise.

4.4.2 The Regulator has a duty to ensure that the network is used in the best interests of railway services for the benefit of users, and it was envisaged that the network would over time become increasingly competitive. In passenger services, competition for passenger franchises, few have sought to run passenger services under open access arrangements. Hull Trains is the only current operator of passenger services under open access. In the freight market there are currently four major operating companies.



4.4.3 Rail freight is a competitive, private sector activity. Between them, the freight operating companies have achieved growth of 45 per cent in the volume of goods moved since 1995. This growth does not just reflect an overall increase in freight transport; rail freight has also increased its market share. Rail's share of surface freight transport, in terms of tonne kilometres, has grown from 5.9 per cent in 1995 to nearly 7.4 per cent in 2002. This growth in market share is an important contribution to the Government's sustainable distribution strategy.

4.4.4 The importance of the private sector to the development of rail freight can be seen in the significant investment provided by shareholders, customers and third parties. Current estimates suggest that since rail privatisation £1.5 billion has been invested by the private sector in locomotives, wagons, terminals, depots and systems for rail freight.

4.4.5 Use of rail rather than roads for freight transport can in some cases bring environmental and societal benefits. But this growth also has implications for the funding and operation of the rail network. It is important for the Government to understand clearly the costs to the taxpayer of supporting freight services, and the value that this brings.

4.4.6 Rail freight companies currently pay access charges on an incremental basis: they do not contribute to the substantial core costs of the network. They have reserved slots in the timetable, which they use only when they need to do so. This results in an inefficient use of the network, particularly on busy sections where the need for capacity and flexibility is greatest - for example, routes from ports which currently have to transit around London. The ORR, however, has recently introduced revised contractual terms for freight operators, which require them to relinquish access rights which are no longer required and to move slots where this will improve the efficiency of the network. The Government welcomes this.

4.4.7 Railfreight plays an important part in the nation's logistics. To compete effectively with road haulage, freight operators need certainty about their long-term access rights and what they will cost. The Government will therefore ensure that long-term access agreements are put in place to provide the stability needed to secure commercial contracts, and the ORR will facilitate this. In addition, a group of key routes will be identified on which freight operators will have more assured rights of access, for which an appropriate price will be set by the ORR. Where lines carry only freight, and no passenger services, the freight operators will pay its full costs.

4.4.8 The ORR will continue to determine the price that freight operators pay for track access. In doing so, it will take into account the fact that the rail freight industry needs certainty and consistency about charges. The industry recognises that it will not be able to continue to have access to those parts of the network where the cost implications of maintaining freight access are disproportionate.

4.4.9 The Government also believes that operators should continue to be free to apply to run passenger services under open access rights. The possibility of purely commercial services supplementing those provided under franchise remains a valuable one.

4.4.10 But the number of open access services is always likely to be small. With capacity increasingly constrained, open access opportunities will be limited, and access rights should not be granted for services which just poach passengers from other services and do not increase the overall market. Open access operators should bear a fair share of the costs of the railway through the access charges they pay. The ORR will apply these principles in considering future open access applications.

Managing the transition

4.5.1 The move to the new structure will take time to implement. The Government made a commitment when it announced the review in January to respect existing contractual rights, and this commitment will be honoured. The new train company contracts will be introduced when franchises are renewed, or earlier if the agreement of all parties can be obtained. Passengers are impatient for improvements in performance, and they and Government will therefore be keen to see these new arrangements put into place as quickly as possible.

4.5.2 Until these new arrangements have been put in place, franchise contracts will continue to be awarded by the SRA, but the Government will issue new Directions and Guidance to clarify how this responsibility is to be discharged. Primary legislation will be introduced to transfer the SRA's strategic responsibilities, as well as its property, rights and liabilities, including its financial obligations, to the Secretary of State. Once this legislation has been enacted, the Department for Transport will take on responsibility for managing all existing franchise agreements. This role, together with the task of advising Ministers on the strategy for the rail industry, will require a significant change in the skills required within the Department, and we will ensure that it is properly staffed to carry out its new role.

4.5.3 The Government will honour all its financial commitments, including those made in the Rail Regulator's interim review of access charges, published in December 2003 (taking into account his approval in March 2004 of Network Rail's proposed financing arrangements), and underlined by the Secretary of State in answer to a Parliamentary Question on 9 February 2004⁷. The Government will work with Network Rail and the ORR to agree and implement Network Rail's additional responsibilities under the new structure as soon as possible.

4.5.4 The Government is also working with representatives of the train companies and Network Rail to discuss the details of the new performance regime and the contracts, and to consider how the franchise map can best be aligned with Network Rail's regional structure. The ORR is also involved in these discussions, and any changes will require its agreement.

4.5.5 Structural changes are needed, but they alone will not bring about change. The real improvements in safety, reliability and cost are delivered by staff on the front line, and the speed and level of change will depend on them and on how they are managed, motivated and led. Many of the responses we received to the rail review stressed that the most significant change required within the rail industry is a change of culture and attitudes. The Government agrees. The main means by which progress will be made in all three areas is through good management, which exerts a tight budget discipline, whilst motivating and empowering staff to deliver for customers.

4.5.6 Although changes to the structure of the industry cannot, in themselves, deliver better management at the front-line, the structural changes in this White Paper will create the conditions in which good management can flourish. The changes promote greater ownership by the industry of the safety and reliability agendas, with clear leadership responsibility resting on Network Rail. They encourage local-level collaboration between the TOC and its Network Rail region or route. They streamline the Government bodies overseeing the railway, and they reduce bureaucracy by reforming the penalty regimes and by making the ORR the single data-collector.

4.5.7 In this way, the Government believes that these changes can help the industry to deliver real improvements, by working in partnership to ensure a better, more efficient service for Government,

⁷ *Official Report 9th Feb 2004, Column 1237W.*

for its customers and for taxpayers. Network Rail and the Association of Train Operating Companies have indicated their commitment to ensuring that they are implemented as quickly as possible.

4.5.8 If the industry is to meet the needs of local and regional communities, it is vital that the relevant authorities, including the devolved administrations, can play an effective role in taking decisions in rail services in their areas. In the following chapter, we set out in detail the arrangements we will put in place to ensure that this is case.

Chapter 4: summary of key changes

- A new structure will be introduced under which:
 - Network Rail will provide operational leadership for the industry, and will be held to account for all aspects of network performance through an agreement with Government;
 - track and train companies will have aligned incentives, which will be backed up by a reformed Network Code, to enable closer partnership working at local level; and
 - there will be a binding arrangement between Government and Network Rail, consistent with franchise contracts for passenger services, allowing the Government to act as a strong client on behalf of both passengers and taxpayers.
- A better deal for rail freight will be put in place which provides long-term certainty over access to the network, and identifies a group of key routes on which freight operators will enjoy and pay for more assured rights of access.

Chapter 5 - Better decision-making

The case for improved decision making

5.1.1 The Government wants to give regional and local stakeholders more influence over decisions on transport. This means that rail should be considered alongside other forms of transport, and decisions will also need to be linked with wider considerations, such as housing and regeneration.

5.1.2 Rail serves many different markets. It provides commuting networks to major cities and leisure routes to holiday destinations, and is an important transport link for those without access to a car in many communities. It often plays an important role in local or regional transport strategies. But some local and regional rail services are expensive to maintain and operate, and often require high levels of public funding. It is important that funding decisions are based on robust evidence that rail is the best way of meeting a transport need.



5.1.3 Government and national bodies in the rail industry can sometimes be remote from local realities, and not best placed to make judgements about local or regional services. Representatives of devolved administrations, regions, core cities, local government and other local groups know their rail markets well and have a vision for meeting travel needs. Local managers within the rail industry will have good knowledge of their asset condition, and are well placed to take risk-based assessments of appropriate standards for their route, and when and how to renew. The Government agrees with the Transport Select Committee that there is a compelling case for devolving more decisions to the local and regional levels, but involvement must also mean taking responsibility for a total transport budget, and for making trade-offs between support for different kinds of public transport.

5.1.4 Local authorities, for instance, must already consider the role of local rail services in delivering their wider plans for their areas. We will shortly be publishing guidance for the second round of local transport plans. This will encourage authorities to develop their plans in the context of their wider objectives for jobs, housing and the environment. The guidance will encourage plans framed around the best way of delivering better outcomes for congestion, accessibility, safety and air quality, rather than a mode by mode approach.

5.1.5 But there are clear differences in the nature of the rail network, and of the governing bodies, in different areas of the United Kingdom. For instance, in Scotland and Wales there are devolved administrations with clear responsibilities for transport provision, but whereas the Scottish network is largely discrete, the Welsh rail system does not form such a clearly identifiable network. For this reason, it is important to ensure that arrangements are put in place which are appropriate to each area.

5.1.6 The proposals for change in this chapter will build upon initiatives already in place to set out a clear role for local and regional bodies, and for the devolved administrations, in specifying, funding and delivering rail services.

Progress so far

5.2.1 The SRA has recently taken significant steps forward in how it involves local and regional stakeholders. Dedicated regional teams have been set up to involve regional and local stakeholders in drawing up Regional Planning Assessments, which inform their plans for the strategic development of the railway network. The Government will build on this work and on the SRA's increased engagement with rural concerns.

5.2.2 Passenger Transport Executives have worked closely with the SRA and train companies to specify and manage local rail services. There are many examples of where they have facilitated improvements to benefit rail passengers and deliver integrated transport solutions.

5.2.3 In the Merseyside region, Merseytravel Passenger Transport Executive took over responsibility in 2003 for specifying, awarding and managing the Merseyrail Electrics passenger franchise, under a 25-year concession.

5.2.4 At a more local level, the SRA's community rail strategy is building on progress made by community rail partnerships across the country. The strategy proposes a fresh approach to managing a wider set of local rural routes. It aims to put them on a more viable financial footing by boosting passenger numbers and by a more tailored approach to the appropriate network standards for each route.

5.2.5 Increasing involvement of this kind, however, can create tensions with other priorities for rail. In particular, local decisions should not distract or frustrate Network Rail from its challenges of driving down cost and driving up reliability across the network.

5.2.6 The Government continues to see strong economic and passenger benefits from an integrally managed network. The national network is heavily used by a variety of rail traffic - the same sections of track are often used by intercity trains, long distance regional services, frequent stopping local trains, and freight - and many parts are congested. A system under which a large number of organisations were involved in setting cost and management specifications would risk fragmentation and increase the complexity of the contractual interfaces.

5.2.7 For this reason, significant devolution of decision-making on rail infrastructure matters is not possible in areas where a mix of services and companies use the track. Access to the network and movement across it will continue to be managed by Network Rail under the ORR's oversight. Local decisions will be subject to this restriction.

5.2.8 It is also vital that the Government retains control of the level of national rail funding. Local and regional interests must not be able to impose additional costs on central Government without its agreement.

5.2.9 And delivery must be gradual, to avoid overburdening the industry with change. The industry's first priorities must be to improve performance and control costs, and proposals should not risk distracting its attention from these.



The new approach to decision making

5.3.1 The Government is committed to an increased role for the devolved administrations, and for local and regional stakeholders on rail, where there are politically accountable and financially robust institutions, a clear financial responsibility and a distinct geographical pattern of service responsibility.

5.3.2 Under the Government's new model, the relevant authorities will be given the ability to vary service specification or fares, provided they bear the cost. They will also be able to reduce rail spending in their areas and use the savings for other transport modes. This model will apply to the Passenger Transport Authority areas, where there are competent decision-making bodies. It will also be possible in London, although rail service patterns in the capital and the wider region around are extremely complex.

5.3.3 There are also a small number of sections of the network where there is a single (or greatly predominant) user of the route. These discrete areas include Merseyrail Electrics, and a highly limited number of community branch lines. In these areas, a more comprehensive set of responsibilities may be appropriate. The Government will explore whether the relevant authorities could be given full responsibility for the timetable and service pattern, for fare and subsidy levels, for replacing rolling stock and renewing and maintaining infrastructure, and for opening or closing stations or lines. In doing so, they would have to bear the budgetary consequences of their decisions.

5.3.4 Separate arrangements will be put in place for the devolved administrations, taking into account their specific responsibilities and the nature of the rail network in Scotland and Wales, as we set out in paras 5.4.1 - 5.5.2. The Government and devolved administrations will legislate at the earliest opportunity to implement these changes.

5.3.5 And where Elected Regional Assemblies are established in England, they will be able to spend money on improving rail services, or to identify savings from reducing rail services that might be used to fund alternative transport provision. This would be subject to train path availability and to them fully covering any additional costs from their proposed changes.

5.3.6 Currently much of the involvement of local and regional stakeholders is focused on planning enhancements, rather than on the Government's priorities of improving performance and cost control. Local stakeholders often have strong views on how their services can be improved, but they are not exposed to the full costs of the network. So choices are made without awareness of the true costs and benefits of rail compared to other modes.

5.3.7 The Government will facilitate a more mature dialogue with local and regional stakeholders by moving towards greater transparency about the costs of local and regional rail services. The Government will also work with the ORR to develop a method for basing local decisions on accurate information about both the infrastructure and operating costs that additional train services would incur, to ensure that local and regional bodies bear the full costs of their decisions.

Scotland

5.4.1 In agreement with the Scottish Executive, the Government intends to devolve greater responsibility for rail within Scotland to the Scottish Executive, including an extended role with regard to infrastructure.

5.4.2 The Transport Act 2000 provided the Scottish Executive with a role in determining rail services provided by the Scotrail franchise. The Scottish Executive specifies and funds the Scotrail franchise, but rather than having powers to let and sign the franchise, it provides the SRA with Directions and Guidance in respect of rail provision in Scotland. The SRA prepares the specification in the light of these Directions and Guidance, and then lets and manages the contract. In addition, the Strathclyde Passenger Transport Executive has a role in specifying services in the West of Scotland, and is a co-signatory to the Scotrail contract, though the Scottish Executive has recently published proposals to alter this.

5.4.3 The Government intends that the tasks of planning, specifying, letting (including signing), managing and financing the contract for services operating under the existing Scottish passenger rail franchise and any other Scotland-specific franchise will in future fall to the Scottish Executive. The level of service specified will have an impact on the infrastructure, and therefore it is logical that the Scottish Executive should also specify network outputs and finance Scottish infrastructure costs. The Scottish Executive will continue to be able to offer advice to the UK Government on the specification of cross-border passenger rail services. The infrastructure will continue to be owned and managed by Network Rail.



5.4.4 It will be for Scottish Ministers to decide how best to carry out these responsibilities. This will provide the flexibility to develop their own relationships with the private sector rail industry, and in particular with Network Rail. It is likely that they will pass much of the task to the proposed Scottish Transport Agency, which would ensure that Scottish decisions on the railway are taken as part of a wider Scottish transport approach.

5.4.5 The ORR will have the same range of responsibilities in Scotland as in England and Wales. Like the Secretary of State for Transport, Scottish Ministers will be required to provide guidance to the ORR on desired outputs. The ORR will continue to adjudicate on issues of access and cost.

5.4.6 These proposals are subject to agreement regarding the transfer of appropriate resources from the UK Government to the Scottish Executive.

Wales

5.5.1 In Wales, the Government will devolve additional rail responsibilities to the National Assembly, whilst recognising that the rail network and services in Wales are less discrete than in Scotland. The Assembly will specify the services and fares for local services within and bordering Wales, which are currently grouped together in the Wales and Borders franchise (operated by Arriva Trains Wales), and it will be responsible for funding those services. The SRA, and subsequently the Department for Transport, will let and manage the franchise, and will specify and fund the few services that operate wholly within England. The Department will also need to work with the ORR to ensure that Assembly specifications do not unreasonably constrain network capacity. There will also be scope for the Welsh Assembly Government to specify and fund work on new and existing infrastructure over and above that specified nationally.

5.5.2 To deliver these arrangements, the Assembly will be made a signatory to the Wales franchise. It will work closely with the Department for Transport in their specification and procurement, and in the continued development of services under the present 15-year franchise, which started in December 2003. The Assembly will continue to invest in the development of the passenger and freight railway serving Wales.

Passenger Transport Executives

5.6.1 Passenger Transport Executives (PTEs) specify and manage local rail franchise operations in their areas. They are accountable to Passenger Transport Authorities comprised of elected members.

But they are not directly exposed to the consequences of their decisions on fares and service levels. In fact, the more services they specify, the more funding they receive. This results in a high level of taxpayer funding for rail in some major cities outside London. When costs rise, they are paid for by national taxpayers, rather than locally through fares or taxes. This system also prevents an integrated approach to transport decisions, as potential savings from reducing rail services that offer poor value cannot be used for other modes.

PTE Subsidies 2002/03

	Rail Spend per head of population	Passenger journeys (million)	Net funding per passenger journey	Net funding per passenger km
Greater Manchester	£31.10	16.8	£4.60	£0.27
Merseyside	£49.41	31.3	£2.15	£0.21
South Yorkshire	£16.00	4.3	£4.71	£0.60
West Yorkshire	£26.15	17.4	£3.12	£0.16
Tyne & Wear	£5.46	0.7	£8.40	£0.47
West Midlands	£5.78	26.4	£0.56	n/a
Strathclyde	£35.25	37.6	£2.11	£0.12
All PTEs	£24.41	134.5	£2.38	£0.20

Source: Rail Industry Monitor 2004 Volume 2, TAG Publications & Events Ltd 2004
Subsidies represent PTE costs and train operating costs less passenger revenues.

5.6.2 The Government will reform the funding arrangements for PTEs so that they bear directly the financial implications of their decisions on services and fares, and have more flexibility to make trade-offs between rail and other modes. There are clear choices to be made in major cities about the role of rail, and whether buses or light rail can provide a better and more flexible alternative. The new funding arrangements which the Government will put in place will enable PTEs to make clear choices of this kind, based on better information about costs.

5.6.3 To do this, the Government will remove the present demand-led arrangements for SRA payments to PTEs. The PTEs will have the right to cut fares or to increase services (as long as train paths are available) if they can pay the additional costs. And they will also be able to cut services or increase fares and transfer the savings released for spending on other transport modes.

5.6.4 To gain an additional service, the PTE would first need to seek Network Rail's confirmation that relevant train paths are available. Any disputes over train path availability would be referred to the ORR. The additional cost of that service, including any additional infrastructure costs and compensation to other operators, will be calculated by Network Rail and reviewed by the ORR. Once path availability and willingness to pay are confirmed, the PTE can then purchase the extra service.

5.6.5 A similar process would apply with any PTE proposed reductions to services, to ensure that all network and cost effects had been properly taken into account. The PTE will only be able to propose service reductions within the boundary of its area.

5.6.6 The Government will legislate to streamline and clarify the specification process for PTE areas. The Department for Transport will procure the service directly from the train company, who will hold the revenue risk within the fare structure specified by the PTE. The PTE will not be a direct party to the franchise agreement, but will be able to make and fund top-up agreements with the train company - for instance, to deliver a higher quality of trains or stations.

5.6.7 The Government expects to delegate fuller financial responsibility to PTEs, to represent the infrastructure and train service cost of the rail package in their areas, once the ORR has established a method of allocating infrastructure costs. Until then, PTEs will have full financial responsibility for marginal decisions, i.e. they will have the option to increase services funded through local contributions, to release savings by proposing reductions in their rail package, or to identify cost neutral packages that do some of both. Similarly, they will bear the financial consequences of their decisions in setting fares. The amount of flexibility will, of course, be greatest when future franchises are being designed. PTEs will need to recognise the constraints necessitated by working within existing franchise agreements. PTEs will also continue to receive a small amount of funding from central Government to ensure that they can effectively work with the Department for Transport to decide the best rail package for their cities.



5.6.8 This will enable PTEs to make real choices between revenue support for rail and other transport solutions - for example, bus or light rail. Where rail services are heavily subsidised, bus may be a less expensive option for both the PTE and the passenger; and in some cases a more flexible one in terms of routes and frequencies.

5.6.9 The Government will take steps to facilitate this. As a part of this, the Government recognises that PTEs may be reluctant to substitute bus for rail unless they can be certain that the routes, timings and fares will meet passenger needs and that the services will be stable and reliable. We will put in place arrangements which make it easier for PTEs to introduce Quality Contracts for buses as part of a strategy which includes reductions in rail services.

5.6.10 Forthcoming funding decisions on local transport plans will consider local rail proposals alongside other modes, where they demonstrate value for money within the context of the local transport plan.

5.6.11 Unlike other PTEs, Merseytravel PTE has a discrete network and directly manages its own train operating contract. The Government is sympathetic to its proposal to gain full local-decision making, covering responsibility for operating, maintaining and renewing the track, station and signals of Merseyrail's Wirral and Northern Lines. Discussions between the Department for Transport, Merseytravel and Network Rail will be needed to establish how this can be achieved effectively.

London

5.7.1 London has by far the most extensive and complex public transport network in Britain and potentially has much to gain from greater integration within and between modes. With this in mind, the Government has devolved responsibility for nearly all transport in London to the Mayor and requires him to develop an overarching Transport Strategy for London. In developing this Strategy, the Mayor is expected to promote integrated and economic transport services to, from and within Greater London.

5.7.2 The importance of London to the national rail network, with two thirds of all British rail journeys starting or ending in London and extensive usage of the London network by freight operators, means that full devolution would result in unacceptable fragmentation. This is why the

Mayor does not have operational control of rail in London. At present, the Mayor has the power to give Directions and Guidance to the SRA to ensure that rail complies with the overall Transport Strategy for London. This has resulted in a number of initiatives, such as agreement to form the joint TfL/SRA "London Rail Partnership" and the creation of the "Overground Network" pilot. The Government wishes to build on this, given the potential benefits of more integrated fares and ticketing and greater regional involvement in decision-making.

5.7.3 The Government proposes to extend the Mayor's responsibilities for rail services within the GLA boundary. In the short term, we will work with the Mayor on proposals to rationalise fare structures and ticketing technology across different types of public transport in London. This will include the setting of Travelcard fares. We also propose to explore urgently options for giving an increased role to the Mayor on discrete services that lie entirely, or almost entirely, within the GLA boundary.

5.7.4 Going forward, the Government proposes that the Mayor should be able to buy additional services or propose savings. This would be on the same basis as the approach described above for Passenger Transport Executives - in particular, there would need to be capacity on the network for any additional services, and Transport for London would need to pay any additional costs (or would recoup any savings, if that were the case).

5.7.5 We will also consider whether the Mayor should be able to specify service levels directly, and whether there should be any scope for Transport for London to take revenue risk from train companies for services within the GLA boundary or to have a greater role in relation to new or self-contained infrastructure. If this option were to be pursued, then in order to ensure that the overall costs of the railway were controlled, the Mayor would need a budget to cover the cost of rail services. This would also allow Transport for London to prioritise spending on rail, and between rail and other public transport modes, to ensure best overall value for money.

5.7.6 Because the London commuter rail network does not stop at the GLA boundary, we will look at whether it is feasible to give Transport for London the right to specify and pay for services in an area slightly bigger than Greater London that makes more sense in rail transport terms. However, we will need to ensure that the rights and interests of rail passengers outside of London are protected, and will want to consult fully with the Greater London Authority and neighbouring regional and local bodies before reaching a conclusion on this proposal.



5.7.7 Because of the complexity of London's transport system and the long-term nature of agreements with train companies we propose to proceed by a staged approach. In the short term:

- the Government will work with the Mayor on rationalising fares (including Travelcard) and ticketing technology within the GLA boundary;
- the Government will actively explore options for giving an increased role for the Mayor on discrete services within the GLA boundary;
- the Government will consult fully with a wide range of London and South East stakeholders; and

- the Government will take enabling powers when Parliamentary time allows that will allow it to introduce greater changes at a later date if satisfied that they will bring the expected benefits.

Community lines

5.8.1 The Department for Transport will continue to develop the SRA's draft Community Rail Strategy. The strategy is a flexible one, which aims to put rural community routes on an improved financial footing. Existing Community Rail Partnerships provide supportive evidence that markets for rural rail can be developed - the Bittern Line in Norfolk has experienced 134 per cent growth in passenger numbers since 1997.

5.8.2 Many such routes are highly subsidised and this strategy will allow the Government and others to explore the scope for increasing demand and reducing costs, and to conduct robust analysis to ensure that the savings outweigh the long-term costs. A good first step on lines with high public funding and low usage is to see whether community involvement can make them more successful.

The **Esk Valley Railway Development Co.** has been established as a not-for-profit company, involving local communities and local authorities as members, to promote travel on the Middlesbrough - Whitby service. It sponsors a number of events, offers a One Stop Travel centre, offering information on bus, rail and heritage rail services and encourages visitors to the moors to come by train, using a jointly-developed all-services Rover ticket.

5.8.3 About 60 routes have been proposed for consideration under the community rail scheme, and these proposed routes are being revised to reflect consultation responses. Five initial pilot schemes have been proposed in order to test different aspects of the strategy. They are the Esk Valley line, the Island line, the Looe Valley line, the St Ives branch and the Watford Junction to St Albans Abbey branch.

5.8.4 Partnership is the essence of the policy. There is no single template, given the huge disparity in the character of the routes being considered, but three main management approaches are being proposed. These are:

- **Community Rail Partnerships:** Voluntary groups established by agreement between Network Rail, train companies, local authorities and other local groups to manage the line as part of the national infrastructure;
- **Railway Development Companies:** These are Community Rail Partnerships who follow the example of the Settle & Carlisle Line, and establish trading arms able to employ staff, trade and undertake support services; and
- **Micro-franchising:** This would allow separate franchising of community rail services. On a limited number of stand-alone routes, the franchise could include track as well as train operation.

5.8.5 Stand-alone micro-franchises are probably only appropriate for a small number of branch lines that operate discretely from the rest of the network, because in most other cases there are benefits that arise from managing services and rolling stock as part of the wider network. The criteria under which this stand-alone option will be available will be considered as part of the community rail strategy. These will include the Looe Valley Line and the Island Line, as well as a very few others. In order for micro-franchises to receive rail funding direct from Government, they would need to be explicitly backed by the county or unitary council, and be competitively tendered. The two joint working approaches are expected to apply much more widely.

5.8.6 Under all of these management approaches, local decision-making can deliver a range of revenue improvements such as:

- increasing co-operation with local authorities and tourist boards to market the services better and to vary them to more appropriately meet seasonal demand;

- increasing co-operation with local bus companies to integrate their timetables with rail, and increasing initiatives such as through ticketing whereby one ticket would cover both rail and bus travel; and
- greater flexibility to propose fare changes and introduce promotional offers.

5.8.7 Network Rail, as the present owner and operator of the infrastructure, has indicated that it will support the delivery of the community rail strategy.

Community Rail Partnerships are not just narrowly focused on the railway. A number are involved in integrated transport projects. The **Penistone Line** Partnership (Huddersfield - Sheffield) not only runs a community bus service linking Holmfirth with the railway, it also manages a rural car club. The Partnership undertakes a number of activities. It promotes the line, publishes newsletters, leaflets, etc, organises activities (guided walks, special events). It has developed good bus-rail links, and its various activities on the railway have seen an increase of over 30 per cent in ridership since 1997.

Facilitating change

5.9.1 The Government will prepare guidance in discussion with stakeholders which will set out in more detail the processes by which these policies will be implemented in England. This will set out the respective roles of the Department for Transport, Network Rail and local and regional stakeholders. It will cover how the Regional Planning Assessments, Route Utilisation Studies and local proposals for increases or decreases to rail services will work together to help determine local rail specifications. We will consider the need for separate memoranda of understanding to support these arrangements, between the DfT and PTEs, and between the DfT and ERAs.

5.9.2 The Government will set a realistic target level of funding for each community rail route, in discussion with community partners. This target should properly incentivise Community Rail delivery - route management would be focused on increasing revenues and rationalising costs to achieve the target level of funding. To inform target setting, the Government will ask the ORR to calculate the specific level of funding currently being paid to support each line. Targets should take account of forecasts of renewals spend.

5.9.3 To enable stand-alone micro-franchise operation of a highly limited number of community branch lines, the Government considers that Transport and Works Act Orders are an appropriate route for transferring the right to operate the railway infrastructure. The Government is open to a such a transfer from Network Rail.

Chapter 5: Summary of Key Changes

- The devolved administrations will have increased responsibilities for passenger services.
- The Scottish Executive will take on an extended role for Scottish infrastructure, and the Welsh Assembly Government will have greater flexibility to specify and fund infrastructure work.
- In England, Passenger Transport Executives will be able to vary service specifications or fares, under which they will pay the additional costs and/or receive savings to fund alternative public transport provision.
- Transport for London will take on an increased role with regard to rail services in the capital.
- The Government will promote the role of Community Rail Partnerships in improving the management of local branch lines.

Chapter 6 - Making change happen

6.1.1 The Secretary of State announced the rail review in January this year. In the following months, the Department for Transport received numerous submissions from those involved in providing rail services, from their customers and from other bodies. We also had the benefit of the Transport Select Committee's report and the evidence which they took. The SRA collated the views of the rail industry, as well as submitting its own proposals.

6.1.2 Seminars were held in Cardiff, Glasgow, London and York, at which the major challenges confronting the rail industry were debated, as well as the reform options. Ministers and officials in the Department for Transport have also had extensive discussions with rail companies and other interested parties, to clarify their positions and to explore new structural models.

6.1.3 The conclusions reached in this review are the Government's. But in carrying out this review, the Government was determined to engage closely with the industry, because a workable structure for the railway must command support. The proposals set out in this White Paper are ones which Network Rail and the freight and passenger operators have participated in developing, and which they have indicated they are committed to implementing as quickly as possible.

6.1.4 These proposals deliver a much clearer and simpler structure at the national level:

- a single national decision-maker, who sets the strategy and outputs for the railway and decides how much public funding it is to receive. This responsibility will rest with the Secretary of State for Transport;
- a single regulator for the railway, dealing with safety, performance and cost. This will be the ORR, who will ensure that the Government sets outputs which can realistically be delivered for the funding available. All the information which the Government and other funders of rail services require will be collected by the ORR. And the ORR will also help to make certain that the Government - and rail users - get what they have paid for, and that the rights of investors are protected; and
- a single body within the rail industry with overall responsibility for delivering improved performance, and for providing leadership on issues where there is a need for cross-industry action. This role will be taken by Network Rail.

6.1.5 And the proposals deliver better decision-making and closer partnership working at more local levels:

- The Scottish Executive, the Welsh Assembly Government, the London Mayor and the English Passenger Transport Executives will all acquire appropriate powers to specify rail services in their areas. In each case, the powers will carry with them real financial responsibility, and decision-makers will have to consider the correct balance between rail and other transport options; and
- train companies and Network Rail will operate in close collaboration, with consistent objectives and clarity from Government about what is to be delivered. Their focus will be on delivering for passengers and other rail users, rather than on penalty payments and legal detail.

6.1.6 These changes will create an industry which is focused on delivery. Ensuring their effective implementation must now be an urgent priority for all parties involved.

6.1.7 The Government will introduce a Bill to give effect to those reforms which require primary legislation as soon as Parliamentary time can be made available. The key changes requiring legislation are the removal of the SRA and the expanded remit of the ORR.

6.1.8 The Government, rail industry and ORR will work together, as described at the end of Chapter 4, to refine the new industry structure.

6.1.9 But much of the action needed to transform the railway rests with the industry itself. As many submissions to the review recognised, it needs to become more customer and supplier-focused, more forward-looking and more ready to learn from Europe and from other sectors of the economy. The Government can help create the conditions for a change in attitudes and approaches. But only the industry can actually deliver this transformation.

6.1.10 Network Rail recognises that its new role will require it to change the way in which it runs itself, and accounts to others. It has proposed changes to the membership of the Board, to how it reports on and discusses progress with Members, and to the focus of the future Management Incentive Plan. These changes would improve its accountability to Members and strengthen its focus on cost reduction and delivering for customers. These constitutional changes and any management changes which Network Rail judges necessary are internal matters for the company, not for Government. But the Government welcomes Network Rail's commitment to change.

6.1.11 The train companies too are changing the way they deliver for their customers. They are working more closely with Network Rail and their suppliers to drive up performance. And they have committed to working with the Government as franchises are renewed to ensure that the contracts incentivise improved performance and better cost control, whilst still allowing them the freedom to innovate in how they meet their customers needs. The rail freight industry is also improving its working practices to offer a more efficient service to its existing customers and to reach out to new markets.

6.1.12 The Government is grateful to all those who contributed to the rail review. There was a clear consensus that change is needed if Britain's railway is to achieve its potential. The challenge now is to make these changes happen.

Photo acknowledgements

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