

RESTATE THE CASE

Rail privatisation

Why is this important?

The renationalisation of Britain's railways is consistently popular amongst the public. Numerous polls in recent years have shown strong majority support for this.¹ A commitment to renationalisation was included in the 2017 and 2019 Labour party manifestos.

Issues with the train operating companies – and the near 25 years since privatisation occurred – means that many commuters are no longer aware of the poor service and quality of the nationalised system in the UK. The Williams Review was established in September 2018 to assess “the structure of the whole rail industry and the way passenger rail services are delivered.”²

What is it?

The UK's railways were nationalised in 1948, and then privatised with the Railways Act 1993. This formally disbanded British Rail. This organisation was both the operator of the rolling stock and maintained the infrastructure for train travel, such as railway stations and the track. After privatisation, this dual role was split between the management of infrastructure – currently undertaken by Network Rail – and the operating companies whose trains run on that network. Network Rail is regulated by the Office of Rail and Road. The Department for Transport looks after passenger and train related issues.³

Why is this a good thing?

Since the privatisation of British Rail, passenger numbers and satisfaction have increased substantially. The post-privatisation period between 1996 and 2019 showed an increase in passenger journeys per year of 119 per cent, rising from 800 million to 1.8 billion.⁴ Similarly, the National Rail Passenger Survey showed that the percentage of journeys that were satisfactory was 82 per cent in autumn 2019, a notable increase from the same period a year earlier.⁵

The open access operators – who are allowed to compete with franchised train operating companies on mainline routes – are especially popular with passengers. The National Rail Passenger Survey also shows that Heathrow Express, Grand Central and Hull Trains had the highest rating for overall satisfaction.⁶

Relative to other nationalised railways systems in the EU, the UK performs well with the utilisation of the existing network; it is 70 per cent higher than the EU average.⁷

The amount of support that rail companies receive from the taxpayer has also declined from its British Rail peaks. Although train operating companies received a net subsidy from government of £417 million for the first time since 2009-10, there was also a marked decline in these grants in the six years after privatisation.⁸

¹ Smith, Matthew., *Labour economic policies are popular, so why aren't Labour?*, YouGov, 12 November 2019, <https://yougov.co.uk/topics/politics/articles-reports/2019/11/12/labour-economic-policies-are-popular-so-why-arent->, (accessed 26 February 2020).

² Department for Transport, *The Williams Rail Review*, 25 February 2019, www.gov.uk/government/collections/the-williams-rail-review, (accessed 12 March 2020).

³ House of Commons Library, *A Quick Guide to the Railways*, 4 December 2018, p. 3.

⁴ Office of Rail and Road, *Passenger journeys by year – Table 12.5*, 14 November 2019, <https://dataportal.orr.gov.uk/media/1652/passenger-journeys-table-125.xlsx>, (accessed 26 February 2020).

⁵ Transport Focus, *National Rail Passenger Survey: Main Report Autumn 2019*, 28 January 2020, p. 5.

⁶ Ibid.

⁷ European Commission, *Sixth report on monitoring development of the rail market*, 2019.

⁸ Office of Rail and Road, *Government support to the rail industry – Table 1.6*, 14 November 2019, <https://dataportal.orr.gov.uk/media/1541/government-support-to-the-rail-industry-table-16.xlsx>, (accessed 27 February 2020).

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Train operating companies' expenditure has increased by 18.6 per cent in the last five years. At the same time, payment of dividends has remained low. As a proportion of revenue (from fares), it decreased from 2.6 per cent to 2.1 per cent – or £218 million – in 2018-19.⁹ It is therefore asinine to argue that dividends have been excessive and have had damaging effects on rail performance.

Privatisation also means that more of the cost has been transferred to those who actually use the railways. It should not be the case that the poorest in society are forced to subsidise the wealthiest: the richest 20 per cent travel 3.5 times further by rail compared to the poorest 20 per cent.¹⁰

Although the ambition of numerous governments in recent years has been to promote the use of public transport, the car remains the most popular form of transport in the UK. Six times as many trips were taken by car relative to all other modes of public transport combined; cars also accounted to 61 per cent of all trips taken in England in 2018.¹¹

What was wrong with nationalised trains?

The dangers of renationalised trains are seen with many of the current problems on the railways. Network Rail, the remaining part of the system which is nationalised, is responsible for around 60 per cent of delays.¹² This organisation manages the infrastructure, including stations, tracks and signaling. Similarly, the travails of the East Coast mainline for the last 10 years also indicate that renationalisation would once again be a failure if implemented on the whole of the network. Between February 2015 and June 2018 – when the franchise was once again in private hands – the total premium paid to the government was £150.5 million, compared to £27.9 million in subsidy. The premium is a portion of a train operating company's revenue which it pays to the government.

Yet in the years when it was in public ownership between 2009 and 2015, and again since June 2018, there has been a net subsidy from taxpayers to the state-owned rail company in all but two of the seven years, amounting to £137.3 million.¹³ Private investment in the rail industry has also averaged £732 million between 2006-7 and 2018-19.¹⁴

Other key metrics from the years shortly after the end of British Rail also indicate just how poorly run an organisation it was. Between 1996 and 1999, all train operating companies saw improvements in their productivity, ranging from 0.7 per cent to 8.6 per cent annually, much of it achieved through labour force reductions and increases in output from improved efficiency, such as by increasing the frequency of services.¹⁵

⁹ Office of Rail and Road, *UK rail industry financial information 2018-19*, 26 February 2020, p. 20-21.

¹⁰ Department for Transport, *National Travel Survey 2018: travel by household income quintile and main mode/mode: England, from 2002 (table NTS 0705)*, 31 July 2019, www.gov.uk/government/statistics/national-travel-survey-2018, (accessed 27 February 2020).

¹¹ Department for Transport, *National Travel Survey 2018: average number of trips (trip rates) by main mode: England, from 2002 (table NTS 0303)*, 31 July 2019, www.gov.uk/government/statistics/national-travel-survey-2018, (accessed 27 February 2020).

¹² Network Rail, *Delays explained*, 2020, www.networkrail.co.uk/running-the-railway/looking-after-the-railway/delays-explained, (accessed 26 February 2020).

¹³ Office of Rail and Road, *Government subsidy per passenger kilometre by train operating company – Table 1.7*, 14 November 2019, <https://dataportal.orr.gov.uk/media/1540/government-subsidy-per-passenger-kilometre-by-train-operating-company-table-17.xlsx>, (accessed 27 February 2020).

¹⁴ Office of Rail and Road, *Private investment in the rail industry (excludes Network Rail investment) - Table 1.9*, 14 November 2019, <https://dataportal.orr.gov.uk/media/1542/private-investment-in-the-rail-industry-excludes-network-rail-investment-table-19.xlsx>, (accessed 10 March 2020).

¹⁵ Jonathan, J., *Subsidy and Productivity in the Privatised British Passenger Railway*, *Economics Issues*, 7 (1), March 2002, p. 30.

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What should be done?

Any attempts to renationalise some or all of the existing franchises should be resisted. Instead, an open access system should be introduced, whereby multiple operators compete on the same route. This would ensure that users of the railways pay for the infrastructure, and that commuters who rarely or never make use of the railways do not have to subsidise the growing number of Britons who do.

Such an open access system could be introduced at the conclusion of each current franchise. Thereafter, the train services would be broken down into smaller timetable slots and auctioned off to competing firms. This would function in a similar way to the sale of airport landing and takeoff slots. Proceeds could then go to Network Rail, with a concomitant reduction in the Department for Transport grant. Network Rail would then have a market-based incentive to maximise existing capacity and create more.