CONSERVATIVE RAIL REVIEW: GETTING THE BEST FOR PASSENGERS
Executive Summary

1.1 The problem:

Our rail network is suffering from chronic levels of overcrowding. We desperately need new capacity – longer trains, longer platforms and, ultimately, additional lines. The Government is not taking this problem sufficiently enough, and nor is Network Rail, the company Labour created to run the UK’s railway track.

Network Rail is not accountable to passengers (as illustrated, for example, by the disastrous engineering work overruns at New Year 2008) and is not given strong enough incentives to respond to what passengers want. Nor is Network Rail sufficiently responsive to its direct customers, the train and freight operating companies.

The Department for Transport is micromanaging far too much. Franchises are too short and so tightly specified that there is very little scope for innovation or investment. The franchise system is geared only to price, and not quality of output, and is being used by the Government to push train operating companies into squeezing passengers with higher and higher fare increases. Passengers are being priced off the railways to disguise ministers’ failure to find a way to provide extra capacity.

1.2 A plan for change:

Our goal is to ensure the rail industry works more efficiently and cohesively so that it delivers what passengers want. We want a stronger, more unified cross-industry focus on tackling overcrowding and keeping costs down. This will help take the pressure off rising fares and provide better value for money to both the farepayer and the taxpayer; and help to deliver the new capacity we need. We wish to deliver these reforms without major structural upheaval across the network.

The improvements we will make to the way the railways are run include the following:

- **Increasing the powers of the regulator to create a Passenger Champion.** Passengers should have a one-stop-shop to complain to when things go wrong and to represent their interests; so we will expand the remit of the Office of Rail Regulation to create a powerful consumer-focussed regulator with the power to bang heads together to ensure that performance is improved, regardless of where the fault lies. We would give the regulator stronger powers to ensure Network Rail delivers what passengers want, and we would introduce tougher and more effective penalties for failure, including strengthening the power of the regulator to block the bonuses of senior management where appropriate.

- **Reforming Network Rail to make it more accountable to passengers and train operators.** We will create a new supervisory board with a stronger voice for passengers and train operators. It will have the power to hold the Network Rail management to account and to set the overall strategy for the company.

- **Setting the pace on high speed rail.** A Conservative Government will give the go ahead for a new high speed line connecting Leeds, Manchester, Birmingham, London and Heathrow. We see this as the first step in a national high speed network which will see our line extended to Newcastle and Scotland with further new lines linking up major cities across the UK.

- **Ending Whitehall meddling.** Micromanagement from Whitehall is getting in the way of innovation and making it harder to deliver the new capacity that passengers want. We would put an end to this by radically scaling back the involvement of the Government in areas such as timetabling and the purchasing of new rolling stock.

- **Better co-operation between the management of track and train.** We will strengthen and extend the duties imposed on Network Rail to co-operate with train and freight operators and keep them properly informed on matters relevant to the efficient running of services. We will seek to align Network Rail’s regulatory incentives as closely as possible with the concerns of train and freight operators and the
passengers and businesses they serve. We will promote collaborative working practices across the rail industry. We will create a unified regulatory structure for the industry and give train and freight operators a stronger say in the governance of Network Rail. We also propose to run 2 pilot schemes to assess the impact of unified management of track and train.

- **Longer, better franchises.** Short franchises discourage private sector investment. We will make 15-20 year franchises the norm to give greater certainty and encourage investment in new capacity. We will also assess franchise bids more qualitatively – looking at what they will deliver for the passenger, and not simply on how much money they will pay to the Government.

- **Promoting innovation in delivering rail improvements.** We will make funding for smaller scale capacity enhancements, currently dealt with by Network Rail, contestable and open to other providers, including train operating companies, local authorities and Community Rail Partnerships. This will improve efficiency and help provide an important benchmark for Network Rail’s performance.

- **A moratorium on building on disused rail paths.** This will last for at least our first term in Government and will conserve any disused railway lines still in public ownership. As well as keeping alive the possibility of reopening them to rail travel in the future, protecting these corridors will also facilitate their use by pedestrians and cyclists in the interim.
2. Introduction

After a decade of Labour Government, our railways are becoming more and more overcrowded and increasingly expensive. The Government now has more control over the railways than in the days of British Rail. Labour’s politically-motivated interference too often prevents rail professionals from solving problems quickly and cost efficiently, meaning passengers suffer. And at a time when concerns about climate change are becoming more and more serious, the United Kingdom is not getting the best from its railways, despite the advantages they offer as a green form of transport for both goods and people.

A green transport strategy needs a thriving and growing railway for both passengers and freight. If we are to have any chance of reaching our environmental targets for cutting CO2 emissions then we need to make rail transport an attractive and realistic alternative to the car and the lorry. Overcrowded and over priced trains provide little incentive for people to get out of their cars or shift their goods on to freight trains.

We need a plan for change.

A Conservative Government will

- put passengers first by empowering the rail regulator to look after their interests and ensure that Network Rail is given the right incentives to run the track network efficiently;
- replace Whitehall meddling and interference with a long term strategy to make the most of technological innovation and secure rail’s environmental benefits.

Our strategy embraces large scale long term projects to improve the rail network and relieve overcrowding. For example, a Conservative Government would give the go ahead for a new high speed line linking Leeds, Manchester, Birmingham and London. We believe that this should be just the start of a longer term programme to deliver a new high speed rail network across the country, including the extension of our line up to Newcastle and Scotland.

However, we also understand the key importance of improvements to the existing network - both large scale upgrades and other much needed capacity enhancements such as station improvements (including improved car and bike parking facilities), longer trains, longer platforms and more loops and passing places to unblock key bottlenecks.

In delivering a more efficient railway, with a stronger focus on tackling overcrowding and keeping costs down, we believe that our reforms will help deliver the capacity improvements we need, alongside a continuing programme of public investment in upgrading our railways.

Where necessary, we are prepared to legislate to deliver our reforms. However, we anticipate that many of them could be achieved through working in partnership with the regulator. As a starting point, we would issue fresh guidance to the regulator regarding our reform programme.

The fundamental thrust of this review concerns the need to improve the ability of the rail industry to meet the challenging demands for new capacity. We do not underestimate the need to address other important issues such as light rail, station travel plans and the role of smarter choices in encouraging rail use, ticketing, smart cards and so on, but they are beyond the scope of this current review.

While this review is not focussed on specific upgrades, we feel it is important to summarise our approach to electrification. There is a strong case for electrification and we recognise the benefits it provides in terms of capacity, reliability and emissions. Furthermore, electrification opens up the possibility of making rail a much greener form of transport in the future, as we make progress on cleaning up and “decarbonising” electricity generation in the UK. While it is not practical, at this stage, for us to specify the detail of the electrification programme that would be undertaken by a future Conservative Government, we should make it plain that a rolling programme to fill in the major electrification gaps on the network will be an important priority for us
within the constraints of what is affordable. A rolling programme should help deliver the standardisation of delivery methods which can help bring down the costs of electrification.

2.1. Background – current structure of railway industry

During privatisation in 1993, British Rail was divided into two main parts: the national rail infrastructure (track, signalling, bridges, tunnels, stations and depots) and operating companies who run train services on that network.

After the demise of Railtrack, the infrastructure was transferred to Network Rail which is a company limited by guarantee. They are responsible for maintaining, improving and extending the infrastructure. Network Rail’s financial and safety performance is overseen by the Office of Rail Regulation (ORR). The ORR sets the programme of work to be achieved by Network Rail and the money that will be given for this work (the Network Grant), within the overall budget and project specification set out by the Department for Transport (DfT).

The train operating companies (TOCs) run passenger services under franchises specified by the DfT. Depending on the profitability of the route, TOCs either receive a subsidy from the Government or pay premia back to the Government. TOCs also pay an access charge to Network Rail for the use of the track. TOCs generally lease their trains from rolling stock companies (ROSCOs).

As well as the franchise holders, any potential operator who identifies a new market for train services can apply to become an Open Access operator running passenger services in competition to the franchisee.

Goods moved on the railways are transported by freight operating companies (FOCs) who are not franchised and operate entirely in the private sector.

Source: Network Rail
3. Labour’s failure on the railways

3.1. Overcrowded railways

Overcrowding on our railways is getting worse. Between 1995 and 2005 there was a 50 per cent increase in rail passenger travel,\textsuperscript{1} way outstripping increases in rail capacity. Today, the most overcrowded trains on the network are running at over 170 per cent of capacity.\textsuperscript{2} And Network Rail predicts that passenger numbers will grow by 30 per cent over the next ten years.\textsuperscript{3} Many in the rail industry believe this is an underestimate.\textsuperscript{4} Overcrowding is reaching crisis proportions, with a significant impact on the quality of life of millions of commuters. While the current recession may have an impact on passenger growth, it will not solve the problem and many commuter services will remain unacceptably overcrowded.

3.2. Rising fares

The National Passenger Survey, conducted by Passenger Focus, shows year after year that less than half of rail users believe that they are getting value for money for the fares they pay.\textsuperscript{5}

Since 2003, regulated fares have increased faster than inflation. Unregulated fairs have risen even faster. According to ATOC, there has been a 30 per cent increase in regulated fares and a 33 per cent rise in unregulated fares since 2003.\textsuperscript{6} In difficult economic circumstances, it becomes more important than ever to ensure passengers get value for money for the fares they pay.

Fare rises come with tacit Government approval and are often the direct result of the franchise process. Labour have been using fare rises to drive people off trains because they are unable to get a grip on overcrowding. According to a DfT spokesman, fare increases on First Capital Connect were ‘\textit{a good commercial solution to the problem of overcrowding}'.\textsuperscript{7} South West Trains, who operate four of the twenty most overcrowded services into London,\textsuperscript{8} raised some fares by 20 per cent in May 2007.\textsuperscript{9} This was on top of a 5.3 per cent hike in regulated fares and 4.3 per cent increase in unregulated fares in January of the same year. Ministers admitted in Parliament that South West Trains warned them that the terms of the franchise agreement would lead to higher fares.\textsuperscript{10}

3.3. Network Rail is not accountable to passengers

Despite the subsidy to Network Rail (over £13 billion since 2001-02, plus another £3.2 billion planned for this financial year\textsuperscript{11}), the company has not delivered the new capacity for which passengers and freight operators are crying out.

When Gordon Brown created Network Rail, he failed to put in place mechanisms to ensure that the company was properly accountable to passengers. This was graphically illustrated by the problems with over-running engineering works over New Year 2008 when thousands of passengers and many freight companies faced delays and hassle and were left powerless to do anything about the situation. However, the problem manifests in other ways, for example with the major restrictions Network Rail engineering works place on Sunday services which cause much frustration for passengers.

While we recognise the hard work done by Network Rail staff and management to keep our railways running (often under difficult circumstances and during anti-social hours), the structure set up by the Government has never given the company sufficiently strong incentives to respond to what passengers want. The sanctions imposed where the company fails to perform are ineffective. The £14 million fine imposed on Network Rail after the 2008 New Year over-runs illustrates the problem. Fining Network Rail can only have a limited impact since the cost is ultimately picked up by the taxpayer.

The result is that Network Rail is not responsive enough to its customers, the companies running passenger and freight train services; and it is not treating the overcrowding crisis as the urgent problem it is for so many thousands of commuters across the country.
3.4. Whitehall meddling

The Government’s 2005 Railways Act brought unprecedented levels of control over the railways into the Department for Transport. As a result the Government now has more control over our railways than in the days of British Rail. Franchises are drafted so tightly that there train operating companies are left with little scope for investment or innovation.

The Government buys or approves the purchase of the majority of rolling stock, taking very detailed day-to-day decisions throughout the whole process. The Competition Commission recently reported that the Government’s meddling in the procurement of rolling stock was actually preventing the ability of ROSCOs to get more trains onto the network.13 And absurdly, civil servants are setting detailed timetables.

This level of micromanagement means that railway professionals find it more difficult to deliver benefits quickly, cheaply and efficiently to their customers. Taking just a few examples:

- The Department for Transport’s (DfT) control over rolling stock procurement has prevented Virgin from running extra Pendolino carriages on the West Coast Main Line. Labour micromanagement has now delayed the extra carriages needed to deal with overcrowding until 2012, when the Virgin franchise ends. Meanwhile, passengers suffer.

- The old Eurostar platforms at Waterloo remain mothballed and out of use when they could be serving overcrowded commuter routes in the south east.

- Despite spending £6.7 million since late 2005 on consultants on the Intercity Express Programme, no trains have yet been ordered and none are expected to be in service before 2015. Progress on delivering new carriages under the Thameslink project has also been very slow.

- And, out of the 1,300 carriages promised for the rest of the network in 2007, only a few hundred have been ordered.
4. Standing up for the Passenger

4.1. Passenger champion rail regulator

No one could deny that the structure of the rail industry is complex, or that this complexity can and does cause disputes and problems. As we set out below, we do not believe that radical structural change is the way forward but there are steps that we can take to address some of the frustration passengers feel when faced with a complicated system with overlapping responsibilities.

At present, there is no single organisation with an overall remit to ensure disputes between the different organisations that make up the rail industry are resolved, decisions are taken on time and progress is made. More importantly, there is no one organisation that passengers can contact if they wish to make a complaint and which can deliver redress.

Passenger Focus is currently the main point of contact for passengers dissatisfied with the service they get on the railways. It does an excellent job with the powers it has and the research it produces plays a key role in holding the rail industry to account. However, it cannot compel train operators or Network Rail to improve their level of service. That is not its role.

Moreover, the rail regulator (Office of Rail Regulation) has the power to regulate Network Rail but can do little where train operators are failing their passengers. For example, in seeking to tackle the problems on First Great Western’s routes from 2006 to mid 2008, the regulator had the power to require Network Rail to take action but could do very little about the train company. That was down to the Department for Transport, which dithered for months.

The changes we propose are aimed at allowing the regulator to bang heads together and take effective action against whichever organisation is responsible for the problems passengers face.

We would therefore transfer to the ORR many of the oversight powers relating to passenger operators which are currently vested in the DfT. So in addition to its existing remit, we believe that the ORR should become a consumer champion with the power to:

- Advise the DfT on franchise bids;
- Judge TOC performance throughout their franchise period;
- Enforce the consumer focussed conditions in TOC franchises on behalf of the DfT;
- Levy tougher sanctions on underperforming TOCs;
- Set tougher performance targets for Network Rail and enforce them proactively;
- Levy tougher sanctions on Network Rail if they fail to deliver the required level of service, including more extensive powers to block bonus payments to senior management; and
- Monitor the value for money given by train operators and advise the DfT on the operation of its fares policy and its impact on passengers.

Transferring these powers from the DfT to the ORR would create a more unified and integrated structure to oversee the rail industry. It should ensure greater focus on consumer satisfaction than is possible within a government department which is subject to other pressures and a wide range of competing priorities. And it would make the whole process far less political. One of the reasons why ministers dithered over First Great Western was that the DfT was largely responsible for the timetable that caused many of the problems in the first place.

Our reforms would help ensure a faster and more efficient resolution of service quality concerns. For example in the situation where a train operator is underperforming but is not in breach of its franchise, a powerful consumer-facing regulator would be able to get all the relevant people round the table, with the authority to make them work out common sense ways to tackle the problem and resolve any differences.

The need to give the regulator more effective powers to block bonuses at Network Rail, where serious failures occur, was graphically illustrated by the engineering
overruns over New Year 2008. Despite the fiasco, Network Rail’s senior executives were awarded £835,000 in bonuses and the only sanction faced by the company was a fine which the taxpayer picked up. The net result was £14 million less spent on the railways. We will ensure that the regulator has effective powers to ensure that there is no reward for failure at Network Rail.

We will require the ORR’s number to be posted on station platforms and published on tickets. With the right to complain directly to the regulator, passengers will have a more visible and accessible point of contact to get effective action taken to address their concerns.

The new responsibilities for the ORR will be different from the independent research and passenger advocacy role of Passenger Focus which would continue its excellent work in much the same way that it does now. The work of the two organisations will be complementary and we will take steps to minimise any unnecessary overlap or duplication. As is set out below, we would also like to see Passenger Focus playing a role in relation to Network Rail’s governance.

4.2. Reforming Network Rail

We will reform the governance of Network Rail to make the company more responsive to its customers. We believe their real customers are the train operators, and the passengers and freight companies they serve – not, as the Government seems to believe, the Department for Transport. And yet neither passengers nor freight companies had an effective means of redress after the engineering over-runs which caused such mayhem at New Year 2008.

As a company without shareholders, the only body to which the company management is required to account consists of members which they themselves (i.e. the Network Rail Board) appoint. We believe that the membership body is too large and lacks the powers to be effective in holding senior management to account and demanding improvements in performance.

To strengthen Network Rail’s corporate governance and accountability, we will introduce a supervisory board for the company. We do not propose to introduce an entire new corporate structure, or to replicate the supervisory boards that are commonly used in other parts of Europe. Instead, we will create a supervisory board from the existing membership structure, with improved and extended powers.

We will create a new slimmed down membership body, which will be renamed the Network Rail Supervisory Board, and will consist of around 10-20 people. In order to comply with European legislation, the majority of the members of this board will be from outside the rail industry and consist of passenger representatives and independent members with a strong background in business and dealing with corporate governance issues. The remainder of the members will represent passenger operators, freight operators, open access operators, and suppliers. The supervisory board will also have an independent chairman.

The members of the new board will be appointed independently of Network Rail and of the DfT. We envisage the chairman and independent members being appointed by an independent appointments commission, in a similar way to NHS senior positions, overseen by the Commissioner for Public Appointments, under the Nolan Principles – the Seven Principles of Public Life. The other members would be nominated by the sectors they are representing and ratified by the same independent appointments commission.

We will consult on the best way to put such a nomination system into effect, working with the relevant industry sectors and also with the different groups already undertaking valuable and interesting work on reform of Network Rail governance. We hope that Passenger Focus would play a leading role in nominating passenger representatives for the new board. However, we appreciate that any arrangement would have to be designed to ensure that Passenger Focus’ much valued independence was not compromised in any way.
The management board would have the freedom to run Network Rail within the overall direction and policies agreed by the supervisory board. The management board would be accountable to the supervisory board for performance. Network Rail's executive directors would attend the supervisory board providing a firm link to the management board. Non-executive directors will be retained on the management board.

The smaller more streamlined structure we propose will mean that the supervisory board will have a much more active role than the current membership body and will meet more frequently. The supervisory board will have audit functions, including oversight of the remuneration of the CEO of Network Rail (including bonuses) and the power to approve or remove the executive directors. A supervisory board will be in a much stronger position to carry out such functions effectively and monitor the performance of management than the membership body that exists now. To ensure that the supervisory board has the information it needs to carry out its duties effectively, it should have access to independent research and support, funded by Network Rail.

We believe that giving industry stakeholders greater power over Network Rail's priorities will:

- improve performance and ensure a stronger focus on service quality, value for money, passenger concerns and tackling overcrowding;
- reduce fragmentation of the railway; and
- produce better coordination and integration between the management of track and trains.

Working with the regulator, we would seek bring these governance changes into effect via an amendment to Network Rail’s licence and constitutional documents.
5. Long term strategy

5.1. High Speed Rail

So often in our nation’s history, new transport links have helped push forward progress and prosperity. In the 19th century it was the steam locomotive. In the 20th it was our motorways and our airports. In the 21st we believe it will be high speed rail.

Labour have failed to modernise our transport system for the 21st century – roads are choked, trains are overcrowded and pollution is rising. Inadequacies in our transport system have also contributed to a North-South divide in the economic health of our country.

The rest of Europe is moving ahead on high speed rail. The opening of High Speed One, linking the Channel Tunnel to St Pancras Station, was of course hugely welcome. However, by 2020, this 68 mile stretch of high speed track is likely to amount to only 0.007 per cent of Europe’s total high speed rail network. By this time we will have fallen well behind a number of countries in Asia including, not only Japan and China, but also South Korea, Taiwan and Vietnam.

The Government’s own transport advisor, Sir Rod Eddington, has said there was a strong business case for high speed rail, and international experience shows major economic benefits. And yet the Government have been lagging behind. Their 30 year strategy for rail, set out in their White Paper of July 2007, had no place for high speed rail. Ruth Kelly admitted in Summer 2008 that not one civil servant was working on high speed rail. Under pressure after Conservatives started setting the pace on this issue, the Government’s response is more empty words and two overlapping working groups.

A Conservative Government would take the decisions that Labour seems so incapable of making. So we will give the go ahead for a high speed line connecting Leeds, Manchester, Birmingham and London. We see this as the first step in a national high speed network which will see our line extended to Newcastle and Scotland with further new lines linking up major cities across the UK.

With the West Coast Main Line expected to be full to breaking point within the next decade, we face a capacity time bomb that it will be increasingly difficult to diffuse without a new line. Opting for high speed rail would deliver dramatically improved journey times:

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<th>Destination</th>
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<th>HSR Journey Time (mins)</th>
<th>Improvement (mins)</th>
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<td>55</td>
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Our plan would also provide a major capacity uplift. It will free up more space for commuter and stopping services on the existing line, delivering significant benefits for places such as Stafford, Lichfield, Macclesfield and Milton Keynes. It would also mean more space for freight on the existing line, helping reduce traffic congestion by taking lorries off the roads.

As well as providing an attractive substitute for thousands of car journeys on some of the most congested motorways in the country, our proposal will help bring about a more balanced economy. By shrinking the distance between North and South we will help draw the Midlands and the North into the same growth zone as London and the South East, and at the same time reduce the pressure on the south east economy and infrastructure. The benefits of a full high speed network could produce economic benefits of £63 billion across the country over 60 years.

We believe high speed rail is affordable. We have conducted a detailed desktop feasibility study drawing on exceptional work already conducted by leading engineers such as Atkins. We have included the 66 per cent optimism bias recommended by the Treasury. And we have based our revenue projections on very cautious assumptions on ticket prices which are highly competitive with the price of the same journeys by air. We see no point in building a high speed line that no one can afford to use.
We are confident that the business case for the new line is so strong that so long as the taxpayer meets the up-front cost of land and track, the expected returns would mean that the private sector could meet the remainder of the cost, and cover construction and operating risks. The overall cost of the new line would be around £20 billion, of which the contribution needed from the taxpayer would be £15.7 billion, (both in today’s prices).

Building this line would require £1.3 billion from the taxpayer (in today’s prices) each year during the 12 year period that the rail professionals tell us construction would take. Since the planning and preparation process would take at least 4 to 5 years, we would target construction to begin in 2015 and run to 2027.

Good connections to major airports could also significantly enhance the benefits of high speed rail. So a Conservative Government will support proposals along the lines of the plan put forward by engineering firm, Arup, for a new Heathrow rail hub. This would link Heathrow terminals directly into the main rail network and the lines to Reading, Oxford, Bristol, Plymouth, Cardiff, Swansea, Cheltenham and Southampton, greatly improving public transport links to the airport.

The plan would also include construction of a new high speed link connecting Heathrow airport to the Channel Tunnel Rail link and the new route north, providing a viable alternative to thousands of short haul flights now clogging up the airport. By freeing up landing slots, our proposal would help tackle overcrowding problems and allow more space for long haul flights, making Heathrow a much better airport, but without the environmental damage that would be caused by a third runway.

This is a long term project, but one which we are determined to deliver. We believe this will be the vital first step in building a countrywide network in the UK so that we can finally start catching up with the high speed rail revolution that has transformed travel in so much of Europe.

5.2. No more Whitehall meddling

It is clear that Government interference in the way the railways are run is now hindering the ability of rail professionals to deliver the capacity improvements their customers want.

Over a decade after privatisation, it is time to trust the railway industry with more freedom over the operational decisions involved in running the railway. The focus of the Government should be on protecting passengers’ interests, ensuring value for money for the taxpayer and providing an overall strategic direction for the railways - not with deciding whether the 09.09 from Reading can stop at Slough or not.

We want to see the end of the absurd practice of civil servants setting detailed timetables across the network. Timetabling should normally be the preserve of train operators and Network Rail. If, exceptionally, they cannot agree, the rail regulator should arbitrate. The DfT’s role should be radically stripped back, with officials retaining only a limited involvement, focused on overall strategy decisions; for example, where timetabling has an impact on the long term planning and coordination of large engineering projects on the network or will play a significant role in determining how the benefits of capacity upgrades will be allocated between industry players.

The Government’s role in buying rolling stock should also be radically scaled back. It makes no sense for civil servants in Whitehall to take the detailed day-to-day decisions on new rolling stock which they now do. This degree of detailed involvement is now slowing up delivery of new capacity and driving up costs for both the taxpayer and the farepayer.

So long as the interests of the taxpayer are safeguarded, rail professionals should have much more freedom to take the decisions on rolling stock that they believe will work best for their business and their passengers.

And franchise agreements should be more flexible and
less prescriptive, allowing more decisions in the rail industry to be taken by rail professionals, subject to the oversight of a powerful consumer-facing regulator (see above). This should improve the ability of the rail industry to react to current capacity needs, plan for the future and deliver value for money for the farepayer.

These reforms will reverse the trends of the Government’s 2005 Railways Act which brought many key operational decision making – such as specifications for trains and some services – into the Department for Transport.

5.3. Better cooperation and integration between track and train

In our extensive discussions with rail stakeholders, almost all sectors supported the need for greater integration and cooperation between the management of track and train as a way to improve services for passengers. Our reforms are designed to achieve that but without radical structural change. After a series of upheavals over the last 15 years, we believe there is little appetite for yet another major structural shake-up across the network.

Network Rail and companies who operate passenger and freight services need to co-operate more closely – not just on capacity enhancements, but also on the day-to-day management of the railways. They need to focus their efforts on the concerns of the customer and work together to improve punctuality and customer service on the railways.

Passenger and freight operators have a more on-the-ground, day-to-day relationship with their customers. And passengers currently use operators as their main focus for comments and complaints on the rail industry. So we want operators to have a greater say than they have currently in the decisions made on our railways. We believe that this will help focus cross industry priorities on the concerns of customers – the passengers and freight customers who use the railways.

This will not only help improve the day-to-day running of the railways but also create a much stronger industry focus on tackling overcrowding, improving customer service and getting value for money. This should help take the pressure off fares during these difficult economic times, as well improving efficiency and reliability. And, most important of all, it should help us deliver the new rail capacity passengers need.

So we will take a number of steps to achieve our goal of better integration and coordination between the management of track and train.

Improved transparency and a duty to cooperate

Firstly, we would work with the ORR to amend the licences issued by the regulator so they place stronger obligations on Network Rail to keep passenger and freight operators informed of issues affecting the efficient running of services such as the progress of engineering work, and the likelihood of over-runs. A key problem with the New Year 2008 over-runs was the short notice given to train operators that the track would not reopen on time. For example, National Express was given only a few hours notice that Liverpool Street would not reopen on time after the New Year break. This made it more difficult for them to take action to deal with the situation and minimise problems for their passengers.

We will strengthen and extend the duties imposed on Network Rail to co-operate with train and freight operators. We will place a clear and explicit duty on Network Rail to cooperate with train operators on passenger satisfaction, capacity improvements, overcrowding, growing passenger numbers and planning major upgrade projects.

We would like to see the ORR take a pro-active role in enforcing these elements of the licences they grant to the rail industry, bringing the parties together to resolve differences where necessary.

A refocused Network Rail

However, imposing a duty to cooperate will not be sufficient, on its own, to generate the improvements we want to achieve. We also need to put the right incentives
in place to achieve real change. We also need to address the fact that Network Rail’s status as a company limited by guarantee, means that it does not face the same financial incentive to respond to customer concerns that a private company does.

We believe that one of the goals of the regulatory system should be to seek to replicate a normal supplier/customer relationship between Network Rail and the providers of train services - passenger, freight and Open Access operators. Part of our reform programme is aimed at confirming that Network Rail’s role is as a supplier of infrastructure services to its customers rather than a body which controls the whole system.

We will therefore work with the ORR to ensure that the targets and requirements set by the regulator are demanding and match the concerns of operators and passengers as closely as possible. We would give stronger remedies to passenger operators and make it easier to seek redress from the regulator should Network Rail fail to live up to its obligations to maintain and update the railway.19

We believe that our proposals for instituting a supervisory board will also help in this context by making Network Rail more accountable to its customers. The governance changes we envisage will promote better integration of track and train by giving operating companies a stronger voice in how Network Rail is run and what its priorities are.

Developing common goals across the rail industry

Introducing a more harmonised and coherent regulatory structure (as set out above) should help the industry develop common goals. There is no doubt that in the rail context, worthwhile objectives can often conflict or pull in different directions: for example, on track engineering works, simple cost considerations would favour day-time closures, whereas passenger convenience makes night working preferable. Having the same body to reconcile and balance these different issues rather than the ORR and DfT addressing separate concerns with their separate responsibilities to oversee Network Rail and the train operators will help reduce friction between the different sides of the rail industry.

Over time, we want to see a more collaborative and integrated industry taking a greater role in developing strategy for the future of the railways. Policy objectives and funding limits will, of course, always rest with the Government, but ministers will make better decisions if guided by a whole-industry strategy. This is in line with recent comments made by the Chairman of ORR, Chris Bolt, that the industry ‘lacks a clear vision’ of how it will meet the UK’s transport and economic development needs.20

Encouraging co-operative working practices

We would encourage cooperative working practices between Network Rail and the train operators. These are not matters where we would seek to mandate the changes we set out but we see them as an important way forward in improving efficiency and customer service on the railways and we encourage stakeholders to adopt them.

We recognise that some welcome progress has been made in this area, for example with the establishment of Integrated Control Centres (ICCs)21 across much of the network where teams from Network Rail, and local passenger and freight operators work together under one roof. These centres can improve cooperation between Network Rail and the train operators on the operational control of the network and allow for faster and more efficient reactions to events or problems on the lines. However, there is still more that could be done to spread best practice so that the different teams in each ICC are genuinely integrated rather than simply located in the same premises.

In addition, we would encourage the adoption of a more decentralised management structure at Network Rail with greater responsibility given to regional teams. We believe that decentralisation would enable Network Rail teams to work more closely with the passenger and freight operators running services in their area. The Scottish example shows that this type of internal devolution within Network Rail can work well without causing disruption or unnecessary fragmentation. It can also provide a valuable
internal benchmark for Network Rail management and the ORR in evaluating cost effectiveness, best working practices and value for money.

We also believe that establishing a regular forum attended by key decision-makers in Network Rail’s regional team and the operators of open access, freight and passenger services in the relevant area could also promote partnership working and help coordinate work on issues such as customer service, passenger feedback, performance improvement, project delivery, safety issues and punctuality. We considered carefully whether such arrangements necessitated new legal structures but prefer the less formal approach of the “virtual regional boards” advocated by the former chairman of the Railway Forum, Chris Green, in his paper *Network Rail: What Strategy for Success?*

In the longer term, we would also be prepared to consider Chris Green’s further suggestion of seeking to align the franchise areas more closely with Network Rail’s nine regions to further facilitate close cooperation between devolved Network Rail teams and the local passenger and freight operators.

**Innovation: piloting other models of integration**

In 2004 Merseytravel, the Passenger Transport Executive for Merseyside, put forward a proposal for what they called “Full Local Decision-Making” for the Merseyrail franchise in the Liverpool area. The plan would have seen the track in the area covered by the franchise leased to Merseyrail by Network Rail, with the train operator taking over responsibility for running the track as well as the trains.

Merseytravel believe that this scheme would have led to cost savings and improved levels of reliability. We want to establish whether this would be the case. We also believe that a pilot scheme of this sort would provide a valuable benchmark against which we could assess the costs and performance of Network Rail.

In government, we would encourage Merseytravel to resubmit their proposal so that we can consider a pilot scheme for full integration of track and train on the Merseyrail network. There are a number of reasons why we believe that this is a scheme worth trying.

The system involved is a relatively self-contained part of the network. This means that local concerns and priorities may often be different from those of Network Rail with its nationwide responsibilities, so the local operator may be better placed to understand and react to local needs quickly and efficiently. The risk that allowing another operator to run the track might make Network Rail’s job on the rest of the network more difficult is also minimised where the project takes place in a relatively self contained part of the network.

That Merseyrail has a long franchise, an established track record in the rail industry and works closely with the local passenger transport executive are also good reasons for choosing this part of the network for a project to try out new ways of working.

We will consult widely with a range of parties including Network Rail, Merseyrail, Merseytravel and the regulator, about the best way to put this into practice and over what period. The project would be monitored and reviewed at regular intervals to see if it is delivering benefits for passengers. The arrangement would be subject to full safety measures throughout its duration and subject to the same rules that apply to the rest of the network.

Although Merseyrail looks to us to be a sensible choice for this pilot scheme, if others elsewhere on the network wished to be considered as an alternative we would be happy to look at their proposals. We also propose to run a second project along similar lines on another part of the network.

We should make it clear that, successful or not, we do not see this initiative as signalling an inevitable destination of travel for the whole network. We would embark on the project without ideological preconceptions and would assess its results in a pragmatic way.
5.4. Longer, better franchises

The current system of short franchises of around seven years discourages private sector investment. Operators are unwilling to commit their own money if they are unlikely to get a return on their investment before their franchise ends. Put simply, short franchises stifle investment and innovation.

Chiltern Railways provide an example of how things can be done better. This franchise was let on a rolling basis for 20 years which allowed Chiltern to make considerable and imaginative investments in long term improvements, working closely with Railtrack and then Network Rail. For example, Chiltern has invested in new trains, extra car parking places and new buildings. Were they to lose their franchise they would still hold equity in these assets.

We propose franchises across the network should generally be let for 15 to 20 years. We will also look at ways to streamline the provisions to enable passenger operators to retain or receive value for their investments at the end of the franchise.

And when we award franchises we will place real importance on the quality the plans each bid contains to invest in rail improvements, to increase capacity and attract more passengers. Our assessment of franchise bids will be qualitative not just quantitative. In granting franchises, the current government has focused almost solely on cost and how much money they can persuade train operators to squeeze out of passengers. For us, cost will not be the only consideration.

As set out above (in paragraph 4.2), we will also move to more flexible and less prescriptive franchises giving operators great scope for innovation and enterprise.

These changes will give the train operators a much stronger incentive to invest to improve the quality of service they offer and to provide new capacity to help tackle overcrowding. We believe that our new approach will help deliver a range of important improvements including longer platforms, better station facilities and more parking (both for cars and bicycles). It may also become a realistic option for passenger operators to save money by buying their own rolling stock rather than leasing it.

With longer, more flexible franchises, we will take steps to ensure the interests of passengers are safeguarded. We would ensure that regular performance reviews would be carried out by the rail regulator to ensure that train operators continue to perform to an appropriate standard. The regulator will be given powers to take action against operators who fail their customers. Break clauses would be written into the franchises to allow for franchises to be removed from a TOC which consistently fails its passengers.

5.5. Innovation in delivering rail improvements

A concern repeated to us time and again is that Network Rail’s bureaucratic culture can often prevent train operators from improving stations and delivering much needed capacity improvements such as longer platforms. Another recurring concern is that Network Rail is not sufficiently interested in allowing those in charge of ports, factories and industrial estates to build short track extensions to allow them to transport their goods by rail instead of truck. This may, in part, be caused by Network Rail’s need to focus on big challenges that come with delivering major upgrade projects, but that does not negate the need to address the problem.

We believe that contracts and funding for smaller scale capacity enhancements, currently dealt with by Network Rail, should be opened up to other providers, including the passenger and freight operators whose businesses are likely to benefit from the capacity enhancement.

We would encourage rail franchise bids to contain proposals for this type of project. And joint bids for funding by Network Rail and the local passenger and freight operators would also be welcomed.

Other entities who might wish to bid would include
Community Rail Partnerships, Passenger Transport Executives and other local authorities.

We believe that making more work on the railways contestable in this way would have a number of advantages:

- It would speed up the construction of capacity enhancements, improve efficiency and reduce costs while leaving the bulk of Network Rail’s current functions unchanged;

- It would provide useful benchmarks against which to measure the performance of Network Rail and encourage them to make more imaginative, cost effective and capacity enhancing bids;

- It would encourage passenger and freight operators to invest in important capacity enhancements that will improve service to their customers.

This has worked before. For example, the train operator, Chiltern, were granted permission from Network Rail to design, finance and build station, signalling and track improvements on their line coming into London (Evergreen 1 and 2). Once the project was completed, the line was transferred back to Network Rail but the enhancements allowed Chiltern to run newer trains and faster services on this track.25

A second example is found north of the border. In 2006, Transport Scotland opened up £20 million from existing rail budgets to bids from both Network Rail and the Scottish TOCs for small scale enhancements. At the end of the bidding process, £19 million of the £20 million available was allocated directly to the passenger operators because their bids were judged to be better than Network Rail’s.

Competitive tendering would also encourage more track to be built for freight. For example, freight operators could bid for short rail extensions into ports, factories or industrial estates. This will not only have a positive effect on their business but would also encourage use of rail freight as a greener alternative to road freight.

It is likely that any new track would eventually be bought by Network Rail (as happens now) and appropriate provisions on this would be set out in the original contracts for the works. In some cases, it may be that freight companies could keep the track they built, but they would still be subject open access rules.

We believe that these changes would stimulate Network Rail through competition without risking further fragmentation of the way the railways are run. This reform would not have an impact on Network Rail’s lead role in major upgrade projects or their functions of maintaining and improving the core infrastructure of the network and delivering a safe and reliable railway in the most efficient manner possible.

This reform will not work unless Network Rail cooperates fully with the people who bid successfully for these projects. A frequent complaint from operators is that Network Rail is not cooperative when they seek to carry out work on stations or other upgrades. It is even alleged some of the company’s staff have actually been obstructive. We will amend Network Rail’s licence to include a specific duty to cooperate with operators and other entities carrying out these sorts of capacity enhancements. We would expect the regulator to enforce this duty proactively and to intervene to resolve disputes promptly if problems arise and impose penalties for failure to cooperate.

We would also encourage Network Rail to create a team specifically tasked with working with other operators on these smaller scale capacity enhancements. The team would not be linked to a specific route or line. Its remit would cover the whole network and it would advise and/or carry out any significant engineering work needed from Network Rail side in relation to the projects undertaken by other providers. We would expect the ORR to include the success or otherwise of this team as an important part of assessing the performance of Network Rail as a whole.
We believe that this element of our reforms should not only help tackle capacity problems but also improve passenger satisfaction, since these smaller schemes can often yield disproportionately high returns in terms of customer service.

5.6. Promoting Rail Freight

In recent years, our roads have become more and more congested, with motorways representing 1 per cent of road infrastructure but carrying 40 per cent of traffic. We want to see rail freight become an increasingly attractive alternative to road haulage. Key factors in determining the competitiveness of rail freight include convenience and accessibility of rail hubs, reliability of service, and cost.

Rail freight is a vital part of the UK supply chain. It plays a very important role in tackling climate change and congestion by getting trucks and bulk goods off our overstretched road network. According the Freight Transport Association, one freight train can take 50 lorries off the road.

As with passenger rail, the longevity of freight assets mean that certainty and stability in policy-making is vitally important. That is one of the reasons why these reform ideas seek to avoid radical structural change and build on what has gone right over the years since privatisation.

A competitive freight sector also needs an environment that strikes the right balance between the needs of freight and passengers. The one should not be allowed to crowd out the other.

And if rail freight is to be competitive and to fulfil its full potential in our efforts to get carbon emissions down, we need to find a way to provide extra freight capacity in our rail network and relieve congestion at the most notorious bottlenecks. That could involve improving a junction or building an extra loop; or even larger scale upgrades such as reopening old lines.

Increasing rail freight use is an important goal for us. We believe that the changes set out in this review aimed at making Network Rail more efficient and more responsive to its customers should help tackle the key concerns of freight operators and improve the efficiency and attractiveness of rail freight in the UK. The overall goal of our reforms - to help deliver extra capacity and better value for money - is just as much a concern for freight customers as for passengers. Our proposals would also give freight operators a stronger voice in the railway network, allowing them to get a better deal from Network Rail.

We very much hope to see freight companies using the powers we will make available to bid for funding for smaller scale capacity enhancements, for example by working with Network Rail to add small-scale bespoke freight lines to the network. We also envisage an increased role for private sector funding in this area and would seek to see bids from freight companies that include matched funds from private sector investors.

Network Rail has an obligation to serve freight as well as passengers. All too often it has failed to deliver. In 2006/07 Network Rail delays to freight traffic hit record levels with 6.46 delays per 100 train km.26 It continued to under-perform in this area in 2007/08, missing its obligations to rail freight industry by an average of 13 per cent.27 This means that goods do not get delivered on time which means lost business. Working with the regulator, we will seek to amend Network Rail’s licence to include the obligation to support a growth in freight traffic.
5.7. Community Rail

When in government we will support and promote Community Rail projects and we would encourage Network Rail to do the same. We welcome the innovation these projects so often involve. Community Rail schemes are designed to involve local people in the development and running of local and rural routes, services and stations. They are often supported by Community Rail Partnerships (CRP), comprising both the railway operator and local councils, or by Rail User Groups (RUG). Community railways are managed to fit local circumstances, facing the challenge of increasing revenue, reducing costs and increasing community involvement.

Community Rail Partnerships have the potential to play a pivotal role in efforts to re-open much missed local lines. Although we do not underestimate the challenges (or costs) of re-opening lines that have been closed for many years, the renaissance of rail travel since privatisation and the continuing growth expected in the next decade mean it is now practical to re-evaluate some of the closures of the past. New housing also has the potential to transform the economic viability of disused lines, particularly where developers are asked to make a contribution to funding the public transport infrastructure needed to support new homes.

We will introduce a moratorium on building on any disused rail paths still in public ownership. This will last for the whole of our first term in office. These corridors are a precious transport resource and once built on, they are lost forever. Not only will our moratorium keep alive the option of re-opening old lines, in the interim period, these corridors can provide excellent walking and cycle paths.

5.8. Open Access

We value the role that open access operators play in providing a competitive and a complementary service to franchised operators. They play a fundamental role in ensuring that bespoke and niche routes on the network are nurtured and maintained.

A Conservative Government would encourage and promote open access. The reforms in our paper will ensure that the people who run passenger train services, including open access operators, have a stronger say in how our railways are run, so that they have more freedom to deliver what their passengers want. For a start, that means less Whitehall meddling and closer working practices between Network Rail and open access operators. Our reforms also give open access operators a stronger voice in the governance of Network Rail and in setting the priorities and strategy for the company.
1 28 billion passenger kilometres were travelled in 1994/95, and 42 billion in 2004/05. Network Rail, Business Plan 2006, p.11
2 FOI request on the twenty most overcrowded trains for which complete data is available 2007, published on DfT website 1 August 2008
3 Network Rail, Business Plan, 2006, p.11
4 The Transport Select Committee's latest report on rail has highlighted concerns from within the industry from firms as varied as Bombardier Trains, Passenger Focus, Virgin Trains, and The Campaign for Better Transport. Virgin Trains' submission to the Transport Select Committee states that they are currently achieving twice the Government's estimate of the rate of real growth per annum
5 National Passenger Surveys from Autumn 2005 to Autumn 2008 conducted by Passenger Focus
7 The Times, 29 June 2007
8 FOI request on twenty most overcrowded trains, ibid.
9 Passenger Focus Press Release, 'South West Trains Passengers face up to 20 per cent increase in rail fares from today', 20 May 2007
10 Hansard, 17 July 2007, Col. 149: Mrs. Theresa Villiers: Will the Minister tell us what representations he received from South West Trains about the impact on fares when the DFT set the franchise premium payments up to 2014? Mr. Harris: South West Trains made the Department aware that some off-peak, unregulated fares would have a higher than inflation increase
11 At today's prices
13 Competition Commission, Rolling Stock Leasing Market Investigation: Provisional Findings, 7 August 2008
14 www.railteam.co.uk
15 Transport Select Committee, Minutes of Evidence, 16 April 2007, Q:64
16 See Steer Davies Gleave, High-speed Rail: International comparisons, 2004
17 Audit Office, The Modernisation of the West Coast Main Line, November 2006; DfT, Towards a Sustainable Transport System, October 2007; Atkins, Because Transport Matters, March 2008
19 Atkins, Because Transport Matters: High Speed Rail, 2008, p. 7
20 We will amend the current system of Joint Improvement Plans (JIPPs) to include Local Process Commitments (LPCs) as part of the Network Code. These will work similarly to the former Local Output Commitments (LOCs) – in so far as giving a clear route for operators to seek redress when Network Rail underperforms. However, we acknowledge that LOCs were not without their drawbacks so we would reform and streamline the way they operated in our proposed new LPC. We are keen to consult widely with the industry to ensure our reforms on this point provide workable solutions to help improve efficiency and passenger service on the railways.
21 The Telegraph, 19 June 2008
22 ICCs are currently funded partly by the TOCs and partly by Network Rail. Should more ICCs be introduced, the Network Rail share of the costs would need to come out of existing resources, rather than require additional funds from the taxpayer. Since the relevant functions performed are already carried out by Network Rail regional teams, this would involve redeployment of existing resources and personnel rather than significant new projects.
23 These changes would only come into effect on a change of franchise. We do not propose to interrupt or amending existing franchises, although we would be open to negotiation should existing franchisees wish to surrender their franchise and seek to be considered for a longer one.
24 This would not result in the loss of any existing national asset on the rail network since it would apply to new assets or improvements rather than to existing property.
25 We would not want the break clauses to be so onerous as to undermine the certainty provided by longer franchises. There is a balance to get right here, when it comes to the interest of passengers. On the one hand, it is in the passenger’s interest to secure long term private sector investment in improving the railways. On the other, we need to ensure there are effective means of redress against franchise holders who under-perform. We are confident we can get the balance right between these two competing concerns.
26 However, it is important to note that the SRA underwrote the whole of the Evergreen project and negotiated Network Rail’s surrender of part of the network whilst Network Rail were still very young with untested powers.
27 Presentation published by Bill Emery of the ORR