The McNulty value for money review of the rail industry
~ Campaign for Better Transport briefing

Introduction

In May 2011, Sir Roy McNulty published his final report into value for money in the rail industry. Although it is an independent review, and contains only recommendations to the government, it was sponsored by the Department for Transport and the Office of Rail Regulation, and it is certain to be highly influential as the government formulates new rail policy over the coming year.

The rationale for the review is that the railways cost too much to run, and are therefore too great a burden on the public purse and, theoretically, the fare paying passenger. Primarily by comparing costs with other railways abroad, the report determines that the UK industry is 30% less efficient (and more expensive) than its European counterparts, and sets out recommendations for bringing these costs down. Whilst the report does not provide detailed costings as to where its proposed £1 billion in annual savings will be made, it is clear that the emphasis is on cutting the level of government subsidy, and not on reducing the burden on fare paying passengers.

This briefing provides Campaign for Better Transport's perspective on the key areas of interest to passengers covered in the report[1] – drawing out, in particular, threats that we believe must be countered.

Structure of the industry

The central theme of the report is barriers to efficiency caused by fragmentation and complexity, with a great deal of responsibility for inflated costs laid at the door of Network Rail. The proposed remedy is closer working between different parts of the industry – but also a new set of devolved structures and cross-industry bodies that could easily generate more fragmentation and more bureaucracy.

McNulty proposes the devolution of and partial break-up of Network Rail into regional units, along a far more radical path than NR is already undertaking of its own accord. He also recommends vertical integration in some areas, with Merseyrail proposed as the first trial, where private operators (as opposed to Network Rail) are in control of the track as well as the trains. Whatever one's views of whether the railways should be in public or private hands, there are questions about the feasibility of achieving European levels of efficiency by moving even further away from European models of industry structure. The erosion of a national network would also be damaging for rail freight, which needs to be able to compete with road, which by and large has access to a national network. Moves towards vertical integration must not lose benefits of national timetabling and co-ordination of maintenance and upgrades, and must protect access for rail freight.

We welcome the sentiment that the industry needs to bear more responsibility for driving down costs than it has in the past, rather than seeing inflated costs largely as the government's problem. However, although McNulty talks about the industry needing to 'earn its licence to grow', the overall drive is very much about handing over more power to the operators – especially when taken in conjunction with the government's

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[1] Realising the potential of GB rail: Final independent report of the rail value for money study, May 2011
http://assets.dft.gov.uk/publications/report-of-the-rail-vfm-study/realising-the-potential-of-gb-rail.pdf

revised franchise policy. As the report acknowledges, train companies think short-term due to commercial interests, whilst by its very nature the rail industry as a whole needs to plan long term. The government needs to ensure that in any reforms the long-term outcomes for passengers and for wider social goals are protected, and that the industry is truly required to earn any additional responsibilities.

Regional railways

Structural changes that we feel far more confident about are proposals for greater local control over some regional and metropolitan rail networks, as has happened, for example, in London and Merseyside. The idea is that some degree of budgets, planning and decision-making would be devolved to Passenger Transport Executives (for the metropolitan areas) or regional groups of local transport authorities, with the Northern Rail franchise proposed as the first trial. The report acknowledges that there are challenges, such as how local authorities would be brought together outside the PTE areas, and likely differences in priorities between central and local government. However, as we have seen with the London experience, there are also significant potential benefits in terms of allowing services to be better tailored to local needs. These include improving connections with other forms of transport; better integrated and through ticketing; and tailored marketing, branding and promotion.

The news is not so good for service levels on regional outside the south-east. Although the report rules out line closures and significant service withdrawals, non-urban regional railways are clearly targeted for their heavy reliance on government subsidy. Although the principle that 'one-size-does-not-fit-all' is generally sensible, and franchise specifications for local railways could be different from inter-city and regional services, many of the ideas floated in the report are deeply concerning. These include the use of older rolling stock; greater flexibility on fares, including an emphasis on 'charging what the market will bear' and the removal of obligations to provide nationally interoperable fares; a preference for prioritising connections to the local rather than national transport network; and, most worryingly, flexibility to respond to peaks and troughs in demand – ie., fewer off-peak and weekend services. We can look to the government's revised West Coast main line franchise consultation to see how this last proposal could look: it removes obligations on the new operator to provide a certain number of trains per hour, and plans to only set first and last train times for certain key stations.

At this stage the recommendations are all about identifying pilot areas and developing more concrete proposals for local specifications. Whilst the threat is therefore not immediate, it is great. Local rail is a lifeline for local communities and is vital to the economic growth of towns and cities; any reforms that result in a denuded and more expensive local rail network would be counterproductive and must be resisted.

Fares and ticketing

The report acknowledges many of our long held concerns about the current fare structure, including that it is "complex, often appears illogical and is hard for the uninitiated (and even the imitated) to understand". It further recognises that such complexity can act as a deterrent to more people using the train, and calls for a fundamental review of the fare structure – which the Secretary of State has now promised.

There are similarly positive conclusions about smart cards and their potential to increase accessibility to and demand for rail travel. Possibilities for smart cards that allow for 'three-day-a-week' season tickets to benefit part-time workers (which we have been calling for in our Fair Fares Charter), and for directing specific discounts for vulnerable groups, are most welcome.

Here the good news largely ends. Although McNulty is careful to say that his proposals aim to avoid raising the overall amount paid by passengers, he also acknowledges that he believes that in many instances fares

are lower than the market will bear, and that the existence of fares regulation is preventing train companies from managing the network as efficiently as possible. For example, he suggests that the price of tickets should "reflect" new investment "even before it is delivered" (pay now for improvements later), and that train companies "need to have the ability to charge higher fares on busy trains". The report also calls for tickets to be deregulated and rail operators given greater freedom to set their own fares. McNulty is particularly keen on airline-style pricing, which sees the cost of travel rise as trains fill up, although he doesn't go so far as to say that we should move to an entirely book-ahead system, and he does acknowledge that commuter fares will still need to be protected. Given McNulty's background in the aviation industry this propensity is hardly surprising. But railways with their high-frequency services are not at all like airlines: book-ahead travel is not how passengers actually use the train, and with two-thirds of journeys currently made on some kind of flexible ticket, it's obvious that passengers want and need affordable walk-up fares.

The bulk of the proposals on fares boil down to strategies to manage overcrowding through pricing signals – with the explicit aim of avoiding the cost to government of paying for extra capacity. For example, McNulty proposes reducing the coverage of off-peak fares regulation, because the current fare structure can result in overcrowding just after the end of the more expensive rush hour period as people wait to travel on more affordable fares. But based on this single 'anomaly', far-reaching – and potentially damaging and unworkable – changes are being proposed to the rules around off-peak fares. Many of these were considered and rejected in earlier government fares reviews, and with good reason – there is a danger of ending up with an entire fares policy based on a problem affecting a small number of trains leaving London on a Friday evening. Depending on how this plays out, and how much freedom train operators are given, it could result in the erosion of off-peak fares, with fewer choices between highly restricted advance tickets or expensive tickets bought on the day. It is also frustrating that the potential for encouraging greater use of the railway at off-peak times – and therefore generating revenue and reducing the need to make savings – is not covered at all in the debate around managing capacity through pricing, despite being recognised as important elsewhere.

Coming on top of the already exceptionally high cost of fares in this country, and the Government's plans to raise regulated tickets by an eye-watering 28% by 2015,[2] these proposed reforms put us in real danger of pricing people off the railway. With fares set to rise four times faster than average earnings next year alone,[3] access to jobs and training will be restricted. Expensive fares also mean more traffic congestion and carbon emissions as people are forced to switch to higher polluting cars and planes. Many passengers are also simply frustrated by being asked to pay more without seeing improvements to their journey. The Government must seize the fares review as a golden opportunity to make fares cheaper, simpler and fairer – not price off the very passengers who drive the industry.

Staffing

The report singles out staffing costs as a key area for savings. Proposals include reducing opening hours at ticket offices and closing offices at some of the smallest stations altogether; removing all on-board staff from trains apart from the driver; and reviewing working hours and moving towards shorter rest periods, meal breaks etc. and more part-time working. The overall sentiment is towards greater automation of ticketing and train operation, and the report entirely fails to accept that staffing is a safety and security issue for passengers, and not simply a matter of convenience.

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[2] See http://bettertransport.org.uk/media/Apr-01-fares-faster-than-wages
[3] Ibid

This will clearly be an issue of great concern to trains staff and transport unions, but it's important for the government to recognise that passengers care about staffing as well. Adequate ticket office, platform and on-board staff are essential for passengers to feel safe, to get the right information about fares and timetables, and to get the help they need to make their journey. Passengers who need extra help, such as older travellers and those with disabilities, will be particularly worried about loss of staff. Cutting staff is not in the interests of existing passengers, and it won't help to attract more rail users in the future.

Conclusion

This summary is necessarily brief and can't cover all aspects of the 300-page report, which does contain plenty of sensible specific suggestions – such as upgraded cross-industry IT systems that can provide clearer information about fares and real time travel data; greater transparency in the industry's finances, by route and by franchise; better integration of rail policy with planning for other modes of transport and land use; and investigating new sources of private investment in the railways.

Overall, however, the report presents a clear drive towards cutting the government's subsidy and granting more freedom and flexibility to operators, while passengers' needs – and a wider understanding of the social and environmental benefits of the railway – risk being sidelined. If operators are given extensive freedoms on what trains to run where and when and what services to provide on trains and at stations, the way they react to this will be key to whether the system works, and whether people end up with a high quality service or an extension of Ryanair. There is also an unfortunate tendency in the report to see passengers as a 'problem' needing to be solved, rather than the lifeblood of the industry. Moves too far in this direction could harm the industry itself, if the passengers it relies on are ultimately turned away from the railway.

The report also leaves a fundamental question unanswered: who and what are the railways for? What should the government be trying to buy with its (ever-reducing) contribution? Are the railways a public service, run for the benefit of passengers, and to achieve wider environmental and social goals? Or are we moving towards a more commercial railway that suits the convenience of operators, and one that is only affordable to the wealthiest? Ironically, McNulty acknowledges that at the moment there is a lack of clarity on rail policy – and on what the subsidy is buying and how it relates to the government's objectives on rail, on transport, and more broadly. Unfortunately, the report fails to offer any clarity of its own on this front, and perpetuates a problematic conflation of 'investment' (ie. developing a greener and more modern infrastructure, largely via Network Rail) and 'buying', (ie. supporting train services to meet social and environmental objectives, largely via franchising) – both of which also need clearer Government objectives.

Ultimately, however, the McNulty review is merely a set of recommendations, and it is now the government's task to develop a response, due in the form of a White Paper in Autumn 2011. Campaign for Better Transport, together with passenger groups, unions, environmental organisations and others, will be working hard over the coming months to ensure that the needs of passengers, the environment and society are at the heart of the government's new rail policy.

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