National Union of Rail, Maritime & Transport Workers

Response to the Shaw Report:

Future Shape & Financing of Network Rail Scoping Study

Introduction

The National Union of Rail, Maritime and Transport Workers (RMT) welcomes the opportunity to respond to the Future Shape and Financing of Network Rail Scoping Study.

The RMT is the largest of the rail unions and organises 80,000 members across all sectors of the transport industry. We negotiate on behalf of our members with some 150 employers including Network Rail and much of its supply chain.

Prior to answering the main questions in the study we would wish to outline our key concerns as follows and also explore a number of specific workforce related issues.

- The review needs to recognise that Network Rail was created as a Not for Dividend company in direct response to a succession of fatal rail crashes

  The **Southall** rail crash in 1997 which left seven dead, 139 injured
  Paddington two years later - 31 dead, 250 injured
  Hatfield, a year after that, 4 dead seventy injured
  And two years after that **Potters Bar**, 7 dead 70 injured.

- RMT is deeply concerned that the option of developing Network Rail as part of a fully vertically integrated railway in public ownership has not been given any priority in the Scoping study. The study also seems to pose leading questions towards the benefits of privatisation or partial privatisation and a negative view of Network Rail remaining in the public sector.

- Notwithstanding the above the benefits of retaining Network Rail as a national integrated publicly owned company infrastructure manager should be recognised, particularly in terms of the a) efficiencies realised through unifying and bringing maintenance in – house b) making the UK one of the safest railways in Europe c) successful expansion of railway capacity and the ability to direct national income to cross invest on a national basis

- RMT supports the analysis and proposed structure of Network Rail as contained in the Stittle report.

- RMT believes that Network Rail should not be fragmented and/or privatised as this would have an adverse impact on safety, efficiency, costs, investment, the skills base and industrial relations.

- Devolutions within Network Rail will lead to further costs and will have adverse planning implications. We are also concerned that devolution could lead to the end of national bargaining and regional negotiations which will lead to a complex array of terms and conditions, “leapfrogging” and industrial relations problems.

- RMT believes that caution must be applied to the data used by the Report Team so as not to fall foul of similar untruths and inaccuracies as the McNulty report.

- It is essential that the value of returning the maintenance workforce in-house is recognised, and that such an approach is adopted with regard to renewals and enhancements.

- A longer term planning and funding process is needed to ensure the development of economies of scale, efficient delivery and the maintenance of an adequate skills base.

- RMT believes that greater integration of the rail industry, within the public sector, is the best condition that will allow for the debt to be controlled, by its rate of accrual being slowed.

Greater productivity through a unified workforce

There is strong evidence to suggest that prior to privatisation, that British Rail recorded the highest labour productivity of any railway in Europe, with also a lower public subsidy than any other European Country.[1]

Dr John Stittle notes that "by way of comparison, the state owned British Rail was described as 'perhaps the most financially successful railway in Europe'. Government subsidy was 15% of revenue in 1994, making BR 'the least subsidised railway system in Europe[2].' Overall state subsidy was 0.16% of Gross Domestic Product (GDP) compared to the European average of 0.52% (Harris and Godward, 1997, p. 52).British Rail in the early 1990s, despite a chronic shortage of investment funding, was remarkably cost-efficient by international standards. Labour productivity (defined as train-kilometers per employee) 'rose by 17% between 1987 and 1994…and was the highest in Europe.'"

RMT has consistently outlined that the fragmentation of the industry has resulted in increased costs as a result of the creation of unnecessary interfaces and duplication. We would also contend that the fragmentation of the industry has also resulted in a far less effective use of its most important asset – the workforce.

Professor Jean Shaol has identified a number of consequences of moving virtually overnight from an integrated single workforce working in the public interest to one company to a fragmented workforce employed by scores of private companies primarily defined by their contractual commercial relationships with each other.

- The loss of strategic direction, wasteful duplication of knowledge, skills, activities and services,

- Large sections of the workforce are employed administering an excessive bureaucracy and contractual arrangements instead of "running the railway",

- The replacement of primarily collaborative relationships with adversarial relationships with an increased tendency to pass responsibility or blame to other agencies rather than learning lessons and providing solutions.

- The loss of a shared commitment to the overall service that a proper public service ethos can bring

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[1] Jean Shoal 2004, Renaissance delayed, New Labour and the Railways
[2] Shaoul, J (2004), 'Railpolitik: The Financial Realities of Operating Britain's National Railways', Public Money & Management, 24:1, pp27-36. p. 29.

Perhaps the most significant loss of productivity from fragmenting the workforce has also been well defined by Shoal,

> "…one of the most devastating consequences of the privatisation process was the fragmentation and loss of industry knowledge. Running a railway – making decisions about investment, timetabling, safety, workforce deployment – requires an intimate acquaintance with changing infrastructure conditions, technological possibilities and service requirements throughout the network, that in the case of British Rail was held collectively by its workforce and managers and brought to bear upon decision-making through systems of cooperation and communication at all levels of the industry.
>
> This organisational knowledge base, never wholly centralised and much of it effectively tacit, was dissipated with the breakup of the industry. Many highly skilled engineers who knew things about the railway network that no one else did lost their jobs; some hired that knowledge back to the industry as private consultants. Habits of information sharing and freely given advice were interrupted by the requirements of commercial confidentiality. Hard-won accumulations of local and specialised knowledge were lost in the shift to an increasingly casualised and individualized workforce."

RMT believes that the Shaw Report must recognise the productivity benefits of work being undertaken in-house and also acknowledge the benefits of a long term funding cycle accompanied by workforce planning.

As stated earlier, prior to privatisation, British Rail recorded the highest labour productivity of any railway in Europe, with also a lower public subsidy than any other European country[3] and following the disastrous experiment of RailTrack infrastructure maintenance had to be returned in-house. Dr John Stittle has highlighted the importance of maintenance work being undertaken in-house and an end to the outsourcing of maintenance:

"Once NR acquired the infrastructure, its deputy chairman at the time, Ian Coucher was clear about the failings of out-sourcing maintenance: the railway does not 'lend itself to output-based specifications, which give people the freedom to decide how to do it and when they're going to do it. It makes it very difficult to change something if you are not quite sure what people are doing out in the field.' In a warning that Shaw should heed, Coucher[4] also cautioned that when 'every contract was renegotiated locally by the regions… you ended up with a large amount of variations. Some were cost-plus, some had special performance regimes - it was a real mess.'"

The McNulty report added that Network Rail has saved £400m a year through unifying and bringing rail maintenance in house.

It is therefore of concern that despite the clear benefits of workforce integration and bringing work in –house in Network Rail are still overly reliant on outsourcing. For example in respect of the renewals workforce where some 88,000 PTS (Personal Track Safety) cardholders, 67,000 are not directly employed by Network Rail. Of these 67,000 RMT believes that less than 10% are full-time employed and that the remainder may well be working under bogus self-employment on zero-hours

[3] Jean Shoal 2004, Renaissance delayed, New Labour and the Railways
[4] http://www.railwaygazette.com/news/single-view/view/uk-brings-infrastructure-maintenance-back-in-house.html

contracts. In some cases an individual worker may be sponsored by up to 8 contractors at any one time, and in an extreme case by up to 20 contractors. This means it is extremely difficult to regulate working hours and quality.

Network Rail is majority funded by the taxpayer and it is clear that the taxpayer is now paying for a largely casualised workforce, with potentially serious consequences in a safety critical industry. In addition, the activities of payroll companies cost the Treasury millions every year.

Network Rail intend on increasing use of contractors and according to the Network Rail Strategic Business Plan January 2013 "Overall, headcount is projected to reduce over CP5 by around 1,050, which is equivalent to a reduction of eight per cent in total workforce....Track direct employees have the greatest absolute reduction of around 800...We will achieve efficiencies of 18 per cent by the end of CP5 by making greater use of Tier 2 contractors..."

The Office of Rail Regulation, when questioned by RMT, acknowledged that zero hours contracts "appear to be a common form of securing staff for the engineering contract business" and stated that they are "mindful of the considerable risks that can arise from safety critical staff working for more than one employer".

Furthermore, Ian Prosser, the Director of Railway Safety in the Office of Rail Regulation has stated that "The widespread use of notionally 'self-employed' staff on zero hour contracts has some immediate and short term benefits with regard to staff flexibility and costs, it has a generally negative effect on the attitudes and behaviour of those involved, which is not conducive to the development of a safe railway"

Of the 67,000 engaged by Network Rail through over 500 contractors and labour only suppliers, RMT believes that less than 10% are engaged on permanent contracts which clearly demonstrates the impact that private sector contractors are having on employment practices.

A number of labour only suppliers which Network Rail engages are shown in the following table. This table also shows how many workers are actually <u>employed</u> by these labour only suppliers. This information differs dramatically from what the companies themselves claim. For example, McGinley Support Services Ltd (whose accounts state have 111 employees) claim "one of the largest family run staffing business in the UK employing some 250 staff, supply over 3,000 people every day on temporary contracts" or Cleshar Contract Services Ltd (whose accounts state that only 8 people are employed) claim "more than 1,200 trained and experienced operatives and a fleet of 250 vehicles".

Labour only suppliers, and other employment agencies, commonly use payroll companies and a significant proportion of those below do. In many cases the worker has little choice as to which payroll/umbrella company is to be used, and in many cases those companies are closely linked to the contractor – such as through common directors. This could not take place if the workers were directly employed, as opposed to being sponsored.

It is obvious that Network Rail is the most significant client of these Labour Only Suppliers and as such is actively encouraging bad practice. Furthermore, many of the murky employment practices are designed to actively avoid taxation and so have a negative impact on the Treasury.

Labour Only Supplier	**Revenue £m (in last**	**No of Employees (in last**

	available annual accounts)	available annual accounts)
McGinley Support Services Ltd	48.9	111
Vital Rail Ltd	21.3	17
Bridgeway Consulting Ltd	13.2	305
Malla Rail Ltd	7.3	31
TES2000 Ltd	7.3	255
Coyle Personnel Plc	61.4	112
SW Global Resourcing Ltd	13.8	240
MDA Rail Ltd	N/A	163
Cleshar Contract Services Ltd	64.5	8
Further 30 suppliers provide 20% of spend		
Total	241.6 (of figures available)	1242 (of figures available)

Further fragmentation or devolution and particularly privatisation will exacerbate these problems described above.

Instead the Shaw Report should instead positively consider the benefits of bringing work in–house, such as renewals, on a unified basis as recognised by Ian Coucher, the Mcnulty report and numerous academics.

The Shaw Report provides the opportunity to end the current levels of casualisation and fragmentation in the Network Rail workforce and to increase safety levels as a result, by bringing renewals work back in-house.

Workforce: skill

Another area of particular importance are the ongoing skills shortage and the detrimental impact that the current levels of fragmentation and casualisation of the renewals workforce are having as a direct result of the entry of private contractors into the industry.

The evidence of skills shortage in the rail sector is included in the Tier 2 Shortage Occupation List for the period starting on 6 April 2015 - produced by the UK Visa & Immigration section of the Home Office - which lists all of the UK-wide shortage occupations for Tier 2 of the points-based system. Skilled railway jobs have appeared on the List over a number of years now and the skills shortage on our rail network is a direct consequence of the short-term funding cycles for Network Rail.

Workforce: Determining Efficiency

As Shaw is the latest consideration of this topic since McNulty it is essential that it does not make the same mistakes in particular in relation to the data used. These inaccuracies have led to a series of unfounded attacks on Network Rail, and the workforce, over a number of years and some of those are detailed in Appendix 1.

For example, McNulty estimated average total allowance, plus bonus, plus overtime, plus rest day working and Sunday to be equal to 70% of basic salary. The lack of concrete data for these components of employment costs indicate that the total average pay calculated may have been inaccurate by up to 41%.

At the time RMT noted the highly inaccurate attempt at international benchmarking published as part of the McNulty Report and we believe that while international benchmarking may be useful we believe that it should only be undertaken on a like for like basis between comparable national infrastructure managers. For example, RMT believes that the integration process currently being undertaken by the SNCF (see Appendix 2) in France is worthy of consideration.

Questions

What are your views on the scope of Network Rail's functions?

RMT believes that Network Rail's function should be expanded in order to ensure full oversight of both the infrastructure and operations of Britain's railway. Independent reports (for example Rebuilding Rail by Transport for Quality of Life) estimates that this could save at least £1bn a year. As a bare minimum Network Rail should retain control of its current functions and take renewals in–house and also assume responsibility for High Speed Rail.

Have we failed to mention any specific and important factors?

RMT is concerned that the Scoping Study has failed to take into account the option to bring Network Rail within the remit of a single, integrated, publically owned and accountable body which would be responsible for managing Britain's rail industry and services as a whole. By choosing to ignore this potential, the Scoping Study has adopted a skewed approach towards the rail industry in which public services will continue to be delivered in order to satisfy the short term interests of private capital, with an increased number of interfaces and consequently increased inefficiencies and safety concerns.

RMT believes that Network Rail should not be fragmented and/or privatised. It is essential to ensure that the Shaw Report does not propose fragmentation of Network Rail.

Critical to the success of Network Rail and its ability to maintain safety standards, deliver enhancements, and to develop and retain a satisfactory skills basis is the length of the funding cycle.

RMT believes that the current five year control periods are too short and should be extended in length to ensure that economies of scale can be reached within the organisation for the delivery of enhancements and to ensure that the wider long-term public good and the socio-economic importance of the rail industry is placed firmly in focus when ascertaining how taxpayers money will be spent.

What are your views on these accountability arrangements and their effectiveness?

RMT believes that a single regulator should not be responsible for both economic and safety regulation as there is a fundamental conflict/tension between both roles.

Network Rail should be directly accountable to the Secretary of State who in return is accountable to Parliament. Ways could be explored as to how Network Rail could be more responsive including exploring a supervisory board with representation from the trade unions, passenger bodies and regional and devolved bodies.

RMT is responding to the ongoing Department for Transport consultation on this matter.

Have we correctly identified and defined Network Rail's customers?

RMT rejects the assertion that private sector interests be characterised as "customers" of Network Rail given that they are publically subsidised and have recently had the Network Grant re-routed through their coffers. Passengers and taxpayers along with society and the economy as a whole should be considered to be the customers of Network Rail as they are the end users, beneficiaries and funders of the network.

Should direct customer pressure on Network Rail be strengthened? If so, how might this be achieved?

RMT believes that any pressures on Network Rail from customers should be considered when determining long term strategic planning for Network Rail as discussed elsewhere.
It would also be strengthened by ensuring that Network Rail is directly in receipt of passenger revenue.

If by customers we mean the TOC's and FOCs, RMT would be opposed to giving them any greater powers over Network Rail as we believe this will commercialise infrastructure and reduce safety and efficiency. In this respect we are opposed to redirecting government funding away from Network Rail and towards the TOC's.

Are there more positive incentives for delivery which would be useful? Are any of these incentives more effective than others?

RMT believes that the current structure and financing of the rail industry acts as a disincentive for innovation and for addressing long term challenges. This is due to short term, 5 year Control Periods coupled with a political cycle of similar length and the immediate and short sighted avarice of private sector interests.

RMT believe that delivery could be approached in a positive and innovative manner within a long term planning framework.

Is there a case for changing the route structure? Disadvantages of different approaches to disaggregating the network, for example on the basis of:

- **physical, political or economic geographies?**
- **service type, e.g. commuter services, inter-city services and regional services?**

RMT believes that route structure should also be considered within long term planning. Determining national route structures on the basis of political promise, for example the Northern Powerhouse, will lead to planning being undertaken in an incoherent and inconsistent manner which will only damage the network as a whole.

Where there is the potential for genuine rail devolution, on elements of the network which are almost entirely self-contained and where there is already established a significant level of political devolution with the capacity, both in funding and expertise, to manage a section of the network this should be limited to passenger train operations and RMT wish to reiterate that Network Rail's functions should include acting as a "guiding mind" for such endeavours in rail operations.

RMT is opposed to the fragmentation or devolution of rail infrastructure.

Can you point to any specific economies of scale that should be protected at national rather than route level?

Network Rails successful expansion of railway capacity and the ability to direct national income to cross invest on a national basis should be recognised and protected.

RMT believes that economies of scale are best achieved through a centralised structure and that such a structure should include strategic control and management, economic cohesion, industrial integration, social unity and cohesion of the railway as a whole. Additionally the setting of strategic, economic, social and technical policy directions can only be achieved efficiently when undertaken centrally.

The coordination of activity between train and track is another function where a national centre can gain improvements, in addition to raising revenue from real estate and managing (with a view to reducing) the rate at which debt is accrued.

Network Rail currently directly employs 34,000 people covering a track of 16000 kilometres in length with the majority of the rail infrastructure workforce employed by private contractors on a myriad of contracts, employment statuses, multiple employers etc… An essential role for Network Rail to maintain an economy of scale is therefore to define and coordinate the human resources policy for the rail industry.

What processes and capabilities need to be in place (at both the centre and route level) to support Network Rail's current devolved structure?

RMT supports the view of Dr Stittle that

"Devolution of functions in Network Rail also poses problems. It will increase interface complexities, lead to higher fragmentation costs and may have serious national planning and project implications. Moreover it is inappropriate having eight separate divisions perhaps with varying forms of investment, different methods and levels of funding or even legal and structural forms of ownership. Such an array of factors will hamper, restrict and lead to considerable practical problems with obtaining, servicing, controlling and monitoring the debt levels. Shaw therefore needs to provide clear and supportable evidence that further devolution of strategic, operational and financing issues to the current NR route sectors would yield any advantages, cost savings or improve decision making. In particular, Shaw needs to explain in substantially more detail how the devolution will impact on interface costs, safety standards, cost control and organisational and financial management."

RMT is also concerned that devolution could lead to the end of national bargaining and regional negotiations which will lead to a complex array of terms and conditions, "leapfrogging" and industrial relations problems.

Drawing on your previous experiences where relevant, what would be the potential impact on your organisation of further structural change within Network Rail?

RMT will continue to organise amongst transport workers regardless of structural changes. In our experience, whilst structural changes may present challenges, our union has consistently and successfully adapted to structural changes within the industry.

We repeat however that fragmentation, devolution and fragmentation will lead to a complex array of terms and conditions, "leapfrogging" and industrial relations problems.

It is worth revisiting that one significant contributory factor to British Rail's high labour productivity was that the industry enjoyed a system of unified national bargaining which bought significant economies of scale, and a stable framework for industrial relations.

Privatisation shattered the national rail network's integrated collective bargaining and dispute resolution procedure. Where once the RMT negotiated with the British Rail Board, now RMT must engage with 24 train-operating companies, (TOCs), 7 freight companies, 3 rolling stock companies, 7 major renewal companies. Once the smaller, associated companies are accounted for, over 70 companies apply their rules in over 70 different ways according to the interpretations of over 70 different personnel directors.

A direct consequence of this fragmentation has been a worsening of industrial relations. According to a study by Aberdeen and Glasgow University railway industrial relations prior to privatisation were relatively harmonious with only eight strikes taking place between 1979 and 1996. By contrast there are now a number of serious pay disputes every year.[5] Over a longer timeline we know that in the fifty years of national bargaining before privatisation there were only six national railway disputes.

A direct consequence of poor industrial relations is inefficiency and lower productivity caused by industrial action. In addition increased adversarial relationships will on a day to day basis make employees less productive if they feel they are being treated unfairly and suffering from poor morale.

Any proposed increase in the fragmentation of Network Rail will compound existing industrial relations difficulties.

What are the strengths and weaknesses of Network Rail's current approach to planning enhancements?

One key weakness to enhancement planning is the lack of a long term strategy, which manifests itself in various ways including in the lack of a long term workforce strategy. It also leads to a "feast or famine" workload, which drives skills away from the industry.

[5] RMT All Party Rail Group Briefing

The five year horizons that currently used are also prescriptive and do not allow sufficient flexibility. Trying to force a pint into a quart pot is not the way to plan the railway. It will be beneficial if planning and related funding was held over far longer cycles.

Moreover there is overreliance on contractors to deliver enhancements and fragmentation and short termism has led to a shortage of skills and a loss of industry knowledge. Again it is worth quoting Professor Shaol,

> Many highly skilled engineers who knew things about the railway network that no one else did lost their jobs; some hired that knowledge back to the industry as private consultants. Habits of information sharing and freely given advice were interrupted by the requirements of commercial confidentiality. Hard-won accumulations of local and specialised knowledge were lost in the shift to an increasingly casualised and individualized workforce."

It is essential that enhancements, maintenance and renewals continue to be guided by a single body, and that the workforce for each type of infrastructure work be returned in house.

What would be the most important structural features of any future infrastructure provider?

The most important structural features of any infrastructure provider it that it is a national monopoly reflecting the nature of the industry, integrated on that basis, publically owned, run and accountable and that it is facilitated by a guiding mind for the rail industry as a whole.

Do you have any views on how the relationship between the periodic review process and other processes with which you are involved could be improved?

We believe there is not useful role for the ORR whose warped determination of efficiency has led to a feast and famine approach in the industry and the loss of skilled rail jobs. We agree with Bowe that the role of the ORR needs to be reviewed to see if it actually adds anything that could not be achieved by government and network rail themselves.

There is currently minimal union involvement in the review and the unions should be given the same status as other industry bodies. This arms length approach to the unions is not confined to the periodic review. For example the unions have also been denied membership of the Rail Delivery Group.

RMT believes that the periodic review process needs to be strengthened and its remit increased to ensure long term planning. Furthermore, it should not be solely efficiencies driven but also take into account the wider value of the industry to both the economy and society as a whole.

What criteria should be used to assess structural options under consideration? How, if at all, should these criteria be prioritised?

RMT believes that the structural options proposed are limited and unambitious in scope. As previously stated the option for developing a guiding mind for the whole industry has not been considered.

However, in terms of the proposed options the following criteria should be considered:

a) Impact on safety, bearing in mind that Network Rail was established as a unified Not for Dividend company as a direct result of a number of fatal rail crashes
b) Whether removing Not for Dividend status would impact on fares and services as a result of cash leakages
c) Whether national integration within Network Rail is more economic and efficient than fragmentation
d) Whether national vertical integration between Network Rail and Passenger and freight operations under public ownership is more economic and efficient than horizontal fragmentation
e) The extent to which public accountability and responsiveness can be improved
f) Retraining the ability to expand railway capacity and the ability to direct national income to cross invest on a national basis
g) The ability to deliver long term strategy as opposed to short term returns
h) The maintenance of economies of scale in order to respond to new enhancement requirements and crises
i) The ability to devise a mechanism at the national level to slow the rate at which debt is increased

Do you have any views on whether the RAB remains a relevant concept in the Railway, and, if not, what should replace it?

RMT supports the view of Dr John Stittle that "if the RAB methodology is abolished then Shaw should ensure there are structures in place to have levels of government debt agreed and guaranteed over lengthy planning and investment cycles. In any event there is a strong argument that funding should be planned over at least 15 year cycles (if not longer.) A substantial time frame is essential for major asset infrastructure planning and investment to be successfully implemented and will also deliver greater efficiency and flexibility".

How should financial risk be managed in Britain's rail infrastructure in the future?

As railways are essential to the economic, social and environmental fabric of the UK all risk should be underwritten and managed by the state.

RMT believes that the efficiencies which would be gained from establishing a guiding mind for the rail industry (such as removing duplication of work), and preventing leakages from the industry, would at a minimum reduce the rate at which debt is accrued.

Do you have any views on how Britain's railway infrastructure should be funded in the future, regardless of corporate structure?

Conventional government funding and borrowing is the most economic and efficient way of funding the railway.

The RMT would also support a levy on big businesses who benefit from railway services and expansion, including variations of a Land Value Tax.

Whilst it is widely accepted, including by the Scoping Study, that the rail industry will continue to be funded via the passenger and taxpayer. RMT believes that it is unacceptable that there is no direct link between passenger revenue and Network Rail's income, and is further concerned by the changes to the manner in which the Network Grant is allocated through being re-directed through the train operating companies.

In relation to both sources of income, private train operating companies hold the purse strings without contributing in any significant way to the contents of the purse and this creates obvious issues surrounding transparency, accountability and value for money.

What positive case studies are there (e.g. international examples in the railway sector, other sectors internationally/in the UK), where more affordable and sustainable funding and financing structures have been implemented, with or without private sector capital input? And how do you think the lessons learnt could be applicable to Britain's railway infrastructure?

We would refer to the report "A fare return "by Just Economics (http://www.justeconomics.co.uk/rmt-report/)

The report found that more integrated publicly owned railways in France, Spain, Italy and Germany achieved higher outcomes in most categories than the UK's fragmented and privatised railway. See Table below

Table 6. Ranking of outcome categories

Rank	Fares	Frequency	Electrification	High Speed Rail	Passengers to seats	Coach productivity	Freight productivity	Freight market share
1	France	UK	Germany	Germany	Italy	France	France	Germany
2	Spain	Spain	Italy	Italy	France	Germany	UK	France
3	Italy	France	Spain	Spain	Germany	Italy	Spain	UK
4	Germany	Italy	France	France	UK	Spain	Germany	Italy
5	UK	Germany	UK	UK	Spain	UK	Italy	Spain

The report argued

"Not only is the UK ranked last in four out of seven categories, but we also find that where it underperforms its performance is worse than the other countries by a large margin.

This is reflected in its score in the Total Outcomes Index, which is shown in Table 7. As with the Inputs Index, this is an average of country index scores in each of the categories described above. The Total Outcomes Index is therefore a good reflection of overall performance, or 'bang for buck'. It shows just how far outcomes in the UK rail system lag behind those in comparable European countries, with the UK achieving less than half the score of the country ranked second worst. "

Table 7. Total Outcomes Index	
France	82.54
Italy	63.76
Spain	51.94
Germany	46.14
UK	24.36

The report also said,

"Given the relatively large number of indicators used, our findings are unlikely to be unduly affected or skewed by performance in a particular area than would a more narrow analysis. The fact that the UK actually does quite well in two areas gives an indication of how poorly it must be performing in others to have ended up so far adrift at the bottom of the table.

Our final table quantifies value for money, looking at all our outcomes and comparing these to inputs. It provides a measure of how efficiently inputs such as investment and productive labour are translated into outcomes for passengers and for business.

As we have seen already, the UK did not have the lowest inputs from our sample group, scoring considerably more than Spain and only slightly less than Germany. Spain is at the top of the Value for Money table, however, because it has achieved very respectable outcomes considering the relatively low inputs involved.

Although Spain is the top performer of the five countries considered in terms of 'bang for buck', it is France that achieves the best overall outcomes. It is thus the French railway system that we consider to be performing best, across a range of indicators, among the countries under consideration.

Not only does the UK come bottom of the Total Outcomes Index but it also spends a relatively large amount of money to achieve this woeful result."

Table 8. Value for Money Index	
Spain	3.79
France	1.45
Germany	1.19
Italy	0.88
UK	0.78

Picking up on the theme of the French model RMT believes that the restructuring process currently being undertaken by SNCF in France (Appendix 2) is one which is very worthy of consideration. It is also important to note that it is not too late for such a model to be considered by the Shaw team.

The table below also shows how far the UK is behind in terms of rail electrification.

Electrified Railway Lines in Europe (source**:** Eurostat. Road, rail and navigable inland waterways network).

Country	Total length of electrified line in kms	% of total railway line	Total length of railway line in kms
Belgium	2,955	84.1%	3,513
Netherlands	2,154	74.6%	2,889
Sweden	7,866	71.4%	11,022
Italy	11,714	71.1%	16,469
Bulgaria	2,827	68.2%	4,144
Austria	3,847	61.5%	6,256
Poland	11,924	59%	20,196
Germany (including ex-DDR from 1991)	19,857	52%	38,206
Finland	3,067	51.8%	5,929
Portugal	1,436	50.6%	2,838
France	15,312	49%	31,233
Slovakia	1,577	43.5%	3,623
Slovenia	503	40.9%	1,228
Romania	3,974	36.8%	10,785
Croatia	985	36.2%	2,722
United Kingdom	5,250	33.2%	15,814

What are your views on the enabling factors facilitating a sustainable and affordable capital structure for Britain's railway infrastructure? What factors would be required specifically for private sector capital introduction?

Private sector capital introduction is not suitable for the railway industry as past experience of private sector interests in the rail infrastructure have shown through the long term damage done under RailTrack in addition to a succession of fatal rail crashes.

The Rebuilding Rail report highlights the myth of private investment by arguing genuine at-risk private investment in the railway in 2010-11 lay somewhere in the range £100 million – £380 million, with the figure most probably lying at the lower end of this range, that is, around £100 million. In the same year, *other* sources of income for the railway, public money and the fare box, contributed £10.6 billion.

Rebuilding Rail concludes private investment represents just 1% of all the money that is going into the railway and quotes the former Secretary of State for Transport Andrew Adonis to make the point,

."In so far as there has been private sector investment by TOCs, that investment has been funded, let's be clear, by the state and by passengers, either through revenue support or through fares."

It is also hard to find one example of private sector innovation that could not have been carried out by the public sector. Indeed the Governments own 2011 McNulty report into the cost of UK railways and *Rebuilding Rail* agreed that fragmentation of the railway mitigates against industry innovation as companies seek to operate in their own short term interests.[6]

A good example of this short termism and self interest has been the privately owned Train Operating Companies opposing for some time the publicly owned Transport for London's proposals to extend the oyster card (a card that allows through ticketing on rail, tube and bus journeys) from London Underground services to mainline rail services. [7]

What are the types of investors that may be interested in investing in Network Rail, any of its functions, or in select parts of it? And for these types of investors, can you indicate:

- **key attractions;**
- **risk appetite;**
- **required enabling factors.**

RMT believes that private sector investors will only invest in Network Rail if there is a taxpayer guaranteed return (a leakage from the industry) and if they are not exposed to Network Rail's debt.

On this basis, there is no reason for private investors to be courted as there is no benefit to the taxpayer in having an additional financial leakage from the industry when the debt is not reduced and where the ability of Network Rail to slow the rate of debt accrual is reduced.

Do these feel like the right concerns? Has anything been missed that it is vital to consider at this stage?

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[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/4203/realising-the-potential-of-gb-rail-summary.pdf

[7] http://evening-standard.vlex.co.uk/vid/angry-at-rail-firms-oyster-snub-62104464

RMT would like to draw attention again to the absolute failure, which we and others have repeatedly evidenced, of private sector involvement in the railway infrastructure under Railtrack and that Shaw should test stress any recommendations to ensure these catastrophic failures are not repeated.

Appendix 1 – Data & McNulty Report

There were a large number of inaccuracies in the information used by the ORR and their consultant in putting together their report for the McNulty study.

In outlining the history of Network Rail, and Railtrack, the document highlighted the Hatfield disaster which led to an increase in "operating, maintenance and renewals" costs. It is ironic that this document was produced by RailKonsult, a subsidiary of Balfour Beatty Rail who held the maintenance contract for the line on which the disaster occurred. It should be remembered that Balfour Beatty was one of a number of companies which lost work when maintenance work was brought back in-house and would have a clear interest in any break-up or privatisation of Network Rail.

In particular, the dataset used for the study was provided by the International Railways Union (UIC) which not only represents railway infrastructure managers (including Network Rail) but also employers organisations with no responsibility for infrastructure such as the Association of Train Operating Companies. The information used was, therefore, not independent and potentially subject to competing interests. Our concerns are raised by the fact that ORR had also not published the dataset and so its impartiality and authenticity cannot be verified.

It should be noted that the document attacks the cost efficiency of Network Rail, and also advocates establishing a connection between cost efficiency and access charges, which implies that access charges would be reduced for private train operators if efficiency targets were not met by Network Rail. There is no mention of the self-interest of ATOC and other representatives of train operating companies in this matter.

The document "only reports on Network Rail's cost efficiency and does not disclose the relative efficiency of other infrastructure managers" i.e. There was no real comparison with any real infrastructure manager in Europe. This raises serious questions as to the quality of the benchmarking and the integrity of the results. The treatment of the actual benchmarking data as confidential does not provide scope for verification.

Although the dataset provided information for 14 infrastructure managers, only 12 were used. Data incompatibilities are offered as the reason for this. However, it is not clarified as to whether or not information relating to the selected infrastructure managers was compiled in a standardised manner or if other discrepancies exist.

RMT had a number of specific concerns relating to the quality of the benchmarking including:

- **The use of sub-national/regional information from other countries to benchmark against a national organisation**
  This is not appropriate in establishing comparators for a national body such as Network Rail. Furthermore, no explanation is provided as to criteria for selecting sub-national/regional units for examination and comparison and raises questions of cherry-picking.

- **The use of an efficiency frontier**
  This does not allow for a genuine comparison and does not directly benchmark Network Rail against an existing infrastructure manager(s). It is another form of cherry-picking. It is essentially selecting the most efficient piece (eg. renewals) of a number of infrastructure providers in Europe and creating a fictional railway to

compare Network Rail to. The creation of this efficiency frontier is a process similar to selecting the best players from a number of football teams and creating a "fantasy football" team to draw comparisons of an existing team against.

The report also took no account of any relative differences between rail-specific and whole-economy (or other sectors') price level. Therefore, many factors affecting the costs of national infrastructure managers have not been taken into account in relation to their national economy (ie. priorities in state investment). In addition, time periods for renewal work, fragmentation, the number of interfaces, investment horizons have also not been taken into account.

Furthermore, paragraph 4.36 of the report stated that the "updated models show in their totality that the cost inefficiency range for Network Rail in 2008 could be as high as 70% and as low as 20%. However, from a methodological standpoint, this would be a very simplistic way of looking at our results, because the models show very high values for efficiency or inefficiency had to be immediately discarded due to statistical inconsistencies. Therefore, we consider the credible range for the efficiency gap is 34-40%". There is no explanation of the statistical inconsistencies, or the "methodological standpoint", and although some of the translog models show a gap of zero this is also not explained.

The document notes that the highest cost impacts include "assets being operated beyond design life". RMT believes that is a problem of lack of investment which would be compounded were the infrastructure to be managed by a private sector company, as opposed to the current not-for-profit infrastructure manager. Additionally, the document stated that Network Rail's expenditure rates are higher than other European infrastructure managers due to "renewing assets at a rate greater than the steady rate". The rate of renewal of assets by Network Rail is one of the primary reasons for the high safety levels of the railway in Britain.

Furthermore, no attempt is made to benchmark safety despite the obvious connection between maintenance and renewals "efficiency" and safety levels.

The document highlights the most inefficient areas of Network Rail as being the possessions strategy and the contracting strategy. The contracting strategy is a feature of marketisation and one which has been consistently opposed by the RMT. RMT believes that any further privatisation or disintegration of the national infrastructure manager will create another tier of sub-contracting which will compound this problem. Additionally, the possessions strategy of Network Rail is currently under review and as such the data used is no longer relevant.

Appendix 2. SNCF

SNCF has begun the process of establishing a new Public Railway Group that is composed of 3 companies in "indissociable partnership" including an infrastructure manager, an operations manager, and SNCF EPIC a guiding mind for the railway industry as whole whose primary role is to "manage, protect and serve" the Group.

The scale of the restructuring is of particular interest in that the new Public Railway Group will directly employ 156,000 people covering a track of 30,000 kilometres in length. Network Rail currently directly employs 34,000 people covering a track of 16000 kilometres in length with the remaining workforce employed on a myriad of contracts, employment statuses, multiple employers etc… An additional role of SNCF EPIC is to define and coordinate the group's human resources policy.

The restructuring is taking place in 4 main phases:

1. Outline scoping
2. Each EPIC draws up its strategic plan
3. SNCF EPIC and the management bodies of the 3 EPICs endorse the strategic plan
4. SNCF EPIC signs a contract with the State

SNCF EPIC will:

- Strategic control and management, economic cohesion, industrial integration, social unity and cohesion of the public railway group
- Define the group's main strategic, economic, social and technical policy directions
- Establish a dedicated division to increase revenue from real estate.

SNCF outlines the benefits of this approach as improving service through greater coordination between train and track, live traffic management to improve train regularity, enhancing safety through reunifying infrastructure,

Furthermore, SNCF notes that this approach will assist in tackling the rate at which the debt is increasing through removing duplication of work.

The French State will continue to waive dividends, whilst the operations company will reinvest dividends from operations on the Network.

ARAF, the regulator of the French rail industry will continue to operate in ensuring that the infrastructure element of the new Public Railway Group will act in an unbiased manner.