

More privatisation could be the best way to save the rail industry

An increase in competition makes more sense than nationalisation, reports *Bradley Gerrard*

Of all Jeremy Corbyn's policies, the Labour leader's pledge to nationalise the railways continues to have the most public support. It is true that British trains run far from smoothly. But some argue that is not because they were privatised but rather because they weren't privatised properly.

Richard Wellings, head of transport at the Institute of Economic Affairs, calls it a "sham privatisation" because free market economics barely feature.

"It is nowhere near a free market," Mr Wellings says. "It is highly rigged. The Department for Transport sets the terms of service, meaning the train operators are really in a pretty poor place with very little room for manoeuvre," he adds.

There's a perception that private train operators suck profits out of the system, but margins are only about 3pc, with operators reporting the level of profit growth slowing. Indeed this was a key factor in National Express exiting the UK rail market this year by selling its sole UK franchise, c2c, to Italian rival Trenitalia.

Critics of privatisation will likely scoff, pointing out the recent average rise in ticket prices of 3.4pc – the highest in five years – as a sign train company coffers are probably fuller than they suggest. The Government also spent £4.2bn in the year to April 2017 on train company subsidies, according to the Office of Road and Rail, although the body suggests the combined income of operators after expenditure was £285m in 2015-16.

However, regulated fares, such as commuter season tickets, are controlled by the Government, and train operators can only raise fares on leisure tickets by an amount mandated by the Department for Transport.

Furthermore, some would argue the Government's extensive involvement in the rail industry is at the crux of many of the issues. Chris Grayling, the Transport Secretary, didn't quite admit as much with the release last month of his Strategic Vision for Rail document, but he did call for more, rather than less, private sector involvement in the rail industry, including in designing, building and



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operating the proposed East/West line between Oxford and Cambridge. Mr Grayling is also seeking to curtail what he describes as the "operational divide" between Network Rail and train operators.

Trying to marry up the resources of a national entity with the demands of multiple regional operators is clearly problematic and the Government seems to have heeded calls to effectively devolve Network Rail.

Mr Wellings agrees it would be more efficient to move back towards a vertically integrated model, whereby the same entity oversees the track and the operation of trains within one area.

This is the model followed by

£50bn

The amount that the Government plans to spend on Britain's railways between now and 2022/23

France's SNCF and Italy's Trenitalia. "If this happened and efficiencies were achieved then the Government could choose to reduce taxpayer subsidies or reduce fares," Mr Wellings says.

Another proposal would be to expand the open access system to allow train operators to run services on lines within a rival's franchise. This system already exists with Grand Central Railway, owned by Arriva UK.

The Government said earlier this year it agreed that there needs to be "important reforms to create a fair, level playing field between open access and franchised operators". This could signal more private competition

on our railways. It is also likely the private sector will be needed if proposals to reopen routes closed under the Beeching cuts are to be realised.

With the Government planning on spending nearly £50bn between now and 2022-23, ministers are likely to be hard-pressed to find sufficient capital to open defunct lines.

David Starkie, senior associate at competition consultancy Case Associates, suggests housing developers could become more involved in funding rail infrastructure given a nearby rail link often supports property prices. Mr Wellings points out privately-run railways in Japan have been successful partly because property development has been used to help fund rail infrastructure.

There is potential for one such private railway scheme. The Windsor Link Railway proposal was submitted to Network Rail in August this year. It would involve working with international infrastructure and property developers to fund the connection of Windsor's two railway lines. Trains would run from Slough to Waterloo via Windsor with the number of services from the town to the capital doubling in frequency.

The scheme also proposes a southern and western rail link from Windsor to Heathrow, which George Bathurst, managing director of the project, said would also reduce road congestion, improve air quality and save the taxpayer £2bn for other connections to Heathrow.

"Applying a similar investment model to the rest of the country could thus reduce or even reverse increases in fares," Mr Bathurst claims.

Private Deal for