

# The high public price of Britain's private railway

By Brendan Martin

Margaret Thatcher, British Prime Minister from 1979 until 1990, yielded to no-one in her enthusiasm for 'free market' economic and social policy in general and privatisation in particular. Her government privatised telecoms, electricity and gas supply, water supply and sanitation, and several other public services. The programme covered most of the transport sector, including the national airline, airports, ports, and both long-distance and local bus services. But even the 'Iron Lady' refused to privatise British Rail.

Her own Conservative Party Members of Parliament (MPs) overthrew Thatcher in November 1990 after her government introduced a flat rate municipal tax that proved hugely unpopular. Potentially dubbed a 'poll tax', it took no account of a household's wealth or income and led not only to widespread refusal to pay but also to riots in London's streets. More to the point, perhaps, it caused some of her party's backbench MPs to fear for the future of their jobs. But she would not back down, and it was left to her successor as Conservative Party leader, John Major, to announce in his first speech as Prime Minister that his government would abolish it.

Having over-boosted his own confidence, perhaps, by going on to win the 1993 General Election and saving those backbenchers' seats, Major was soon to reveal his own political blind spot: his decision to privatise Britain's railways was dubbed the 'poll tax on wheels' by one of his own MPs, and contributed to their loss of power in 1997, when Tony Blair's Labour Party won a General Election. Ignoring the warnings about rail privatisation just as Thatcher had ignored those about the poll tax, in 1996 Major's government had restructured British Rail into more than 100 separate businesses and sold them off.

So it was that an integrated public railway network became a jumble of contracts linking companies with the sole common feature of being accountable first and foremost to their shareholders. Responsibility for

**Britain's railways are carrying more passengers now than at any time since the 1930s.**

**Yet, of all the privatisations in Britain, this remains the least popular.**

## **Why?**

This edited version of an article first written in 2002 provides some of the answers.

It also shows why policy makers who neglect the impact of their reforms on workers so often come to regret it.

maintaining track, signals and stations went to a new company called Railtrack, but it did not do the work itself. Railtrack became, in effect, a profit-seeking intermediary between the contractors it hired and the 25 train operating companies (TOCs) that paid to run services on the infrastructure it managed.

Railtrack contracted out to companies that frequently outsourced further, so that before long it was estimated that around 2,000 firms were involved in maintaining Britain's railway infrastructure. The condition of track and signals now depended on the work done through a pyramid of contracts in which the greatest weight was borne by the precariously employed low paid workers at the bottom. There were 30 per cent fewer of them than of the workforce they replaced, and they were often inexperienced general labourers rather than the experienced specialists that had worked for British Rail. Moreover, their employers' commitment to commercial secrecy was such that workers who would once have made a habit of sharing valuable information among themselves were ordered not to do so with employees of rival contractors.

Much has changed since those early days of Britain's railway privatisation, although what many critics regard as the most fundamental flaw of its design -- the separation of responsibility for infrastructure from responsibility for running services on it -- remains. What forced change in the infrastructure maintenance arrangements was a succession of fatal train crashes that increasingly focused attention on what happens when the weaknesses arising from fragmentation are compounded by the predictable cost-cutting of profit-seeking contractors.

The fatal crashes led to Railtrack's collapse and contributed to public opinion swinging heavily against privatisation (although not sufficiently to persuade Blair's Labour government to renationalise the railway). Other issues also contributed to that swing. While subsidies to the privatised railway companies were increasing, for example, so were the fortunes made by their executives. When a privatised rolling stock company was resold six months after privatisation at a profit of £300m, the deal turned men who had been middle-ranking public service managers overnight into multi-millionaires. If services had become more reliable, people might have tolerated such unfairness, but in fact punctuality had declined. The train crashes and their aftermath proved the tipping point.

### **It wasn't all bad**

Yet there had been some improvements since privatisation. Increased investment in new passenger trains was leading to gradual replacement of old rolling stock. (That process was already underway before privatisation, albeit slowly, and it could be argued that it would have been accelerated without privatisation at lower overall costs had British Rail received as much public subsidy as the privatised companies have enjoyed.) Another step in the right direction was a National Rail Enquiry Service, which was initially understaffed but increased its capacity in response to fines for early failures

to meet call-answering targets set by the regulator. Soon it boasted Britain's most dialled telephone number, and now its website is just as busy. A further success was that some (but by no means all) passenger train fares rose below the rate of inflation, as a result of a combination of regulatory requirements laid down at the time of privatisation and effective marketing by the privatised operators.

All three of those factors – new trains, better public information about services and some fare reductions – contributed to what has been the major success claimed for privatisation, increased passenger usage. Between 1996 and 2000, according to numbers provided by the Association of Train Operating Companies (ATOC), passenger journeys increased by 25 per cent, and growth has continued since then. (Freight volumes increased by 40 per cent over the same period, and have also continued to rise.) The number of passenger services has not grown at the same pace, meaning that space inside trains is used more intensively, which increases efficiency but sometimes at a cost to quality, with many passengers standing even for long journeys.

It is one of the many ironies of the experience, however, that the privatisation designers did not foresee any increase in passenger numbers, which has been driven by Britain's worsening road congestion and rapidly rising petrol prices, coupled with economic growth in the London area (where most of the increased passenger usage has occurred). In fact, the unplanned track usage increase exacerbated the privatised railway's troubles, because the track usage fees charged to the TOCs by Railtrack were largely fixed. This meant that as more trains wore out more track, Railtrack's costs rose at a faster rate than its revenues. Coupled with the fact that the privatisation scheme neither imposed investment targets on Railtrack nor empowered the regulator to do so, the inevitable result was a growing maintenance backlog.

Those on the right who felt that the privatisation design had made too many compromises to regulation seized on this to argue that the system should be fully marketised. The TOCs should be charged whatever the market would bear, and pass that full cost on to their passengers. Since, in many cases, passengers would be unable to pay, they would forego the service, switching to other modes of transport or not making journeys at all. The impact that would have on other areas of public policy – economic, social and environmental – is beyond the scope of market fundamentalists, of course, but matters a lot to the rest of us. That is why railways policy and its implementation is bound to be political, whether politicians like it or not -- and the safety crisis that eventually collapsed Railtrack demonstrated that truth.

Indeed, the design of the privatisation itself demonstrated it. To reassure voters that the privatised railway companies would provide reliable services, the regulator was empowered to levy penalties on the TOCs for late-running trains. If the TOCs could show that Railtrack's performance rather than their own was responsible for delays, they were entitled to pass the cost on to Railtrack. The idea had been that a combination of contracts and regulation would bind the fragmented structure into a cohesive and effective service.

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The competing interests would keep costs down while the regulator would ensure standards were maintained. This would reconcile the efficiencies of private sector provision and competition with the public interest, and facilitate the renewal of infrastructure while eventually reducing public subsidy.

But what had been imagined as a creative tension was soon to reveal its destructive potential, particularly when compounded by the incentives all the companies had to cut their costs and transfer risk to others. In reality, these companies were providing services that required operational cooperation. Something had to give, and the collision between corporate interests found tragically physical expression in the fatal train crashes.

Even at the time of those crashes, rail travel remained safer than any other mode of land transport in Britain, measured in terms of fatalities per person-kilometre. Indeed, the spate of accidents that brought the privatised railway to the brink of collapse killed between them about as many people over a three-year period as die on the roads of Britain every week. The reaction to them says much about the national psyche's failure to be as appalled by carnage on the roads as it is by safety breaches on rail, but that in turn is a function of the higher standards very reasonably expected of public service. These considerations impact on the political dimension of rail safety, and contributed to the effect the crashes were to have.

### **A good safety record derailed**

The first of them occurred at Southall, on the western outskirts of London, in 1997. Seven people were killed and 139 injured when a high-speed train, operating with a defective Automatic Warning System (AWS), went through a red signal and collided with a freight train. The driver -- on his own, following his employer's decision the previous year to get rid of a second driver on that route -- had apparently failed to notice signal warnings. Later enquiries suggested this was partly because the signals were quite complicated in their lay-out and he was under-trained, and partly because they were obscured because of poor maintenance.

Two years later, not far from the scene of the first crash, in Ladbrooke Grove near the London Paddington terminus, 31 people were killed and over 520 injured when a regional passenger train collided head-on with a high-speed train. Their combined speed at impact was 210 km/h (130mph) and the causes of the collision were broadly the same as in Southall. The immediate cause was that the driver of the commuter train, only three weeks into the job, missed a danger signal. Had the train been fitted with an automatic braking system as used elsewhere in Europe, at least the speed at impact might have been reduced, but investment in the technology was an early victim of privatisation.

That driver had not been the first to pass that very signal at red. Other drivers had reported that the signal was badly positioned and easy to miss because of overhanging cable and sunlight reflection. In fact, the problem had been the subject of a series of meetings, including site meetings, between

representatives of TOCs, Railtrack and Railtrack's maintenance contractors. Each had incentives to pass the cost of dealing with the problem to each other, with the result that letters followed meetings and memos followed letters in a sort of caricature of the worst kind of bureaucratic buck-passing.

'Safe working of the network is hardly possible in such a climate,' John Hurst, British Rail's former organizational development manager, told the public inquiry into the causes of the crash. 'Merely taking steps of a technical and operational nature, in light of any particular disaster, will not address this underlying malaise which will inevitably chronically manifest itself in new disasters.'

Tragically, Hurst was right. In October 2000, a year after the Ladbroke Grove crash, on a different stretch of track near Hatfield, north of London, four people were killed and 70 injured when a train derailed because it cracked into 300 pieces. Again, it was an accident waiting to happen. More than a year earlier, a health and safety report had indicated a 21 percent increase in broken rails compared to the year before. The regulator had written to Railtrack demanding an 'action plan' to deal with the problem. Again, correspondence went back and forth between Railtrack and the regulator, and to and fro between Railtrack and its maintenance contractors, and, no doubt, also between the contractors and their sub-contractors. This continued for the rest of the year, despite the fact that by September 1999, in response to the company's admission that it was faced with 'rail nearing the end of its life in high-tonnage routes', the regulator had retorted that the increasing incidence of broken rails 'does not seem to suggest that the rail was nearing life expiry, but that it was already at, or even beyond life expiry.'

So the general and urgent problem of broken rails across the network, especially affecting high-speed routes, was well known. Worse, it was known that the particular rail responsible for the Hatfield crash was cracking. Again, the companies concerned had extensively discussed what to do about it, and eventually the new pieces of track were duly delivered to the site in April 2000. Now the problem was to arrange a 'track possession slot', which is a time, agreed between all the interested rail companies and the regulator, when the work is done. But, with conflicting incentives, they could not agree. The result was a further delay of seven months, as yet more correspondence went in and out of Railtrack to negotiate the date and duration of the necessary 'track possession', and the corresponding compensation. Finally, the renewal was scheduled for November 2000, which avoided the more expensive cost of disrupting the summer timetable, but turned out to be one fatal month too late.

Railway privatisation 'broke traditional bonds and practices of passing on skills and experience,' as the Financial Times – no opponent of privatisation in general -- put it. At the same time it 'introduced hard-nosed commercial tensions into relationships that often needed to be co-operative,' with the result that 'today the railway industry employs hundreds of people just to fight over who is to blame for every minute of delay to trains.'<sup>1</sup>

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Even Railtrack's chief executive, Gerald Corbett, who was forced to resign after Hatfield, had candidly admitted following the Ladbroke Grove crash: 'There is a tension between shareholder interests and public service obligations. The only way we can make profits is by not doing the things we should do to make the railways better.'<sup>2</sup>

True, but there was another problem as well. A key idea behind fragmentation and privatisation was that market mechanisms guarantee more effective transmission of information than can be achieved by hierarchical bureaucracies. This neglected the integrity of the rail network as a knowledge system, which depended in turn on flows of information – via both formal and informal channels -- between people sharing trust-based relationships. 'The railway used to be organized on a logical, geographical basis with a hierarchical management structure in which everybody knew his or her responsibilities,' former British Rail senior operating manager Peter Rayner has commented. 'There was one set of instructions and one timetable, bearing the Operating Manager's name, which everybody worked to. It was a time-serving, uniformed hierarchy -- somewhat old-fashioned, maybe -- but with safety running through it.' In his own time, Rayner explained, 'when an accident happened, everyone was dedicated to the task of finding its cause to prevent recurrence. Staff, trades union representatives and managers alike worked to this end. There was no doubt on the site of an accident who was in charge, and no delay in clearing the lines. Over the years, lessons were learnt from each accident; each one brought about an improvement in equipment or procedures.'<sup>3</sup>

### **Cooperation and competition**

The consequences of this loss of a knowledge system were vividly described in the Financial Times: 'The first consequence was the breakdown of the old comradeship, which used to mean that problems were easily spotted, repairs made, and people could talk to each other. Track workers operated in gangs and knew their stretch of rails like their own back gardens. Instead, workers became nomadic, moving to the next job with little or no local knowledge and instructions not to talk to rival workers except via a supervisor miles away. The second big problem was a growing lack of control over the staff and their work. There have been complaints of sub-contractors recruiting workers out of pubs to fill gaps on the night shift.'<sup>4</sup>

If informal building of collective knowledge had been a victim of fragmentation and outsourcing, so had formal information management. The enquiries into the train crashes revealed that Railtrack was not keeping proper maintenance records and had no centralised asset register. So, on top of having an inadequate system for maintaining the infrastructure, the company didn't even know the condition of the track and signals for which it was responsible. When those failings combined with the public relations fall-out from the crashes, Railtrack flipped from doing far too little far too slowly to doing far too much far too quickly. It imposed over 1,200 emergency speed restrictions across its network and instigated a nationwide and extremely

costly track replacement programme. The number of train cancellations rose to 165,000, and services became so unpredictable that even the Post Office – rail's major freight customer – switched business to roads that were already the most congested in Europe. The spiralling costs that followed led to collapse of Railtrack's share price, and in 2001 Blair's government had no choice but to replace it with a state-owned not-for-dividend company, Network Rail.

But still the more basic lessons were not learnt. The following year came a fourth crash, at Potters Bar, also near London. Again, a train derailed at high speed, this time killing seven and injuring more than 80. A health and safety investigation reported a year later that the main cause was that the points had been poorly maintained. The full story was not told until eight years later, when an inquest was finally held into the fatalities, and this was followed, in November 2010, by an announcement that both Network Rail and the main contractor involved, Jarvis Rail, would face prosecution for alleged breaches of health and safety legislation.

### **Have the lessons been learnt?**

Network Rail responded after Potters Bar by finally bringing its maintenance work back in-house, and its performance has greatly improved since then. Commenting after the inquest into the deaths caused by the crash – which, scandalously, was not held until eight years later, in 2010 -- a Network Rail spokesperson said that private contractors are still no longer involved in day-to-day maintenance and that the railway is “almost unrecognisable” from the days of Railtrack in 2002.<sup>5</sup>

However, the National Union of Rail, Maritime and Transport Workers (RMT) insists that sub-contracting continues to compromise safety standards. Although many major contracts are now back in-house, others are still contracted, according to the union, which says that Network Rail also uses agency staff for some maintenance work, and particularly for weekend engineering work. This has encouraged a culture of inadequate maintenance and inspection training, RMT warns, and the union has also been resisting plans to cut 1,500 maintenance workers' jobs. If the Conservative-Liberal Democrat coalition government in power since Britain's May 2010 election cuts Network Rail's budget, the RMT leader Bob Crow warns that Britain's railway could be dragged back to 'exactly the same poisonous cocktail of conditions that led to Potters Bar'.<sup>6</sup>

We shall see, but this much we know: although reducing public subsidy was central to privatisation's rationale, by 2002 the amount of public subsidy received by the privatised companies had reached double the amount received by British Rail at the time of privatisation – and since 2002 it has doubled again. The railway is certainly better than it was, but is it four times better? What if that money had been spent on upgrading the railway's infrastructure and rolling stock while building on the strengths of its pre-privatisation governance, management and work organisation to eradicate

their weaknesses? We can only imagine, but perhaps if that had happened we would have a railway fit for the 21st Century.

As it is, the pressure on the new government to cut subsidies could combine with the continuing flaws at the heart of the privatisation model to increase the risks of rail travel again. The lesson that workers know well how to improve quality and productivity – and will demonstrate that so long as they are partners in change rather than its victims – has yet to be learnt. How could it be, when the drive of private companies to maximize their profits means transferring cost and risk to their workers, to travellers and to the public purse, and government policy allows that to continue?

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<sup>1</sup> 'Why an accident like Hatfield was waiting to happen', Juliette Jowitt, *Financial Times*, February 22, 2001

<sup>2</sup> Interview on the Today programme on BBC Radio 4, 17 December 1999

<sup>3</sup> 'Botched sell-off sent railways into crisis', Peter Rayner, *The Observer*, October 10, 1999


<sup>4</sup> 'Strategic plan begins to look out of date', Juliette Jowitt and Chris Giles, *Financial Times*, March 5, 2002.

<sup>5</sup> [BBC News website](#) 30 July 2010

<sup>6</sup> [RMT reaction to Potters Bar inquest verdict](#), *RMT website*, 2 August 2010,

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