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SANDHOUSE GANG LECTURE

by

MICHAEL HOLDEN

PRESIDENT 2014-15

HOW MUCH COMPETITION DO YOU NEED?

(Taking stock of the GB rail situation in 2015)

North Western University

16th September 2015

How much competition do you need?

Taking stock of GB rail situation in 2015

- A little about my background
- Main changes to GB rail organisational structure from 1994 to 2014
- Railway finances today
- Network Rail – the 500lb gorilla
- Open Access – institutional conflict
- The situation in 2015: challenges and opportunities
 - Planning and using network capacity
 - Concessions versus franchises, and devolution
 - Infrastructure
 - Funding
- Some possible ways forward

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INTERVIEW

Follow my train of thought

The managing director of the only state-owned rail franchise has brought about dramatic improvements, says **Ben Webster**. Could the model work elsewhere?

MICHAEL HOLDEN is one of a dying breed of rail managers who have practical experience of running almost every aspect of the railway. His British Rail "studentship" 30 years ago was designed for future industry leaders but also taught him how to drive a train and operate a signal box. There are not many tasks his 3,000 staff perform at South Eastern Trains (SET) which he could not do himself.

No such training scheme exists in today's privatised rail industry.

Holden, who spent ten years at Railtrack before switching to running a train company, believes that privatisation has so far been a failure. "You can't say that the past ten years have been a success," he says. "BR was much better than it was given credit for given the resources it had."

Holden enjoys a unique perspective as managing director of the only state-owned train company, Connex, the previous operator of SET, was sacked last year for financial incompetence.

The Strategic Rail Authority plans to return SET to the private sector by next March but in the meantime has appointed Holden to run the franchise on its behalf.

So far, his results are impressive. The latest punctuality figures show SET had the best improvement in punctuality of all the London-based operators.

The union that the franchise is providing, ensuring that the franchise is a priority for the public, is a positive message.

drawn on that. The SRA, my employer, wouldn't welcome it if I did." But he adds later: "For me it doesn't matter too much who is in charge. It's a question of having a clear framework and enough funding to make it happen."

He admits that not having to worry about bidding for new franchises leaves him free to concentrate on running trains properly.

"Bidding for franchises takes management time and time is the most precious commodity we have. We have been able to declutter the agenda and focus everyone on running the railway better."

He says private operators can also find it cheaper to pay penalties for running late trains than make the investment needed to improve

'It doesn't matter who is in charge. It's a question of having a clear framework and enough funding'

performance. Holden found that Connex had been trying to save money by not recruiting station staff, with the result that ticket offices were often closed and fare evasion was rife. "We inherited a 20 per cent vacancy gap

MARK DE VRIES/INSIGHT VISUAL



Born: June 19, 1956, in Timperley, Greater Manchester
Career: Did a British Rail-sponsored business studies degree after leaving school 30 years ago. Rose to become BR's southwest operations director, 1991-94. He joined Railtrack when BR was privatised and was southern regional director from 1999. He became MD of Connex South Eastern just a few weeks before the company was sacked by the SRA.
Hazard of the job: Tom Winsor, the Rail Regulator, is a

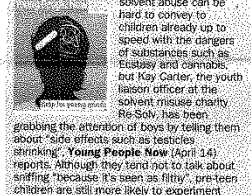
INTHE PROFESSIONAL PRESS

DESPITE clear UK legislation against private adoption, babies are still being traded on the internet because US internet sites continue to put childless couples in touch with "surrogate" mothers. *Care and Health* (April 13) reports the case of a 33-year-old woman from West Yorkshire who duped three couples into

believing that they would all become parents of the unborn child she was carrying, but none succeeded in their desire to become parents as the baby was not genetically linked to any of them. Alan Levy, QC, a child-law expert suggests that "people who enter such agreements are not legally sophisticated" and that there is a need for greater understanding of present laws.

Traditional management theory may have fostered the idea of organisations as machines but, as *Community Care* (April 13) points out, "the more metaphors, offers no hope for improvement or self-correction". Instead, journey or jazz metaphors can be used by managers to stop employees from feeling like mere cogs, the magazine suggests, and organic metaphors can usefully be employed by managers looking to create organisational change because "they allow us to see our roles in terms of stewardship and husbandry rather than as Fat Controllers".

The hazards of solvent abuse can be hard to convey to children already up to speed with the dangers of substances such as Ecstasy and cannabis, but Kay Carter, the youth liaison officer at the solvent misuse charity Re-Solv, has been grabbing the attention of boys by telling them about "side effects such as testicles shrinking". *Young People Now* (April 14) reports, although they tend not to talk about sniffing "because it's seen as 'fitty'", pre-teen children are still more likely to experiment



The East Anglian Connection

Issue 7 August 1996

NEW DIRECTOR FOR EAST ANGLIA ZONE

The magazine for Railtrack East Anglia zone employees

A message from Richard Middleton

MICHAEL HOLDEN has been appointed East Anglia zone's new Director. He joins from South West zone where he was acting Director.

As part of staff and boundary changes taking part across the rail changes national network, Michael Holden moves from Richard Middleton's zone to become Director of London North Eastern zone. These appointments are effective from August 16.

Michael Holden has an honours degree in Business Studies and a certificate in railway management from the University of London. He joined British Rail in 1974 and worked in various roles in the Area Office at Watford, where he introduced improvements in retail management and operational performance on the troubled north London Railway Act. Since September 1995, he has undertaken the role of the South West zone's acting Director, guiding it through the privatisation process and overseeing the transfer of the company's maintenance responsibilities and train operator customers into the private sector.

Other changes that are taking place within Railtrack are:

- Alan Nelson, who was the London North Eastern zone Director, moves to Railtrack's Production and Engineering.
- Directorate in London to take up a new appointment as Director, Line Safety, responsible for ensuring that Railtrack's commitment to improve safety standards remains a high

"I AM naturally very sorry to be leaving the zone which I have — together with many of you — created from scratch and made efficient working units. I wish to thank you for the many ideas and suggestions that have been put forward during my time here."



The key changes made since 1993

- Railways Act 1993 separated out infrastructure from train operations
- Rolling stock sold to specialist leasing companies
- Independent Rail Regulator established
- Government office established to let rail franchises

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Early progress

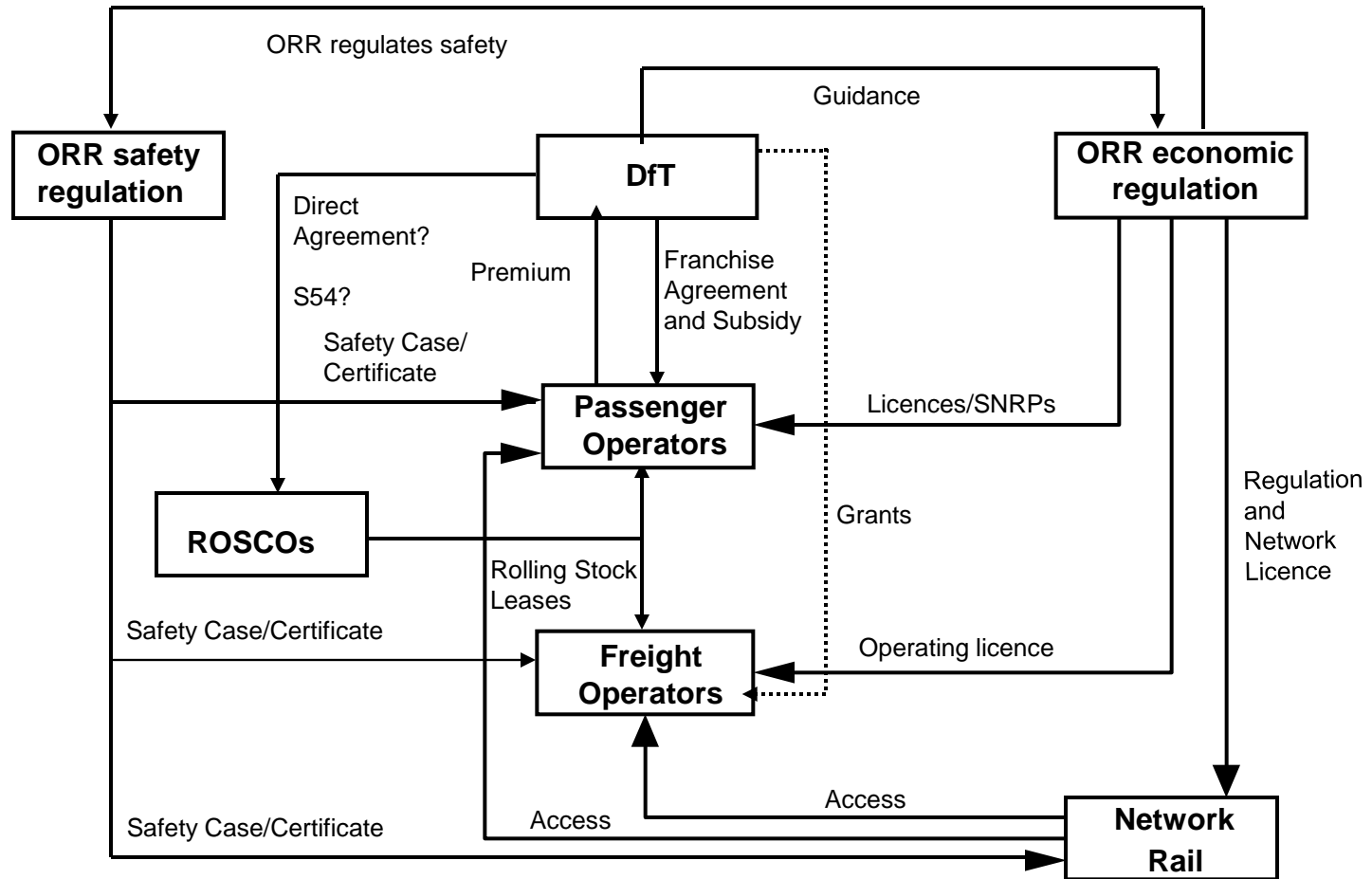
- 1996 Railtrack seen as successful and privatised
- 1998-2002 Railtrack struggled with outsourced maintenance and renewals
- 2000-2002 Major enhancement projects overran on time and cost
- 1997-2002 A series of major rail accidents destroyed confidence
- 2002 Railtrack pushed into Administration
- 2002 “Not for profit” Network Rail created

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Simplified GB rail industry structure since Railways Act 2005



Success stories of last 20 years

- Franchising has become a very competitive marketplace
- Passenger miles more than doubled
- Significant capacity increase on the network
- Major improvement in fleet capacity, reliability and passenger environment
- Passenger experience transformed and customer satisfaction grown
- Punctuality improved
- Average fare/mile has grown by less than inflation
- Freight succeeding in a very competitive marketplace
- Significant improvement in operational safety

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Sources of industry income: £13.3bn

Passengers £9.0bn

Fares	£8.2bn
Other *	£0.8bn

* Car parking, on-train catering and other train operator income

Government £3.8bn *

DfT	£2.6bn
Transport Scotland	£0.8bn
Welsh Government	£0.1bn
TfL, PTEs and other	£0.3bn

* Excludes net effect of taxation paid by Network Rail & Operators.

Other sources £0.5bn

Income from property, stations retail, freight and other customers

Receipts from government	£2.0bn
Payments to government	(£1.9bn)
Net:	£0.1bn

Network grant:
£3.7bn

Train operators £8.9bn

(£6.5bn excluding NR charges)

Staff costs	£2.4bn
Rolling stock	£1.3bn
Other costs	£2.8bn
	£6.5bn
Network Rail charges	£2.4bn

Network Rail £6.2bn

Operating costs	£2.0bn
Maintenance costs	£1.0bn
Financing costs	£1.4bn
Depreciation	£1.8bn
	£6.2bn

Track access and other charges: £2.4bn

Breakdown of industry expenditure: £12.7bn

Why is the cost base so high?

- Strong position of trade unions
- Lack of political will
- High labour costs become 'baked in'
- High construction unit costs
- Working on a busier railway
- Stop/go investment cycles
- Under-developed supply chain

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Financial assessment

1. Need for improved labour productivity and/or reduced unit costs
2. Longer term infrastructure development plan with smoothed demand profile and better developed supply chain

Network Rail – the 500lb gorilla

- September 2014 reclassification onto public sector books
 - £35bn debt mountain – and growing
 - 5-yearly Control Periods
 - Pressure to reduce public expenditure
 - Insufficient incentives
 - Governance changes
- Reducing chance of stable long term enhancement plan being sustained

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Open access – institutional conflict

- Key feature of 1993 Railways Act
- Grew slowly initially but now established and approaching critical mass
- Has become profitable and popular
- Uneven playing field in charging regime
- Government is losing franchise premium
- Difficult for government to be sure of capturing benefits of route capacity/capability enhancement

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The situation in 2015 – challenges and opportunities

- Planning and using network capability
- Concessions versus franchises, and devolution
- Infrastructure
- Funding

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Planning and using network capacity

- New open access applications for East Coast Main Line
- Current franchisee has new fleet of trains on order and expansionist timetable proposed
- Enhanced timetable required to generate premium and ensure fleet fully deployed
- Capacity crunch – not all players requests can be met
- Thameslink specification reduces available capacity
- Network Rail trying to hold the ring on timetabling
- Institutional conflict
- Serious consequences
- Inertia
- Need for changed framework

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Concessions versus franchises, and devolution

- Growth in 'gross cost' concessions
- Client takes revenue risk, specifies service levels, fares, etc
- Working well where strong and engaged clients exist
- Everybody wins
- Fits in with movement towards devolution

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Infrastructure

- Christmas 2014 engineering works shambles
- Electrification, resignalling and route modernisation programmes are revealed to be over spending and late
- Disgruntled government acts to take charge
- Review of current Control Period investment programme
- Review of how current programme came to be agreed
- Review of Network Rail's funding and organisational model

Funding

- Comprehensive spending review underway
- Transport not 'ring-fenced' so expected to make substantial reductions
- Political pressure for Northern Powerhouse and HS2
- We should expect pressure on rail's cost base to rise

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Some possible ways forward

How much competition do you need?

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Those problems in summary

- Government is too close to minutiae and has lost sight of the big picture
- Network Rail is too big and has too many inherent role conflicts
- The current franchising model is unsustainable
- Conflict between open access and franchising for long distance needs resolving
- Unit costs are too high. Better incentives are needed to reduce them

Some possible ways forward

10 year package of structural reforms leading to improved effectiveness and better value

- Government sponsorship and funding
- Infrastructure management and operation
- Train operation and the customer experience

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Government sponsorship and funding

1. Central government to define vision, strategy and long term funding provision
2. New arms-length agency to manage network development and access planning, inter-urban franchises, cross industry support systems

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Infrastructure management and operation

Network Rail becomes a delivery organisation

- Break up into geographically based units
- Flexible model with operation separate or combined with any/all of maintenance, renewals, enhancement delivery
- One size does not fit all – different solutions for different parts of the network
- Sale or concessioning becomes possible in places
- Vertical integration possible if desired in places
- Benchmarking possible promotes competition to drive efficiency and innovation, and enables regulation to become more effective

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Train operation and the customer experience

- Devolution of client responsibilities to local/regional authorities where possible
 - More concessioning of commuter operations
 - Hybrid franchises with strongly incentivised quality regimes
 - Rump franchises managed by rail agency
- Inter City franchises to be gradually replaced by open access
 - New regulatory and charging framework to be devised
 - Protection mechanism for socially required elements
 - Rail agency to oversee network development and timetable planning – collects return through revenue share

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Conclusions

1. Government wants to reduce rail subsidy
 2. Need to solve the Network Rail problem
 3. Political demand for further devolution
 4. Success of concessioning and open access models
- = time for a revised railway organisational model

A more appropriate level of competition will drive

- Improved value for money for government and consumers
- Greater value of railway network to communities served

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