RMT Policy Briefing

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‘Great British Railways’: The Williams-Shapps Plan

Structure of the railways

RMT welcomes the fact that the Williams-Shapps Plan recognises that rail privatisation has failed to deliver, has created a complex and fragmented system that does not work for passengers and which remains particularly unpopular with the public.

The plan recognises that the costs of this fragmentation are substantial and estimates that removing duplication and interface costs could save £1.5 billion every year after 5 years.

The creation of a unified state body, Great British Railways, with responsibility for the infrastructure, timetabling and, crucially, ticketing, could have been a significant step forward towards recreating many of the benefits of a publicly owned and integrated railway.

However, the ticketing reform announced is highly limited. Instead of genuine flexible tickets, for example, the Plan envisages what is essentially a carnet system.

More fundamentally, having come so close to the logical step forward, the government has defaulted to its dogmatic attachment to private sector train operation.

‘Most passenger services’ will be run by private sector operators under new Passenger Contracts, run like concessions. It is not clear what will happen to the services being run by the Department for Transport’s Operator of Last Resort.

Guaranteed profits

Passenger Service Contracts are touted as being a new, more regulated mode of service delivery. In reality, they continue the approach of the EMAs and ERMAs, which shift all the risk onto Great British Railways, while guaranteeing profits for private train operators.

Since 1997, private train operating companies have extracted £3.2 billion in dividend payments from franchising.[i]

According to DfT data published this month, in the 6-month period of the EMA contracts, during a national crisis, the train operating companies received management fees (available to be turned into dividend payments) of £88 million. This is guaranteed profit.

In addition, the plan says nothing about the profiteering by the three rolling stock companies, the Roscos. RMT analysis has shown that these companies extract an average of £260 million in dividends every year. This is now being paid for directly by the taxpayer. During the pandemic year, Eversholt paid out a £46.5 million dividend, claiming that because of government support they were at no risk from Covid-19.

So, the profiteering is set to continue. Given that 71% of the train operating companies are foreign owned, while the Roscos have overseas subsidiaries in low tax regimes and tax havens, much of this profit will flow not just out of the industry, but out of the country.

Instead of guaranteeing profits for private train operators, Great British Railways should directly run these passenger services as set out for example, in *GB Rail: Labour's plan for a nationally integrated publicly owned railway.*

That would mean that any profits made could be reinvested in the railways, as happens with the services currently run by the DfT's OLR. LNER paid a dividend of £40 million to the DfT last year. If all these contracts were run directly by GBR, including the ones currently being run by the OLR, this money would be reinvested in the railways.

Under the plan as envisaged, most profits will continue to go overseas to foreign owed state companies or shareholders.

Devolution:

The Williams-Shapps Plan is also vague on the impact on devolved authorities. The plan says, 'Existing devolved administrations and authorities across Great Britain will continue to exercise their current powers and to be democratically accountable for them'. It is claimed that 'The whole-system, planning and operating functions needed to deliver a joined-up network will be directed by Great British Railways, working in partnership with devolved transport authorities where appropriate.'

It is welcome that the plan does not include any proposals to break up the infrastructure on regional or devolved lines as RMT always argued this would fragment infrastructure.

There is, however, no clarity in the plan over the whether devolved authorities will have the power to permanently run passenger services in the public sector. There are only references to 'partnership' and the exercise of current powers.

Workforce: an asset, not a cost

In terms of workforce matters, there is a similar story. The Williams-Shapps plan is one step forward, two steps back.

Great British Railways is tasked with creating an integrated workforce strategy that allows staff to develop skills and build careers on the railway. This is a step in the right direction, acknowledging that privatisation brought fragmentation which blocked career development and brought de-skilling that compartmentalised people. It is not clear what role unions are to have in this.

However, the logical step would be for all staff to have a single employer, as in Labour's *GB Rail: Labour's plan for a nationally integrated publicly owned railway*. Continuing with private sector train operators acting as employers will function as a barrier to integration and skills development as they seek to drive down costs.

Equally problematic is the fact that Great British Railways is being given a mandate to drive costs out of the railway while focusing entirely on one cost: staff.
Staff costs are identified as a problem. GBR will be mandated to seek efficiency savings and the ORR will be given responsibility for monitoring how well it does this. As a first step, in collaboration with ORR, the government will introduce new transparency requirements and reporting and analysis on productivity and pay. ORR will collect and publish comprehensive data on salaries and provide comparisons with other sectors and labour markets. It will also oversee, report and benchmark the sector's productivity.' The Williams-Shapps plan also appears to envisage a further attack on ticket offices.

Austerity is already being implemented on the railways.

- The government has already mandated the imposition of a pay freeze for staff employed by TOCs and said it wants 'changing working practices'.

- Network Rail has threatened an open-ended pay freeze and a 50% cut to maintenance scheduled tasks with a potentially massive effect on maintenance staffing.

Now, Great British Railways and the ORR appear to be being reinvented as mechanisms for delivering permanent austerity on rail.

Yet the focus on staff is deeply misguided. There is no significant productivity problem on the railways. In reality, staffing costs have grown roughly in line with the needs created by growing passenger usage. The productivity of staff employed by TOCs has increased by 2% between 2010 and 2019 against growing usage, measured in passenger kilometres. Network Rail's staff costs as a percentage of revenue did not significantly grow over the same period.

In addition, any attack on jobs would be disastrous for the future of the railways. In October 2020 *Transport Focus* published research showing that the key to rebuilding passenger confidence in returning to the railways was enhanced staffing: "There is a strong sense that the ideal response to the pandemic would be to see more staff on trains and at the station, rather than less". And RMT has also already pointed out the dangers of Network Rail's planned assault on jobs and conditions.

Costs that are not being discussed

It is striking that the discussion of cost is entirely focused on staff. Completely absent from the discussion of costs was any mention of the cost of servicing Network Rail's debts to private bondholders, acquired while it was a private company. Network Rail owes £24 billion plus interest in the form of these loans and servicing this debt consumes around

30% of its revenue.

Similarly, there is no discussion of the fastest rising cost in the railways: privately owned and leased rolling stock.

- Rolling stock lease costs have risen by 91% in the last 5 years, according to the National Audit Office, while the amount that TOCs spend on rolling stock as a percentage of spending has increased by 77% in the last 10 years.

- Unit costs of rolling stock increased by 41% between 2010 and 2019. Last month, the National Audit Office described the costs of rolling stock leasing as 'significant'.

The government has made no attempt to control these growing costs. When asked whether the government had considered capping any payments to these companies, Heaton Harris answered, "There has been no assessment made as these are legally binding contracts between the train operator and the rolling stock company. The expectation is that all contracted rolling stock will be required to manage social distancing on trains."[ii]

Roscos pay out an average of £260 million in dividends each year. Last year, Eversholt paid out a dividend of £46.5 million, at a time when all their lease payments were coming directly from the taxpayer.

Conclusion

Great British Railways is a massive missed opportunity, born of a recognition that privatisation has failed coupled with a dogmatic attachment to guaranteeing private sector profit. As a consequence, GBR looks set to become an instrument for imposing dangerous and damaging austerity on our rail network.

Great British Railways seems have an unspoken mandate to shield the continued extraction of profit at the expense of a railway that serves the British people. It is in danger of becoming the Great British Railway Swindle.

Timelines and next steps

Legislation is needed to establish the new body GBR and to alter the ORR's remit and role. This is not expected to be in place until 2023. RMT will be scrutinising this legislation working with our Parliamentary Group and other allies to seek to improve and provide protections in the legislation.

However, the government has said it wants some changes in place before that.

A new flexi season ticket will be on sale this summer, on 21 June, ready for use on 28 June.

New National Rail Contracts will be announced this year. The first, with FirstGroup for the South-Western and Transpennine Express franchises, was signed today.

Further reading:

- RMT's submission to the Williams Review - RMT submission to the Williams Review - rmt

- Reanimating the corpse - How the Williams review will attempt to resuscitate rail privatisation Reanimating the corpse - rmt

- Profiteering at a time of crisis – how TOCs and ROSCOs have made the most of the pandemic Profiteering at a time of crisis - RMT report - rmt

- Flex Appeal – the need for flexible ticketing on our railways https://www.rmt.org.uk/news/publications/flex-appeal-the-need-for-flexible-ticketing-on-our-railways-rmt/

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[i] *Rebuilding Rail*, published by Transport for Quality of Life, produces an estimate of £1 billion in Train Operating Company dividends for the period from 1997-2010, with an average annual aggregate dividend payment of £227 million (*Rebuilding Rail: Final Report*, Transport for Quality of Life, (2012), p. 18; In January 2020, RMT published analysis of TOC divided payments between 2010 and 2019, showing that the TOCs paid out £2.05 billion over this period, with an average annual dividend payment of £219 million. (RMT reveals full extent of shareholders' bonanza - rmt - Based on our report, 'Counting the Costs of Privatisation'). The ORR published data showing that in 2019/20, the year after RMT's analysis, TOCs paid out at least £181 million in dividends (Rail Industry Finance (UK) - 2019-20 (orr.gov.uk)), p. 24. Between 1997 and 2020 then, TOCs paid in excess of £3.2 billion in dividends to their shareholders.

[ii] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2020-05-20/49663/