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'A Deficient Performance?': The Regulation of the Train Operating Companies in Britain's Privatised Railway System

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‘A DEFICIENT PERFORMANCE’?: THE REGULATION OF THE TRAIN OPERATING COMPANIES IN BRITAIN’S PRIVATISED RAILWAY SYSTEM

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ABSTRACT

This paper focuses on the performance and regulation of the train operating companies in Britain’s privatised railway system. It places regulation in context by examining rail privatisation, with particular scrutiny given to the franchising process which established these companies. The record of the regulatory authority is assessed according to its five main objectives, and the financial and non-financial performance of the train operating companies is examined. The paper concludes that, while regulation was inconsistent and often ineffective, the fundamental problem was the flawed concept of fragmenting and privatising a loss-making industry.

KEYWORDS

Privatisation; railway; train operating companies; franchises; regulation

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INTRODUCTION

This paper focuses on the performance and the regulation of the railways since privatisation. An integrated rail industry was broken up into many constituent parts: an infrastructure authority; rolling stock leasing companies; engineering and maintenance companies; and the train operating companies (TOCs). The TOCs were meant to be incentivised by regulation which was intended to promote efficiency, innovation and competition and to reduce public subsidy. In practice, however, the TOCs generally performed badly in both operational and financial terms. The paper focuses on the inability of the regulators to improve their performance. It examines the origins of the current regulatory system, and its suitability for the industry, with particular emphasis on the workings of the franchises awarded to the TOCs. Attention is given to the aims and the changing policies of the Strategic Rail Authority (SRA) and its predecessor, who had the main regulatory responsibility for train operation.

This paper is organised into four further sections. The next one examines rail privatisation, analysing the key features of the industry including the TOC franchise structure. The third reviews the regulatory structure established for the rail industry. The fourth section assesses the performance of the regulatory authority in terms of its five main objectives. The final section concludes by considering the implications of the poor performance of the TOCs for privatisation and regulation.

RAILWAY PRIVATISATION

British Rail

The sale of the rail industry proved to be the most complex element of the Conservative governments’ privatisation programme. Rail had several unique features compared to other industries deemed suitable for privatisation. British Rail (BR) was already in a competitive transport market, and had seen its market share fall to 6% by the early 1990s (Bradshaw, 1998, p. 176). BR was still regarded as a ‘natural’ monopoly, however, as it was more efficient, given the substantial fixed costs of track, signals, and stations, to have one vertically integrated rail network than several competing infrastructure providers (Crompton and Jupe, 2003a, p. 398). While over half the costs of operating a railway are associated with providing the infrastructure, the service is not ‘comprehensive and universal’ and unavoidable (Shaoul, 2004, p. 30). Thus rail is quite unlike utilities, such as water and gas, which provide essential services and can spread fixed costs across a very large number of users.

The problem of full cost recovery means that throughout Europe rail services require government support. In Britain, this came partly in the form of subsidies for the operating costs of loss-making passenger services. In addition, capital grants and loans were available to facilitate investment. In practice, 'successive governments compelled BR to finance its capital investment with interest-bearing public debt', thus making it virtually impossible to break even (Shaoul, 2004, p. 28).

BR was initially subject to rigorous financial discipline by Conservative governments from 1979. In response, BR made substantial improvements in performance, and the productivity of its workforce, as the Major Government conceded, was 'among the highest of any European railway' (Department of Transport, 1992, para. 3). Its subsidy was only 0.16% of GDP compared to the European average of 0.52% (Harris and Godward, 1997, p. 52). Market share was, however, sacrificed as fares were raised most years by more than the rate of inflation, and expenditure on the network, although improving, was insufficient 'to reverse a long-term record of net disinvestment' (Gourvish, 2002, p. 230).

The Privatisation Model

The sale of BR came late in a long sequence of divestitures of nationalised industries by the Conservative governments which had been in progress since the early 1980s. Although certain common principles underlay all these actions, such as the desire to reduce the role of government and to widen that of market forces, the method of implementation and the subsequent structure of the industry varied greatly. Government opinion by the early 1990s tended towards dissatisfaction with the precedents of British Telecommunications and British Gas which had been transferred to the private sector as monolithic organisations, whereas it regarded the privatisation of electricity as a more successful operation. Here the previous state monopoly had been split up and a higher level of competition had been introduced at an early stage, with less need for state regulation. In the case of the railways the TOCs owed their existence firstly to the government's emergent preference for the break up of former state monopolies and for market liberalisation as the most appropriate form of privatisation. The crucial decision made shortly after the Conservative election victory of 1992 was to select the track authority model as the basis for the reconstitution of the industry. This involved the principle of vertical separation of the track from train operation – a radical departure from previous railway practice, and one which lacked 'the support of the railway professionals' (Bradshaw, 1998, p. 179). According to this model responsibility for the maintenance and enhancement of the infrastructure would pass to a single track authority, Railtrack, to which train operators would pay access charges. Other specialist functions would be supplied by rolling stock companies (ROSCOs), which would hire trains to the operators.

Almost certainly the track authority model was victorious in debates within the government because it appeared to offer the best prospect of on-rail competition. The Treasury, especially its active privatisation unit, strongly supported this strategy on the assumption that it would raise the quality and efficiency of services while simultaneously reducing costs, as was thought to have happened in the electricity industry (Shaw, 2000, p. 68). These perceived advantages were held to outweigh a number of objections to the track authority model which had been recognised even by some of the supporters of privatisation – namely that the track owner would enjoy a powerful monopoly position, would be remote from customers, and that such a structure might make it difficult to attract and co-ordinate investment (Helm and Thompson, 1991). Enthusiasts for on-rail competition had hoped to see both open access to the track, and the sale of specific train paths. The device of franchising, though seen as a cruder model than the auctioning of train slots, was adopted as a second best solution when it came to be appreciated that on-rail competition would destroy private sector interest in rail privatisation. Furthermore the letting of franchises would require guarantees against open access, as bidders would expect some security of revenue. This retreat on competition policy arguably undermined the principal reason for the selection of the track authority model, but the government had neither the time nor the will to reconsider. Its aim was to make railway privatisation irreversible before the next general election, which was scheduled for 1997 at the latest (Shaw, 2000, p. 63, Wolmar, 2000, pp. 132-3). The element of competition in a franchising system was essentially one of competition *for* the ground rather than *on* it. One major architect of the privatised system, the special adviser to Transport Secretary MacGregor, conceded that once franchises had been allocated, the TOCs would be 'inevitably local monopolies'. He was also explicit that 'not too much should ever be expected of competition between trains on the same route' (Foster, 1994, pp. 13 & 19), and believed that on-rail competition carried a risk of instability for a loss-making industry. Foster nevertheless thought that franchised TOCs had an important part to play in the creation of a more efficient, liberalised market system. The crucial advantage in his view was that the devolution of BR's former role to some hundred separate companies would 'replace command relationships within British Rail by contractual relationships between free-standing autonomous bodies' (*ibid*., p. 5).

The privatisation enabling legislation and the Department of Transport white paper and consultation paper of 1992-93 left a number of issues unresolved. The white paper *New Opportunities for the Railways* (Department of Transport, 1992a) did not name the track authority, or define its role precisely, and made no reference to its future privatisation. The consultation document *The Franchising of Passenger Rail Services* (Department of Transport, 1992b) was also sketchy, failing to define the number or size of franchises, and even leaving open the possibility that they might be vertically integrated. It was, however, already clear that the proposed changes would amount to 'a more comprehensive structural reform than in any previous privatisation' (Foster, 1994, p. 3). By the time the letting of franchises began in 1996, the new structure had become clearer. Railtrack (replaced by Network Rail (NR) in 2002) would be a privatised and monopolist infrastructure supplier, there would be 25 passenger TOCs, six freight companies (soon reduced to two), 13 principal infrastructure maintenance and renewal companies (INFRACOs), three ROSCOs and various engineering and design companies. The degree of fragmentation caused by this form of privatisation was 'unparalleled anywhere in the word' (Nash, 2000, p. 166).

The TOC Franchises

The origin of the 25 franchises was the 19 profit centres into which BR had been divided as part of its 'Organising for Quality' scheme, which had only been successfully implemented shortly before privatisation (Gourvish, 2002, pp. 374-383). Using these as a basis for the definition of franchises minimised the need for further reorganisation, and meant that it was easier for prospective bidders to acquire realistic financial information. The 19 became 25 because small patches were taken out of larger territories, such as Cardiff Valleys from Wales and West, or because there was a strong operational case for separation, such as Chiltern and Thames, which used different London terminals. The franchises were not completely separate territories, but overlapped appreciably, often using the same tracks and stations. These arrangements left some

limited direct competition on a small number of duplicated routes, but according to the Department of Transport this was 'absolutely not at all' a consideration in designing the franchises (Wolmar, 2000, p. 143). According to Foster, the number of TOCs was determined 'fairly pragmatically' (Foster, 1994, p. 15), which obviously meant that the standard size and cost was kept down in the interests of successful auctions. This average franchise size was almost certainly below the optimum. One recent study of economies of scale and density suggests that the most efficient size for a railway would be a network of around 4,000 kilometres, running about 120 million train kilometres a year. On this basis, four roughly equally sized franchises would have served Britain's needs more effectively than 25 (Preston, 1996, pp. 9-10).

Another basic issue was the length of franchises. At the inauguration of the new system, it was commonly believed that longer franchises would probably mean higher levels of investment by their holders. An inescapable disadvantage was that although longer franchises would give incumbents greater security, they would also mean the market would become less contestable. This was no doubt the reason for the Treasury's initial preference for short franchises of three to five years. The Transport Department, with the views of potential bidders very much in mind, wanted a longer period, and eventually secured agreement that where there was a good case for reinvestment in rolling stock, franchises might be let for up to fifteen years (Shaw, 2000, p. 93). The Treasury was unusually helpful in facilitating privatisation, ignoring its standard principle of undertaking no financial commitment beyond its three year expenditure plan. Instead it guaranteed payments for the full term of each franchise, even in cases where this meant 15 years. BR, of course, had never enjoyed the benefits of such relatively long term planning (Wolmar, 2000, p. 144).

Another immediate issue was that of who was eligible to bid for franchises, and in particular whether this category would include BR. This was briskly resolved in the negative, with the Franchising Officer arguing that 'there would be a very dodgy market if the dominant incumbent had been bidding' and confidently concluding that 'it would have severely turned off other bidders' (Wolmar and Ford, 2000, p. 148). BR gave up after making unsuccessful attempts to secure the first twelve franchises. On the other hand, management buy-outs (MBOs) were looked on much more favourably, although OPRAF was not allowed to discriminate in their favour. Despite their perceived advantages, MBO teams won only three franchises, and were much constrained by the low availability and high cost of capital. Furthermore, all three successful MBO groups soon merged with larger companies (Great Western with First, Chiltern with John Laing and Thames with Go Ahead). Outside bidders were clearly dominant, and most of these came from the bus industry, whether British or overseas. Nearly three quarters of franchise revenue and 18 of the 25 franchises went to bus operators. Another trend which emerged from the results was that the most favourable deals were conceded to the winners of the first franchises to be let, especially South Western Trains and Great Western. As early fears of a severe shortage of bidders receded, OPRAF was able to impose more stringent terms. The track authority model of privatisation necessitated higher levels of subsidy to franchisees (because Railtrack was dependent on track access fees), but within this framework, OPRAF policy was to subject franchises to tapering subsidies. The extent of their decline varied enormously. One estimate was that the reduction in subsidy as a proportion of passenger revenue varied among companies by a factor of 25. In some cases, the financial improvement required to compensate for subsidy reductions was greater than passenger revenue at the beginning of the franchise. The existence of such extremes in the world of TOCs prompted the comment that 'some operators have a gold mine, while others look as if they will struggle' (Wolmar and Ford, 2000, p.160)

The following section examines the complex regulatory structure established for the privatised rail industry.

THE REGULATORY STRUCTURE FOR RAIL

Several factors contributed to the regulatory complexity of the privatised rail industry. These included the continued dependence of rail on public subsidy and, especially, given public hostility to privatisation, the need for effective service guarantees. The fragmentation of the industry provided the basis for the regulatory system. This complexity was reflected, though not proportionately, in the new regulatory structure of the industry. The Office of the Rail Regulator (ORR) was the main economic regulator, whose tasks included the supervision of Railtrack and its rate of return, and the fixing of the access charges paid to it by the TOCs. The Office of Passenger Rail Franchising (OPRAF) was given the job of allocating franchises and then of monitoring the performance of the TOCs. The ORR regulated by licence and was independent of government; OPRAF regulated by contract and was subject to government instruction. The regulatory system involved some overlaps, as in the area of consumer protection and the preservation of network benefits, such as the availability of through tickets. It also required some interaction and co-operation between the two bodies, as over the level of access charges, which was important both to Railtrack and to the TOCs. The third element of the regulatory system was Her Majesty's Railway Inspectorate, part of the Health and Safety Executive, which had oversight of safety issues.

Before 1997, the key objective for OPRAF, set by the Major Government, was the awarding of franchises. In November 1997, the Labour Government issued new objectives, instructions and guidance for OPRAF. Its principal objectives were: to increase the numbers of passengers travelling by rail; to manage existing franchises in a manner which promoted the interests of passengers; and to secure a progressive improvement in the quality of railway passenger and station services (National Audit Office (NAO), 2000, para. 1.8). Other objectives included promoting the development of railway services by encouraging investment, and stimulating efficiency and economy in passenger rail services (*ibid*, Appendix 2). In July 1999, OPRAF was subsumed into the SRA, which was given the important additional duties of planning the strategic development of the rail network and promoting integration between different types of transport (*ibid*, para.1.3).

Key elements of regulation were incorporated from other privatisations. Rail regulation combined price capping and rate of return regulation of the TOCs and Railtrack respectively, as potential for 'abuse of monopoly power' existed in both service provision and in track ownership (Department of Transport, 1992, para. 66). The price of nearly half the tickets was controlled throughout the system. This was initially based on the traditional utility price-capping formula developed by Littlechild (1983). In the case of rail, this meant the Retail Price Index (RPI) for three years and RPI-1 for the next four. Other elements of regulation included continuous monitoring of the quality of service. OPRAF/ SRA administered incentive and penalty regimes, sought voluntary agreements with TOCs, renegotiated franchise terms and, in cases of completely inadequate performance, could withdraw franchises.

REGULATION OF THE TOCs IN PRACTICE

This section evaluates the regulation of the TOCs by focusing on the five key objectives which were set for OPRAF in 1997.

The number of passengers travelling by train

Despite punctuality, infrastructure and safety problems, the railways have enjoyed a revival of demand since privatisation. The rail network experienced passenger growth of 36% in the years from 1999 to 2002, the longest and most sustained growth in rail passenger usage in the past 50 years (SRA, 2003a, p. 24). Passenger kilometres also increased by 34% between 1995 and 2000 (SRA, 2003b, p. 47). Much of this growth has been centred around the London commuter market, but intercity services have also attracted more passengers.

The main way in which regulation contributed to the growth in passenger numbers was through the price capping mechanism adopted for the first seven years of privatised rail services. The price of 46% of rail tickets, including seasons and savers, was capped at the rate of inflation (RPI) for three years and then at 1% below (RPI-1) for the following four years. This capping helped to sustain the strong growth of passenger demand, which had been retarded in the 1980s when BR had been required most years to raise fares by more than the rate of inflation. There were, however, substantial real increases in the price of uncontrolled fares such as open returns. One expert analysis suggests that the price of saver tickets rose by 14% in the first five years of privatisation, compared with an inflation rate of 15%. Open returns, by contrast, were increased by substantial amounts over the same period. By May 2001, for example, the Virgin London to Manchester open return was £164 compared to £96 under BR, a rise of 71% over the five-year period (Doe, cited in Wolmar, 2001, p. 212). By January 2004, the RPI had risen by 25% since privatisation. The average price rise for tickets across all operators was 62.7% for first class tickets, 36.8% for unregulated standard class tickets, and 18.7% for regulated standard class tickets (SRA, 2004, p. 27). Thus regulated fares have fallen in real terms since privatisation, while the unregulated have risen substantially more than inflation.

Other factors were salient. As the SRA argued, the ‘most significant influence on the growth in rail demand is rising economic prosperity: passenger rail growth is strongly correlated to GDP’ (SRA, 2003a, p. 24). Other reasons for passenger growth have been increased road congestion, and the increase in fuel prices in the late 1990s.

The price control formula was abandoned in January 2004, however, and replaced by the new criterion of RPI+1% for three years in order to ‘redress the balance between taxpayer and passenger in meeting the industry’s rising costs’ (SRA, 2003c, p. 2). It remains to be seen whether the adoption of a pricing policy similar to that imposed on BR in the 1990s will now retard rail passenger growth.

Paradoxically, the achievement of this objective jeopardised all the others. This will be seen in the following parts of this section, where the attempts to achieve the other objectives are analysed.

The management of existing franchises

The management of franchises will be analysed first by examining some key regulatory decisions taken by OPRAF and the SRA.

Some of the most unstable arrangements and some of the franchising authority’s best publicised decisions involved the commuter territory of the South East. Here the original franchisees, Connex South Central (seven-year franchise from 1996) and Connex South East (fifteen years) were responsible for over 200 million annual passenger journeys and more than a quarter of UK passenger rail activity (Rail 475, 26.11.03). Both were subsidiaries of the French multinational conglomerate Vivendi, which by 2003 was engulfed in major financial problems.

South Central became unpopular for running late, dirty and overcrowded trains. In 1998 it became the first rail company to be refused an (eight-year) extension to its franchise. In 2000 it launched a further bid to win a new 20-year franchise, but eventually lost out to Govia, a subsidiary of the Go-Ahead group. In a short space of time Connex also failed in its bids for three other UK franchises. Some critics thought its bad record for late trains and cancellations should have put it out of the running for any franchise. Others believed it should have been encouraged to make a total priority of South Central. When the company was dropped from the bidding for South West Trains, the SRA implied that its decision had not been driven by performance figures but by the judgement that its proposals were 'simply .... not to the standards received from other parties' (Financial Times, 18.8.00). Connex also unsuccessfully pursued the Thameslink and Wales franchises.

The South Central franchise had been lost in a competitive bidding situation. But in 2003 the South Eastern became the first to be prematurely terminated by the SRA. The 15-year franchise awarded in 1996 was subject to the tapering subsidy principle. A substantial initial level of £136 million a year was scheduled to decline slowly and actually to become modestly negative in the final year. Earnings were, however, lower than predicted, and the company was described as 'trapped in a web of regulated fares tied to performance' (Rail 451, 25.12.02). More than half of the fares, which in several years fell in real terms, were controlled by the SRA, with increases allowed only for improved performance. This applied particularly to the peak hours commuter services, leaving the operator dependent for revenue growth on increasing demand for off-peak travel. This was extremely difficult to achieve, with the Kent coastal holiday trade in decline and with only about 2% of passenger journeys originating from outside the franchise area (Rail 475, 26.11.03). In fact the franchise had a lower passenger growth rate than any other operator serving the London market – only 16% in the five years to 2001/02 (Rail 465, 9.7.03). Late in 2002 the SRA responded to the franchisee's complaints by granting it an additional £58 million, accepting that 'the simple fact is it's not making any money' (Rail 451, *op. cit*.). Connex proposed to add £11 million of its own to this subvention. A condition of the bail-out was the ending of the franchise in 2006 rather than 2011.

Only half of the additional £58 million had been received when in June 2003 the SRA stripped Connex of the franchise, which passed from November to a new public sector company, South Eastern Trains, whose senior staff had been nominated by a consultancy firm retained by the SRA. This was thus the first instance of the state resuming control of rail services since privatisation. The decision was taken on the basis of poor business performance, rather than poor train operations, although Connex had acknowledged its unpopularity with passengers. The SRA chairman blamed 'botched management', explaining that he had lost confidence in the company's ability to manage its day-to-day cashflow, budgets and forecasts. This was in addition to its failure to meet a detailed action programme of improvements. Connex, though professing shock at the SRA's action, had ensured its own demise by asking for a further £200 million of subsidy for the remainder of the franchise, at a time when an audit of its finances exposed its non-compliance with the conditions of the recent rescue package. Much satisfaction was expressed at the disappearance of Connex, led by one Kent MP who described himself as 'dancing with joy' at the news (Evening Standard, 29.06.03). Such reactions were accompanied by criticisms of the fluctuations and inconsistencies apparent in SRA policy. A railway trade

union leader opposed to privatisation asked 'what is the point in handing £58 million of tax payers' money to Connex and then snatching the franchise away only just a few months later, only to hand it to another group of fat cats?' (ASLEF, 8.7.03). This was a reference to the SRA's stated intention of replacing South Eastern Trains within little more than a year with the winner of the competition for a new 'Integrated Kent Franchise' which would incorporate both the former South Eastern services and the domestic elements of the Channel Tunnel Rail Link. Some took the view that the franchise should be retained in-house for a longer period, or even permanently, so that the SRA could work out for itself why some operators were unable to combine adequate service with financial success. Such proposals were given increased plausibility by recent and popular decisions by NR, the infrastructure company, to take rail maintenance in-house. Bowker, however, made it clear in his evidence to the Transport Committee that benchmarking information would be used only to help the SRA to discriminate among competing private sector bids. Public sector operation of franchises, except as a last resort in the short run, was ruled out in principle. Whilst insisting that this was government policy, Bowker stressed that 'it is a policy, out of all our policies, which I would do anyway'. He claimed that 'every single time we produce a public sector comparator we discover that the private sector is able to do it more efficiently and effectively' (House of Commons, 2003a, paras. 1504-09, 1551-4).

The removal of Connex widened rather closed the debate over the franchising system. It could be interpreted as a salutary example of how an underperforming operator, after appropriate warnings, could be dispossessed, and how, indirectly, other franchisees could be encouraged to achieve higher standards in order to avoid the fate of Connex. On the other hand, the SRA did not cite poor performance as the reason for its decision (some recent relative improvement meant that Connex was currently around the middle, rather than near the bottom of the league table). The 'ultimate punishment' was handed out because a company which had held a major franchise for seven years was deemed to be incapable of exercising basic financial controls, and to be lacking financial transparency (Rail 465, 9.7.03). Furthermore this judgement was reached shortly after Connex had been considered worthy to receive a large tranche of additional subsidy. In these circumstances the dismissal of Connex could hardly be expected to increase confidence in either the SRA or the franchising system generally.

The SRA's handling of franchises in East Anglia attracted both genuine puzzlement and strong criticism. The crucial decision here was to award in December 2003 an expanded Greater Anglia franchise to National Express, covering the former territories of Anglia Railways, First Great Eastern (FGE) and West Anglia and Great Northern (WAGN). It was based on a recently adopted preference for a number of regional 'mega-franchises' and for a single operator only at major London terminals (SRA, 2003d). The aim of rationalisation by creating a limited number of consolidated regional groupings was not generally opposed. In this case, however, the process was not a tidy one, and began to generate controversy in the summer of 2003 when a shortlist of three for the new franchise omitted FGE. Surprise was inevitable as this operator had achieved an overall 88.4% punctuality for 2002/03 without subsidy and was generally seen as one of the most reliable (SRA, 2003b, p. 145). FGE plausibly claimed that it had believed itself to be well regarded by the SRA. Its application was, nevertheless, rejected as 'thin', and 'not up to scratch', with too little operational detail to satisfy current SRA requirements. Early responses from FGE included threats of legal action and the publication of passenger survey results indicating higher than usual levels of satisfaction. A bolder and more unexpected reaction followed soon afterwards. The parent FirstGroup made an agreed bid of £22 million for GB Railways, owner of the shortlisted Anglia Railways. This was the first takeover of one TOC by another since privatisation, and led to suggestions that the SRA had been outmanoeuvred. This was denied, with chairman Bowker emphasising that 'it's a free market out there' and that 'mergers and acquisitions go on all the time' (Guardian, 23.7.03). The only restriction imposed on this market outcome was the barring of FirstGroup from giving exclusive information on its operations in the region to GB Railways. This firm, which subsequently, in March 2004 was named British operator of the year by a panel of industry experts, was widely expected to win the franchise. Victory, however, went to National Express with effect from the spring of 2004. FirstGroup did, nevertheless, make the shortlist for both the new Kent and the new Northern franchises. In late 2003 it won Thames Trains from the incumbent GoVia.

What had happened in Greater Anglia was that two well above-average operators were rejected in favour of a third. The elimination of First at the pre-qualification stage was difficult to understand or explain. The three shortlisted companies all had franchises under management contract after running into financial difficulties, including Anglia in the case of GB Rail. Speculation within the industry produced some plausible but inconclusive theories to explain the decision. Some believed that First was destined to win the enlarged Western franchise and that therefore it would be undesirable for it to succeed also with Greater Anglia. Another approach was that price was fundamental and overrode all other factors. It was true that the earlier high discretion concept of applications had been dropped and that by 2003 procedures had been sufficiently standardised for it to be claimed that 'in each franchise contest….. every bid looks almost identical – apart from the price at the bottom of the page'. On this view First might have lost out simply because its bid was too low and its other virtues were ignored. This would, however, run counter to the stated preferences of Bowker for 'best value' over 'lowest price' (House of Commons, 2003a, para. 1511). Nevertheless, it was a notable feature of the new franchise that National Express was due to pay £500 million to the SRA over a ten-year period.

The matter is difficult to test because of the lack of transparency of the decision-making process. The SRA has declined to say whether it has in any recent cases chosen bids which were not the highest. It has outlined its procedures to the extent of revealing that 'a panel of experts' assesses each proposal for 'deliverability', judging whether the bidder will be able to do what it promises. Each bid is given a series of scores in a 'complex matrix' which covers all factors from rolling stock to train frequency, risk and staffing (Guardian, 15.03.04). Bowker, speaking at the launch of the new franchise, stated confidently that 'the bidding process we ran for great eastern was very strong and very clear. Everybody got a fair crack of the whip'. A regional MP, however, attacked the SRA for making decisions 'without any accountability or logic'. (Guardian, 2.04.04)

It was apparent that the SRA was failing to give general satisfaction despite having introduced considerably tighter specifications for both bidding and franchise operation. Bowker publicly acknowledged his dissatisfaction with the outcome of the first round of franchising. 'Some…..companies had over-bid, they had been over-optimistic about the nature of the cost that they would be able to take out of those businesses and it has led to problems' (House of Commons, 2003a, *op.cit.*). It had also been assumed in the early stages that long franchises would attract substantial investment from aspirant TOCs. In the period when Sir Alastair Morton presided over the (shadow) SRA, official policy seemed to be to encourage bidders to 'outdo each other in the scale and imagination of their schemes' (Wolmar, 2001, p. 232). No template was available, and it proved very difficult to make judgements about disparate schemes, which offered different types of improvement. The worst and lengthiest paralysis was generated in 2000-01 by the submission of expensive rival projects for the East Coast Main Line franchise, by Virgin and the incumbent Sea Containers. The latter eventually retained possession. Bowker's

regime at the SRA introduced a degree of clarity into this situation, in a context of greatly reduced expectations about TOCs, their entrepreneurial inputs and capacity for investment. 'I do not believe that [it] is right that……TOCs should take the lead and take the majority of the risk on major infrastructure schemes' (House of Commons, 2003a, para. 1540).

These incidents from the recent history of the franchise system inevitably expose one of its intrinsic defects. The bidding process, both initially and subsequently, is extremely expensive in terms of management time, for both the TOCs and the SRA. In an era of generally shorter franchises, the problem is likely to be exacerbated. Roughly half of the SRA's staff of about 500 is employed to allocate or monitor franchises. The TOCs are never free for long from worry about the next franchise battle. A related point is that the fragmentation of train operation has raised the cost of management across the system to way above the levels of BR days. Go-Ahead, for example, in 2003 paid its chief executive £400,000, his deputy £350,000, and its part time chairman £70,000 (Rail 458, 2.04.03).

It has always been doubtful whether the franchise system has ever transferred risk to the private sector, or ensured as tight a control over costs as BR achieved. These doubts have been based in part on the high financial returns registered by a few of the early TOCs with poor operating figures, such as Thameslink and South Western Trains, and on the SRA's practice of renegotiating more generous subsidies to the financially weaker franchises. The severance of the link between franchise and risk was plainly apparent in the case of management contracts, which by 2003 were in force on nine of the 25 franchises. The SRA itself recognised that under these arrangements 'franchisees are provided with higher levels of support and bear considerably less risk than under the original agreements' (SRA, 2003a, p. 47). Bowker accepted that the 'accusation could perhaps be levelled at management contracts……that the companies now are just outsourced service operators', and that their prevalence was 'not a satisfactory situation. (House of Commons, 2003b, paras. 177, 166). The current franchise position has been described as a 'malaise' (House of Commons, 2004, para. 123), with the number of franchises in difficulty evidence that something is 'fundamentally wrong with the structure of the industry' (*ibid.*, para. 119. Even allowing for the fact that its inheritance included franchises awarded on the basis of unrealistic bids, the SRA's performance has been judged 'deficient' (House of Commons, 2004, para. 131). Its management of the Connex franchise was 'woefully poor' (*ibid.*, para. 122).

It should be noted that fundamental criticism of the franchise system was not confined to those hostile to privatisation in principle. A substantial minority of TOC managers have continued to regard vertical integration as preferable to the track authority model, a view which was no doubt reinforced by their experiences at the hands of Railtrack. The senior management of South Western Trains subscribed to this opinion, (Rail 449, 27.11.02), as did Moir Lockhead, chief executive of First (Rail 486, 28.4.04, p. 35). Bowker, in contrast, remained for more than two years committed to the proposition that the privatised structure was now 'fit for purpose', that 'it is actually the fundamental principle around liberalisation and markets'. He announced that 'I think it can work, I think it does work and I think it will continue to work better'. Attempts to tinker with the structure would 'result only in confusion, in delay and in a lack of focus'. His resolution did not waver even when the SRA's lack of control over the network was dramatically demonstrated in late 2003 by a decision of the ORR to allocate an extra £8 billion for NR's needs over the next control period. (House of Commons, 2003a, paras. 1486-9, 1558). These confident assertions were suddenly recanted in the spring of 2004 when the SRA's submission to the government's rail review contained proposals for major restructuring, including the division of the SRA's own functions between two separate new agencies (Rail 486, 28.4.04, pp. 8-9).

Efficiency and economy in the provision of passenger rail services

The Major Government expected privatisation to produce benefits for rail through greater efficiency, as there would be more ‘opportunities to cut out waste and otherwise reduce costs’ (Department of Transport, 1992, para. 19). It was assumed that there would be overall net receipts from franchisees operating ‘profitable services’ (Department of Transport, 1992, para. 21). This position was expected to arise by 2005/06 (OPRAF, 1998, p. 81). In practice, however, privatisation did not lead to economy or efficiency but to a substantial increase in the industry’s cost structure in the form of interface costs (Harris and Godward, 1997, p.107). Interface costs arise because many companies are involved in a supply chain, and so there is upward pressure on prices as each company seeks to make a profit.

The key interface costs introduced by privatisation were the track access charges and the leasing charges for trains. These two charges represented around 60% of the costs of the TOCs, and constituted most of the revenue of Railtrack and the ROSCOs respectively. The track access charges were central to the financial structure of the privatised rail industry. They determined most of Railtrack’s income, and so influenced its stock market value. They also, however, affected the level of subsidy needed to secure the franchised services from the TOCs. This subsidy was paid directly to the TOCs, initially by OPRAF and subsequently by the SRA, which absorbed OPRAF in 1999. The access charges thus constituted both an interface between Railtrack and the TOCs and an interface between the two regulatory bodies, as the Rail Regulator must have regard to the position of the Franchising Director/SRA in determining the level of access charges. The structure of the access charges was controversial, as the charging regime had economic characteristics ‘unlike other regulated utility charges’ (Welsby, 1998, p. 243). The TOCs had to pay access charges which were almost entirely a fixed cost, with 91% of the charges independent of track use. Railtrack’s income was secured by imposing charges which, from the point of view of the TOCs, appeared to have the characteristics of a tax (Welsby, 1998, p. 244).

The majority of the TOC franchises were awarded to bus companies, which had experience of managing a declining service through reducing costs. Thus the original franchise bids assumed a reduction in both staffing and total operating costs. This was consistent with the approach taken in other privatised industries, such as gas and electricity, where staff redundancies were a key driver of cost reductions (Shaoul, 1998, p. 244). Stagecoach, for instance, implemented a voluntary redundancy programme incorporating 750 staff shortly after taking over at South West Trains. These attempted ‘efficiency’ savings were experienced by passengers as delays and cancellations, and in 1997 Stagecoach was threatened with (but, due to the inadequacy of the penalty system, did not pay) a fine by OPRAF for the number of cancellations caused by driver shortage. Far from being in decline, however, the railways experienced substantial passenger growth, which was discussed in the first part of this section. Despite their inclination to manage costs through staff reductions, the TOCs were therefore obliged to increase staff numbers. Total staff costs increased by 28% over the period 1997/98 to 2001/02, while other operating costs rose by 22% (SRA, 2003a, p. 48). The increases in total operating costs of the TOCs are shown in Table 1.

TABLE ONE ABOUT HERE

The regulatory framework for the TOCs, underpinned by price controls and subsidy reductions, was intended to produce substantial efficiency and economy gains within the industry. In practice, however, there were substantial increases in operating costs as shown in Table 1. As their revenue has stabilised at around £5 billion, this means that the majority of TOCs make losses if the effect of subsidy is removed. Eighteen out of the 25 TOCs currently receive subsidy (House of Commons, 2004, para. 116). The overall financial position is shown in Table 2, which reveals that the TOCs, without subsidy, would have made losses of over £1 billion every year since privatisation.

TABLE TWO ABOUT HERE

The planned decline in subsidy to the TOCs was halted by the Blair Government, which stabilised the level at just over £1 billion per year in its ten-year transport plan *Transport 2010* (Department of the Environment, Transport and the Regions, 2000, p. 44). Since then, the continuing cost escalation has meant that the subsidy has been increased to well above £1 billion and is projected to rise further (House of Commons, 2004, para. 116). Table 3 shows an analysis of the variance between the planned and actual subsidy for the TOCs from 1996/97 to 2003/04.

TABLE THREE ABOUT HERE

As can be seen from Table 3, the cumulative subsidy to the TOCs since privatisation now totals £12.5 billion, which is currently £2 billion more than planned at privatisation. This is more than double the £5.3 billion in subsidy received by BR, which was operating with economy and efficiency, in the eight years preceding privatisation (Shaoul, 2004, p. 29). The notion that there would be net receipts from the TOCs by 2005/06 can now be seen as grossly over-optimistic. There is no possibility of net receipts being obtained from the TOCs in any year under the current privatised structure.

The SRA has expressed considerable concern about the cost escalation in the rail industry, which is 'eroding the value for money of the Government's support for rail and the justification for rail expansion' (SRA, 2003a, p. 10). Bowker, confessed shortly after his appointment, that 'the whole cost of running the railway is in danger of running ahead'. He also conceded that 'management of costs within BR, for all its faults, was very good' (Financial Times, 29/30.6.02). The SRA has largely employed rhetoric in a vain attempt to control costs. For example, it has argued that it will 'continue to challenge subsidy levels to ensure that they are justified and…will increasingly use competitive pressures between would-be franchisees in order to reduce costs' (SRA, 2003a, p. 49). In practice, however, the SRA has increased support for, and even extended, franchises which underestimated costs in their original bids. In October 2003, for example, the SRA announced a two year extension from 2004/05 to the Central Trains franchise held by National Express Group. Subsidy levels were increased by £54 million in 2004/05 and by £69 million in 2005/06, bringing the total subsidy for the two years to over £450 million (House of Commons, 2004, para. 124). While a minority of franchises have performed as planned, 'the vast majority have not been able to produce the efficiency gains that were confidently anticipated at the time of privatisation' (House of Commons, 2004, para. 119). Thus regulation by OPRAF/SRA, through price capping and phased subsidy reduction, has failed to produce the expected benefits in terms of efficiency and economy gains.

The development of railway services through investment

A key argument for railway privatisation was it would stimulate the private sector to deliver infrastructure investment and would 'encourage investment by franchisees' (Department of Transport, 1992, para. 33). The early results were not promising for investment in rolling stock. In the lead up to privatisation, BR was forbidden from investing in new vehicles, and no new orders were placed in nearly three years before privatisation. Further, the TOCs are 'bizarre constructs', which do not own key assets, but lease trains and rent stations under their franchise agreements (Wolmar, 2001, p. 231). Thus the TOCs, the majority of which were initially awarded seven year franchises, on the basis of competitive bids for declining subsidy, had a strong incentive to sweat their assets by leasing 'cheap, limited-life equipment, with minimal standards' (Terry, 2001, p. 4). It was predictable, therefore, that the Franchising Director reported in 1998 that, despite the placing of substantial orders, only £18 million-worth of new rolling stock (20 new coaches) was running on the rail network two years after privatisation. The OPRAF report included criticism of the 'generally disappointing performance' of many of the TOCs (OPRAF, 1998).

By June 2003, there had apparently been a substantial improvement in the rolling stock position. Orders had been placed for £4 billion-worth of new passenger rolling stock with ROSCOs, representing 4,200 new vehicles. Of these vehicles, however, only 1,754 were actually in service (SRA, 2003b, p. 49). The new rolling stock took a long time to enter service for several reasons. These included Railtrack's 'extremely onerous safety case procedures' (Wolmar, 2001, p. 212) and, in some cases, manufacturing problems. Further problems identified by the Transport Select Committee were the fragmented nature of the rail industry and the SRA's lack of a planned rolling stock strategy (House of Commons, 2003, paras. 49 & 52). These difficulties were exemplified when South West Trains and South Central ordered modern trains to replace their Mark 1 rolling stock. The new trains, which require more power than their predecessors, could not be run until the electricity supply on the relevant lines had been upgraded, and the ROSCOs argued that 'it was not their responsibility to ensure the rolling stock they provided could run on the network' (*ibid.*, para. 50). The Transport Select Committee drew attention to the fact that the result of such delays was that investment in rolling stock had only succeeded in reducing the average age of the fleet from 20.67 years to 19.35 years, between 2000/01 (third quarter) and 2003/04 (second quarter), representing 'a rather modest achievement' (House of Commons, 2004, para. 164). Further, this compares unfavourably to the average age of the fleet at privatisation of 16 years (Gourvish, 2002, p. 420). The Select Committee also expressed concern that the ROSCOs, which are unregulated, should not 'receive more than a reasonable return' as the 'cost of excessive returns for the ROSCOs is less money for the railway'. This concern is very soundly based given that the three ROSCOs since their inception have made phenomenal returns on their turnover. In the year 1999/2000, for example, the ROSCOs made combined pre-tax profits of £294 million, representing a 34% return on turnover. One quarter of this profit was distributed to their parent companies, all major banks, in dividends and thus represented a substantial leakage from the rail industry (Angel Trains, HSBC Rail (UK) Ltd, Porterbrook Leasing Company Ltd, 1999/2000). Further, the Select Committee concluded that the market may not 'provide rolling stock at economic cost', and that the SRA 'may have missed an opportunity to rationalise rolling stock requirements' (House of Commons, 2004, para. 165).

Claims that the regulatory framework operated by OPRAF/SRA has led to a significant increase in investment in rolling stock are exaggerated, especially given the three-year hiatus before privatisation (Wolmar, 2001, p. 212). The majority of the rolling stock ordered by the TOCs is not yet in service and the average age of the stock has increased since privatisation; some new vehicles cannot run at all without power supply upgrades; and there are significant leakages out of the rail network in the form of profits earned and dividends paid by the ROSCOs. The SRA's considered view, however, is that it is not appropriate to develop a detailed plan for rolling stock provision as it should not 'meddle where the market does a better job' (House of Commons, 2004, para. 165).

The quality of railway passenger and station services

Rail privatisation was intended to produce 'a higher quality of service and better value for money for the public who travel by rail' (Department of Transport, 1992, para. 1). The introduction of 'competition, innovation and the flexibility of private sector management', it was claimed, would 'enable the railways to exploit fully all the opportunities open to them' (*ibid.*, para. 6).

Seven years on from the completion of rail privatisation, it is clear that the industry has not met the optimistic expectations of the white paper. The quality of railway passenger services may be evaluated by examining performance in two key areas: punctuality and overcrowding. Measures for the TOCs reveal a substantial deterioration in performance. As Table 4 reveals, the proportion of all trains arriving on time fell from 89.7% in 1997/98 to 79.2% in 2002/03.

TABLE FOUR ABOUT HERE

There was a small improvement in the first two quarters of 2003/04, but this was reversed in the third quarter with punctuality falling to 76.5%. Disaggregating the national average, as Table 5 demonstrates, reveals significant variations around the average.

TABLE FIVE ABOUT HERE

In the third quarter of 2002/03, for example, the national average punctuality level was 72.3%, but the sector average for long distance operators was only 60.8% and Virgin CrossCountry could manage only 45.9%. In the London and South East operations, the sector average was 71.5%, but the worst performer (Thameslink) had a level of 63.1 % and the best had one of 85.2% (First Great Eastern). These disappointing figures are in marked contrast to the improvements in punctuality made under BR. The performance of intercity trains improved steadily from the 1980s, with the proportion arriving on time increasing from 77% in 1986/87 to 91% by 1993/94, and the proportion of all trains arriving on time averaging 90% by 1993/94 (Gourvish, 2002, p. 504).

The other key measure of quality of service is overcrowding. SRA reports have shown continuing problems of overcrowding, related both to the growth in passenger numbers and the shortage of new rolling stock. TOCs may be penalised for running services above the Passengers in Excess of Capacity (PIXC) limit which, in the south east commuter services, is 4.5% above capacity for either morning or evening peak alone or 3% for both peaks combined (House of Commons, 2003c, para. 30). In 2000/01, the SRA reported that five franchises breached the 3% level, the worst performer having 6.6% of passengers in excess of capacity (SRA, 2001, p.15). More recently, the SRA has argued that the number of passengers in excess of PIXC levels has fallen from 5% to 3.7% of all passengers (SRA, 2003b, p.47), but its monitoring of PIXC levels has been severely criticised by the Transport Select Committee The Committee argued that the regime employed is 'fundamentally flawed' as it is based on an annual count, and is not measured on particular routes but ‘at the level of the franchise as a whole’ (House of Commons, 2003c, paras. 32, 33). The result, according to the Select Committee, is that the monitoring system ‘significantly understates the true level of crowding’ (*ibid.*, para. 33). In 2002, for example, Connex South Eastern had an aggregated PIXC level of 2.3%, which was within the SRA’s threshold, but this hid the fact that the figure for the ‘Kent Coast (Outer) Route was 5.2%, which implied severe overcrowding, even on the SRA’s inadequate measure’ (*ibid.*, para. 33).

It is unlikely that the system of incentives and fines established by the regulatory authority has had much positive impact. Despite the expensive and complex monitoring system established at privatisation (Kain, 1998, p. 260), a major NAO investigation found a number of problems. It reported that there was excessive reliance by OPRAF on self-certification by TOCs, performance benchmarks were often undemanding, and the system of incentives and penalties applied to some TOCs only and was not very effective (NAO, 2000, paras. 6 & 15). The SRA has imposed higher penalties on TOCs for poor performance than OPRAF. The incentive regime is still not universal, however, and the higher penalties are only a small proportion of the total subsidy to the TOCs. In 2002/03, for example, the SRA received penalty payments net of incentive bonuses from TOCs of £80 million (SRA, 2003b, p. 48). The Transport Select Committee has called for the introduction of more demanding performance targets and for the SRA to improve monitoring to make it ‘exceptionally accurate and rigorous’ (House of Commons, 2004, para. 127). The Select Committee pessimistically concluded, however, that ‘we have no confidence that the SRA is presently up to this task’ (*ibid.*).

Another key reason for the deterioration in the quality of passenger services has been the very poor performance of the infrastructure authority. The shortcomings of Railtrack had numerous negative consequences for the TOCs. Its failure ‘properly to manage’ the network (House of Commons, 2001, para. 54) included the fatal crash at Hatfield in October 2000. This was followed by a major programme of speed restrictions and track inspections (necessitated by the company’s lack of an adequate asset register), which had a prolonged impact on the timing of services throughout the network. Its disastrous mismanagement of the flagship upgrading of the West Coast Main Line both severely disadvantaged Virgin and several other TOCs, and eventually led Railtrack into administration in 2001. Its successor, NR, has increased expenditure on maintenance and renewals, but, even so, 54% of train delays in 2002/03 were attributable to ‘operational inefficiencies on the infrastructure’ (House of Commons, 2004, para. 65).

It is clear that regulation of the TOCs, far from promoting an improvement in passenger services, proved unable to prevent a substantial deterioration in train services. There was some improvement in train stations, but this was largely carried out by Railtrack in a station regeneration programme which distorted its expenditure priorities and ‘reinforced public criticism that it was a property company rather than an infrastructure operator’ (Wolmar, 2001, p. 211).

CONCLUSIONS

This paper has evaluated the regulation of the TOCs by examining the extent to which the five key objectives set for OPRAF in 1997 have been achieved. As the foregoing analysis has shown,

the only objective which has been successfully achieved is the increase in passenger numbers. The price capping policy assisted this increase, but a key factor behind it was the long period of uninterrupted economic growth in Britain. Further, this unexpected success made achievement of the other objectives more difficult as the large increase in passenger numbers put strains on both the infrastructure and the TOCs. Regulation proved to be unsuccessful in improving the quality of passenger services, and was unable to promote efficiency and economy in the provision of these services. Franchises often appeared to be managed in the interests of the franchisees, rather than those of the passengers. New rolling stock investment has come on stream slowly, but the majority of new vehicles are not in service and the SRA has abdicated responsibility for developing a coherent rolling stock policy.

The most important implication for public policy of these failures is that the principle of privatisation is inappropriate for a highly capital-intensive industry, which is dependent on subsidy (Crompton and Jupe, 2003b, p. 640). Industries such as rail 'cannot generate the revenues from fares to cover the full costs of their infrastructure, train operations and investment, as well as making a rate of return on capital employed' (Shaoul, 2004, pp. 30-31). The competing claims of holders of capital and the operating needs of the industry means that there is constant pressure to save on operating expenditure in order to pay dividends and interest. Thus the TOCs attempted to save on the costs of key staff, such as train drivers, in order to reduce costs and boost profits. These attempts simply contributed, however, to the deterioration in service quality experienced by passengers.

Another implication of railway privatisation is that regulation cannot remedy a flawed privatisation which produced a 'confused and fragmented' structure which 'is not fit for purpose' (House of Commons, 2004, paras. 210 & 211). The Blair Government, which was strongly opposed to renationalisation, thought that the privatised rail system could be made to serve new purposes, given stronger regulation and an element of strategic leadership. Stronger regulation of the TOCs was to be provided by widening the objectives of OPRAF in 1997. Strategic leadership was expected from the SRA when it absorbed OPRAF in 1999. The regulation of the TOCs has certainly been 'deficient' (*ibid.*, para. 131), particularly in areas such as the poor management of franchise extensions and the failure to develop an effective rolling stock strategy, but the SRA has no control over the network infrastructure which is now run by NR and regulated by the ORR. The Transport Select Committee has concluded that 'the present unstructured relationship between infrastructure provision and output specification' needs to be brought together in a unified rail delivery organisation. If renationalisation is ruled out, then the Select Committee recommends that a Railway Agency, combining the SRA and NR, should be created (*ibid.*, para. 218).

Until recently, the SRA did not see any need for restructuring and its head claimed that the industry was working 'together as a team better than at any time since privatisation' (SRA, 2003a, p. 5). In its submission to the government's review of the rail system, however, the SRA has proposed merging the section responsible for franchise management with NR in order to help reunite the operation of trains and tracks (Financial Times, 20.4.04). Such a unification could help to bring more clarity to the regulation of rail. If the TOCs remain in private ownership, however, then there remains the 'systemic' problem that the industry cannot meet the 'financial dictates of private ownership' without extensive subsidy (Shaoul, 2004, p. 36), and 'the record of the private sector in running trains overall is poor' (House of Commons, 2004, para. 130). Regulatory tinkering is no substitute for a return to an integrated public sector railway system.

Table 1

The increase in TOC operating costs from 1997/98 to 2001/02

Costs	1997/98 £ million	1998/99 £ million	1999/00 £ million	2000/01 £ million	2001/02 £ million
Staff costs	869	876	934	1,026	1,110
Other operating costs	995	1,070	1,068	1,181	1,210
Access charges	2,107	2,135	2,133	2,096	2,135
Rolling stock charges	811	794	782	798	927
Total operating costs	4,782	4,876	4,917	5,101	5,382

Source: SRA *Strategic Plan 2003,* based on TOC management accounts.
Nominal values, unadjusted for inflation.

Table 2

The importance of public subsidy to the TOCs

	1996/97 £ million	1997/98 £ million	1998/99 £ million	1999/00 £ million	2000/01 £ million
TOCs:					
Revenue	4,455	5,005	5,083	5,126	4,918
Subsidy	2,100	1,836	1,583	1,392	1,190
Operating profit	74	181	178	165	112

Sources: SRA *Annual Report 2002-03* and annual report and accounts of 25 TOCs. Nominal values, unadjusted for inflation.

Table 3

Analysis of variance between planned and actual subsidy for the TOCs 1996/97 to 2003/04

Year	Actual subsidy (A) £ million	Planned subsidy (P) £ million	Variance (A-P) £ million
1996/97	2,100	1,947	153
1997/98	1,836	1,794	42
1998/99	1,583	1,542	41
1999/00	1,392	1,313	79
2000/01	1,190	1,160	30
2001/02	1,300	1,045	255
2002/03	1,335	863	472
2003/04	1,789 (1)	656	1,133
Totals	12,525	10,320	2,205

Sources: SRA *Annual Report 2002-03* and OPRAF *Annual Report 1997/98*. Nominal values, unadjusted for inflation.

Note: (1) Projected figure.

Table 4

Public Performance Measure: Percentage of trains arriving on time 1997/98 to 2003/04

Year	Long distance operators %	London and SE operators %	Regional operators %	All operators %
1997/98	81.7	89.6	90.6	89.7
1998/99	80.6	87.9	88.6	87.9
1999/00	83.8	87.1	89.1	87.8
2000/01	69.1	77.6	81.7	79.1
2001/02	70.2	77.8	79.1	78.0
2002/03	70.6	78.9	80.5	79.2
2003/04Q1	74.4	83.9	85.8	84.3
2003/04Q2	66.9	79.4	83.8	80.8
2003/04Q3	72.3	76.2	77.3	76.5

Source: SRA *National Rail Trends 2003-2004 quarter three*.

Table 5

Public Performance Measure by TOC: Percentage of trains arriving on time in quarter 3 in 2002/03 and 2003/04

TOCs	2002/03 Q3 %	2003/04 Q3 %
Long distance operators		
Anglia (intercity)	72.1	73.5
First Great Western	61.8	71.6
Great North Eastern Railway	64.0	73.5
Midland Mainline	61.2	68.5
Virgin CrossCountry	45.9	71.4
Virgin West Coast	71.0	75.8
Sector average	**60.8**	**72.3**
London and SE operators		
c2c	81.8	83.6
Chiltern Railways	84.3	91.7
First Great Eastern	85.2	84.7
Silverlink	81.0	77.7
South Central	71.4	74.2
South Eastern Trains	65.7	74.6
South West Trains	64.5	70.3
Thames Trains	73.5	76.7
Thameslink	63.1	71.3
West Anglia Great Northern	71.9	79.8
Sector average	**71.5**	**76.2**
Regional operators		
Anglia Locals	79.2	82.5
Arriva Trains Northern	75.4	74.9
Arriva Trains Wales	72.4	77.4
Central Trains	60.5	67.8
First North Western	73.2	72.4
Gatwick Express	74.4	78.6
Island Line	97.0	96.8
Merseyrail	90.4	91.7
Scotrail	78.0	81.7
Wessex Trains	75.2	79.8
Sector average	**74.6**	**77.3**
National average	**72.3**	**76.5**

Source: SRA *National Rail Trends 2003-2004 quarter three.*

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