WHITE PAPER: NEW OPPORTUNITIES FOR THE RAILWAYS

I wrote to you on 14 July when the Government published its White Paper on the Privatisation of British Rail. I said that I would write again shortly explaining the proposals in more detail. I enclose with this letter a bulletin which describes the Government's proposals as they stand and sets out to answer some of your questions.

There is a long way to go before many of the changes are brought in, and the legislation needed will have to be debated in Parliament. Some changes may take place towards the end of next year - others not until the following year, or later.

The Secretary of State has asked for BR's advice and guidance on the practical implementation of the proposals. Our job will be to make sure that the changes proposed will operate safely and will protect the interests of our customers and all who work for the railway. We have been able to secure the Government's agreement to protecting the terms and conditions of employment for staff as well as existing pension rights and travel facilities, and over the next few weeks, we shall be asking the Government to spell out how this will work.

I have been impressed with the way railwaymen and women have responded to the challenges of the last year - reorganisation, the problems of the recession, a hostile press, vandalism and terrorist attacks, as well as the uncertainty over future ownership. Now that the Government's policy on ownership has been clarified, I am confident that a workforce that can perform so well in the public sector will also respond well to the opportunities that lie ahead.

Our immediate challenge is to keep today's railway running safely, and with improving performance through this period of change and to look after our customers on whom our long term future depends.

I will make sure that you are kept in touch with developments as decisions are made over the next few months.

Yours sincerely,

Bob Reid
RAILWAY PRIVATISATION

SOME QUESTIONS ANSWERED

THE GOVERNMENT'S WHITE PAPER

"NEW OPPORTUNITIES FOR THE RAILWAYS"

July 1992
British Railways Board
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INTRODUCTION

The Government's policy for the future of the railways was set out in the White Paper, "New Opportunities for the Railways", published on 14 July. This bulletin aims to answer some of the questions about the Government's proposals which you may have at this early stage. The Board's view is given at the end.

SUMMARY of PROPOSALS

1. British Rail is to be split into two organisations; a track authority called Railtrack and a train operating company.
2. Railtrack will provide the infrastructure – track signalling, bridges, viaducts and tunnels – everything on which the trains run. It will also be responsible for planning and operating the national timetable.
3. The train operating company will provide services until they are taken over by private sector companies under franchise (see below);
4. A regulator will licence companies wanting to operate train services and will supervise access to the rail network and charging;
5. A Franchising Authority will grant franchise concessions to companies to operate groups of passenger services, paying subsidy where necessary;
6. BR's freight and parcels services will be offered for sale;
7. Independent train operators will also be able to run services;
8. Stations may be leased or bought by independent companies, to make the most of their development potential;
9. It is expected that the HSE will be the independent safety regulatory authority for railways.

A lot of work still has to be done before these proposals can be introduced. New legislation will be needed and will be presented to Parliament later this year, taking about a year before it can come into effect. In some areas, the Government will then need Parliament's approval to regulations setting out the detail of how the policies will be implemented.

Under a European Community Directive, BR must be prepared to provide access to its tracks for other national railway authorities or private operators of international services by January 1993. The Regulator will need to be appointed before that date.

The Government intends to offer the freight and parcels businesses for sale late in 1993. The first franchised services could start as early as 1994. By the end of the Parliament (by 1996/97) the Government intends that a substantial number of passenger services should have been franchised and that access should be available for private operators of both freight and passenger trains.

We shall aim to keep you informed as proposals develop.
RAILTRACK

What will "Railtrack" be responsible for?

It will look after timetabling, signalling and control of the system, track maintenance and investment. It will own the track and other infrastructure and control day to day operations. It will run the national passenger timetable and will allocate train paths to the different companies running services. It will also be responsible for investment in the infrastructure and will plan major schemes such as electrification.

How will Railtrack be financed?

It will not normally be subsidised directly and will have to cover its costs, including normal investment, through charges to operators. This is a major change from the way we operate now. The charges will be overseen by a Regulator to ensure that each operator is treated fairly. The White Paper also says that capital grants may be available for investment in Railtrack where investment produces substantial social benefits.

What will happen to "new" projects?

Responsibility for developing existing proposals for major investment – Kings Cross, Thameslink 2000, East West CrossRail and the Channel Tunnel rail link – will remain with BR for the time being.

Will maintenance be contracted out?

Railtrack will be expected to contract out activities such as track maintenance where it is sensible to do so. How far and how fast will be the subject of discussion over the next few months.

How does this square with "Organising for Quality"?

The Government has recognised that the changes it wants to implement require a move from the OfO structure we have put in place. However, there is no doubt that the focus on the customer which now exists is a better basis for change than the old regional structure.
Franchising **PASSENGER SERVICES**

**What is a Franchise?**
A franchise is an agreement between the Franchising Authority (an independent body, appointed by Government), and a private company which gives the company the right to operate train services in a particular area for a fixed period of time and the obligation to provide a certain level of service. The company would be able to receive subsidy where appropriate. Companies will bid for rail passenger franchises in competition. If they think the services can be operated profitably they will offer a premium to get the franchise. If they think they will need a subsidy their bid will say how much. The franchise will then go to whichever operator can provide satisfactory services for least subsidy or highest premium.

**Who could run a franchise?**
Any company which can obtain a licence from the Regulator to run railway services and can satisfy the franchising authority that it will be able to deliver safe, reliable services of the required quality. Licence conditions will be strict.

**Will passenger services still be subsidised?**
Yes; the Government has said that it will continue to make subsidies available to support socially necessary services. The general objective is that subsidy levels will be based on the franchise bids from the private sector. However, there is a good deal of detail still to be sorted out on this.

**How many franchises will there be?**
Nobody knows yet, but the Government has agreed that we start from the working assumption that franchises will be based on existing profit centres.

**How long will franchises last?**
This remains to be decided. Initial ideas are that they would last between 5 and 15 years.

**Who will own passenger trains?**
Initially, British Rail will own the trains with franchisees leasing them. Later on, private sector leasing companies may be set up or franchisees may wish to buy their own trains.

**What will happen to existing staff?**
The White Paper says that arrangements will be made to enable BR staff to be transferred to the new franchise operators.

**What about stations?**
The White Paper says that the Government may sell or lease stations but confirms that the interests of operators and passengers using stations will be protected.

**Will through ticketing be protected?**
The White Paper emphasises the importance of protecting the advantages of a national through ticketing system, which will be the responsibility of the Regulator.

**Will Intercity services be franchised?**
InterCity services will be franchised; as the existing profit centres are structured, on the basis of the lines of route, eg. East Coast or Great Western. The White Paper says that the Government's long term aim is to sell Intercity services, but there are no immediate plans to do this.
InterCity services will be offered to private franchise operators. In addition to this, independent operators will be able to run long distance services in competition with InterCity. Virgin has already put forward ideas for competing services.

The Government expects that operators will want to provide railcards and discounted fares on a commercial basis, as is done now.

Yes, compliance with the conditions of the Passenger’s Charter — including payment of compensation — will be one of the terms on which franchises are granted.

The White Paper makes it clear that subsidy will continue for services that meet a social need. If the Franchising Authority decides that a service is no longer needed, it will have to seek the approval of the Secretary of State under the closure procedure, as now.

The Government has confirmed that PTEs will continue to specify the services in their areas, and help to finance them. However, they will no longer deal with operators direct. Instead, they will negotiate with the Franchising Authority, which will include the PTEs’ requirements in the specification for franchises.

The Government’s intention is that PTEs services will in future be provided by private sector operators under franchise.
## Sale of FREIGHT and PARCELS

The sale of the freight and parcels businesses can begin after Parliament gives approval to the Government's legislation. Some private freight trains might start running next year under the new European Commission rules or by agreement with BR.

### How soon will private freight trains be running?

The sale of the freight and parcels businesses can begin after Parliament gives approval to the Government's legislation. Some private freight trains might start running next year under the new European Commission rules or by agreement with BR.

### How will the businesses be sold?

The Government wants to reorganise the current businesses. However, the number of eventual operating units and the method of division have yet to be decided.

### Could major customers run their own trains?

Yes; major customers like National Power or British Steel might either seek to purchase part of BR's existing freight business or set up separate railway operating companies and make use of access rights.

### How will the freight companies work?

Private freight companies will buy space on the national rail network from Railtrack. How priorities will be settled and the method of charging have yet to be decided. On some routes used only by one class of freight traffic (eg, colliery lines), the private company may own the track as well as the trains.

### What about section 8 freight facilities grants?

The 1974 Railways Act allows Government to make grants to private companies for schemes which transfer freight from road to rail, where this offers environmental benefits. Last year, the Government widened the scope of the scheme and is now reviewing it again.
GROUP SERVICES and OTHER BUSINESSES

What will happen to International Services?

European Passenger Services Ltd and Railfreight Distribution will operate services through the Channel Tunnel jointly with their European partners. The Government has yet to say how their proposals will be applied to these International Services.

This is not yet clear. It will be important to ensure that all operators can have access to maintenance facilities where the skills of those maintaining trains will still be required.

Who will own maintenance depots?

Initially, British Rail will remain responsible for research and technical standards. In the longer term, the White Paper envisages standards being coordinated through an industry wide body, covering all the private operators. Similarly, BR will be responsible for track and infrastructure related research for the railway industry. The Government is considering further how it will involve the private sector in railway research.

What will happen to BR's subsidiaries?

The White Paper does not contain any specific proposals for BR's subsidiaries such as BRT, BRML or Transmark, and the Government will be considering this further. It is likely that they will be candidates for transfer to the private sector.

What about the activities in Central Services?

Many are likely to be candidates for sale or management buyout.

INDEPENDENT TRAIN OPERATORS

What does "open access" mean?

The Government wishes to encourage independent companies who want to run new railway services (passenger, freight or parcels) to have the right of access to the railway network. This will be in addition to franchised passenger services, or freight services which have been sold.

Managing access on a busy railway will be difficult, and the method of control and charging is not yet clear. The Government has commissioned a major consultancy study by Coopers, Lybrand Deloitte to advise on how this can be handled.

Who will control this?

The allocation of train paths will be the responsibility of Railtrack. The Regulator will issue licences to operators who will have to meet the necessary operational and safety standards. The Regulator will also ensure that all operators are treated fairly.
REGULATION

The Regulator will be appointed by Government and will have three main roles:
- to ensure that arrangements for access to the track and charging are fair;
- to promote consumer interests and help to maintain network benefits, including through ticketing;
- to issue operating licences controlling who is entitled to run railway services.

The White Paper says that the Government will make arrangements to control the disposal of assets so that the needs of train operations will be fully safeguarded. These arrangements will apply to all sales, including stations.

SAFETY

The Government recognises that safety is of prime importance and that having a national track authority will make it easier to guarantee common safety standards. Detailed proposals will be developed jointly between BR, the Health and Safety Executive and the Department of Transport before any of the changes proposed take place.

The Health and Safety Executive will report on this. Some important changes will be needed from present arrangements to take account of the separated responsibilities which will exist in the new structure. It is expected that:
- prime responsibility for the safe operation of the railway will be placed on Railtrack, with individual operators of trains and terminals responsible for ensuring the safe management of their operations;
- all operators will be safety validated before being allowed to start operations;
- staff in all companies in positions which are critical to safe operation will be certificated to standards approved by the Health and Safety Executive;
- the Health and Safety Executive will be recognised as an independent safety regulatory authority which will set, monitor and enforce standards for safe operation.
**STAFF CONDITIONS**

**Will staff be able to have a stake in the new industry?**

BR staff will be encouraged to bid for franchises, or to mount a buy-out for part of the freight and parcels businesses as they are sold. When the time is reached, legal and financial assistance will be given to help staff to put bids together.

**What will happen to conditions of employment?**

Employees who are transferred to new companies will take their existing terms and conditions of service with them. The law provides this protection. Any subsequent changes would be a matter between them and their new employer.

**What will happen to concessionary travel?**

The White Paper says that arrangements for employees and their dependents, and for retired staff, will be safeguarded, and the Board will be seeking reassurances on how this will be achieved.

**What will happen to pensions?**

The White Paper says that privatisation will not affect pensions already being paid from or preserved in BR schemes. A Government minister has specifically said in Parliament – "I have said categorically, and I say again, that individuals' pension rights will be safeguarded. The mechanism that is used to achieve that end has not yet been decided upon. I say quite categorically that we are committed to safeguarding pensions. We will safeguard pensions and we will use the most appropriate method to do just that". The Board is giving priority to establishing with Government what the appropriate safeguards are.

**How will the Trades Unions be involved?**

The White Paper says that the Government will consult Trades Unions in the industry about matters affecting their members' employment. Initial meetings with the Secretary of State are being arranged for September.
The WAY FORWARD

The Board has always made clear that it is for the Government, as BR's shareholder, to decide what proposals to put to Parliament. The Board's role will be to advise the Government on the practicalities. The Board has said that:

- the White Paper clarifies the direction of Government policy on the railways;
- it welcomes the Government's commitment to a better use of the railways in meeting transport needs.
- it welcomes Government recognition of the benefits of a unified timetable and through ticketing to ensure that the advantages of a national railway are maintained;
- it also welcomes the fact that The White Paper recognises the paramount importance of safety and the need not only to maintain but continually to improve safety standards;
- and it welcomes the Government's recognition of the need for expert railway staff in the future and the encouragement for them to take a stake in the franchised and privatised services.
- at the same time, the entrepreneurial flair from within the industry and from the private sector must not be constrained by any bureaucracy which might be created by the new structure;
- the need to maintain a high level of investment is critical if we are to improve our standards of service to the public.

BR will work positively with Government to develop practical proposals to take forward its policies to sell the freight and parcels businesses, franchise passenger services and establish Railtrack. At the same time, BR will work with Government to establish how open access can work. Much remains to be done to sort out how the proposals will work in practice.

The Secretary of State has written to the Chairman asking the Board to work with him in developing the new arrangements. BR representatives are now working with the Department of Transport and the Treasury, and other relevant Government Departments. BR's businesses are making detailed studies of how these proposals could work in practice, so as to get the relationship right between the granting of franchises, selling freight operations and allowing open access to other operators.

The Board will press for reassurance that necessary investment will continue during these changes. We set out our views of the investment the railway needs over the next ten years in 'Future Rail'. We have no reason to think that the private sector would take a different view.

BR must now:

- plan a smooth transition to ensure we continue to provide safe, efficient, economic and reliable services.
- work out with Government how staff interests in areas such as conditions of service, travel concessions and pension arrangements will be looked after;
- obtain reassurance that necessary investment in the industry will continue during the changes.

Above all, we must keep the railway running, improve the quality we give to our customers, continue to give value for money and maintain the emphasis on safety.