Let's get radical

The Hendy Review is a first step in right direction, says **Dan Lewis**. But we must go further to ensure the industry's future

The stunning growth in train usage since rail privatisation has unfortunately been matched by rotten financial management at Network Rail. With £38 billion of net debt – forecast to rise to £50 billion by 2020 – and interest repayments taking up a staggering third of the budget by 2029, something had to be done. So the Hendy Review is to be welcomed as the first step towards giving our rail network the hope of a financially sustainable future.

But we must go further and faster to ensure the train industry's future. So what can be done?

No one really saw the doubling of passenger usage since 1997 coming. Back then, trains were the past, not the future. Would this have happened if we didn't have a property price boom, necessitating more commutes by train or without vehicle fuel and insurance prices doubling?

We will never know, but what is clear is that Network Rail was structurally flawed and ill-equipped to deliver cost-effective rail infrastructure. As is common with monopolies, working in a vacuum of competitive pressure led to higher costs and poor delivery by Network Rail.

Sir Peter Hendy is therefore absolutely right to recommend selling off £1.8 billion of depots, arches and station shops to help plug a £2.5 billion funding gap by 2019.

Apart from the showcase redevelopments of Britain's biggest train stations, Network Rail's property management has been poor to non-existent in a record period of property price growth. All stations, not just the big ones could be attractive hubs of commercial and residential activity. If the train operating companies were allowed to own the stations outright, they might also even introduce and acquire additional cheap parking to encourage more people to use the trains.

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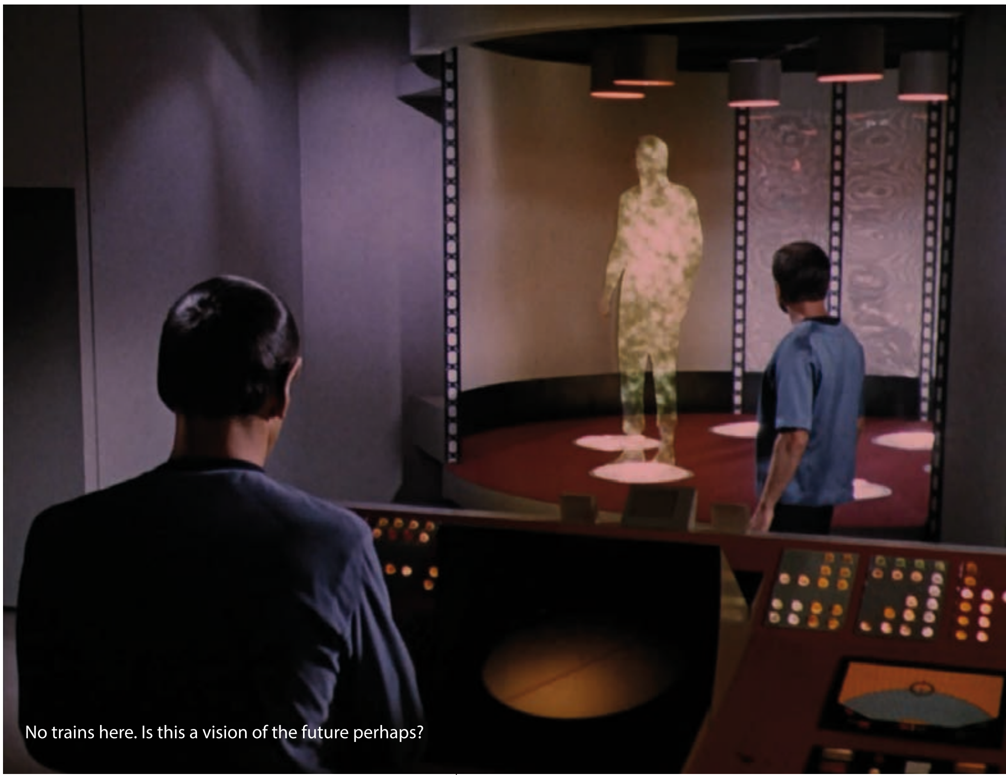

No trains here. Is this a vision of the future perhaps?

Right now, 20 years after privatisation, all my local station has to show for it is new paintwork, wheelchair access to one platform and occasionally open toilets. This is a common experience, making it no wonder that so many passengers remain unimpressed.

However most of the Hendy Review appears to endorse the existing array of rail upgrades, many of which continue to be late and over-budget, hitting the taxpayer and the passenger twice, as noted by the Public Accounts Committee in its review of Network Rail's CP5 delivery plan last November.

Scratch below the surface

Cutting investment is one way of helping to balance the books. But scratch below the surface and there are a whole load of efficiency savings to be realised. A common error is for governments to only take into account the initial capital costs of infrastructure. For any project, the really big number tends to be the lifetime costs, which could be four or five times as much. Policy-makers have to be clear about whether a project will deliver capital deepening – and so more self-sustaining revenue earning activity.

Knowing this, it's a mystery to me why the digital railway is on the back-burner. Digitising air traffic control in the 1980's led to a 60 per cent growth in air traffic. We need to do the same to the signalling system connecting the 20,000 miles of railway track. Bizarrely, the plan is only to upgrade to digital as existing systems expire, meaning that it will not be complete until the 2060's. By then, who knows what transport will look like?

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It probably won't involve many trains like today – I'd be amazed if they had not all become self-driving by then. Perhaps, as some futurologists believe, we may even have mastered Star Trek-style teleportation - making all known transport modes redundant.

And then there's ticketing. You can't help but be impressed by companies like thetrainline.com and the potential for growth when 87 per cent of tickets are still purchased at the station. And yet on ticketing, so much more could be done. Again, aviation shows the way. Airlines have become very adept at filling up seats by varying prices on a minute-by-minute basis. Too many of our trains and tracks are empty too often. The freedom to explore pricing algorithms would give the train operating companies the ability to maximize train use off-peak and to find other ways to sell services to customers. Just as cinemas can only break even on the popcorn, let's allow the train operating companies to see what they can do beyond fare revenues.

The bottom line is that government and industry can't afford to be complacent. Self-driving cars, ultrafast internet and virtual reality are on the way and constitute an existential threat to public transport over the next two decades. That's why the Shaw Review must be radical, including considering breaking up Network Rail, introducing more competition and selling off many assets. The clear aim must be to make the railways subsidy-free, regulation-light and a welcome home to entrepreneurial market innovators.

The alternative is to run into escalating funding crises and the last thing Britain needs is more debt.

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