Policy Exchange

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What To Do About Trains In Britain

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Executive Summary

Railways cost of lot of money to run – Network Rail alone receives a £3.7 billion grant from Government[1]. With the need to get our public finances in order the focus now has to be on cutting costs. The eight point plan outlined in this Research Note aim to eliminate spending on our railway system that provides little social or economic return.

Although the biggest savings will come in the medium term, costs can be cut immediately by inviting existing operating companies to suggest changes to enhance value for money. A different timetable, for example, may offer similar provision at a lower cost, but would currently be precluded by the terms of the existing franchise. In addition costs can also be cut relatively quickly by breaking up Network Rail and introducing regulator-led yardstick competition between different units.

In the medium term the Department for Transport (DfT) should move away from the tightly-defined franchises that have ossified the railway network and kept costs high. Instead they should invite "zero subsidy" franchise bids which would be evaluated in line with well-established DfT methodology that aggregates different elements of the service. Private companies will then have an incentive to aim for value for money. Zero subsidy franchise bids will mean trains that attract few passengers will be withdrawn. In keeping with localism, additional trains could be commissioned (and subsidised) by local authorities.

Fewer trains means more space in the timetable, allowing an increase in the number of innovative "open access" operators to enter the market, providing train services that have not previously been offered. Realistically there would be a reduction in services, but only a small reduction in rail usage rates, since it is the poor value for money, little-used services that would be withdrawn. This would lead to a large reduction in costs, and a significant rise in productivity. The fall in costs would be shared between taxpayers, in the form of lower subsidy payments, and travellers, in the form of lower prices.

[1] http://www.guardian.co.uk/business/2010/sep/12/network-rail-chief-appoint-outside-industry

This Research Note recommends:

- Breaking up Network Rail into eight companies, based on the current administrative divisions used by the company, in order to increase competition and efficiency;
- Eliminate direct subsidies to Network Rail and instead allow it to charge commercial track access rates in order to fund itself;
- Reform the franchising process by allowing "zero subsidy" franchise bids which would be evaluated in line with well-established DfT methodology to assess the quality of the service package offered;
- Allow bidders for franchises more flexibility around what they can bid for by making franchises smaller and allowing potential operators to bid to operate part of a franchise;
- Increase the availability of industry data to level the playing field between incumbent operators and new entrants to the market; and
- End revenue sharing between companies and government in franchises.

Recent History

The post-privatisation history of British Rail has been one of both (almost) unmitigated success and (almost) unmitigated failure. On the positive side, the safety record is better than before, and indeed better than any extrapolation of previous trends predicted. Furthermore, more people travel by train than ever before, far more than anyone predicted when the railways were privatised, and far more than would be predicted by general trends in the economy. The number of train journeys per year in the UK has increased from 800 million in 1987-88 to 1,258 million made in 2009-2010.[2] In addition, there are some exceptionally good value fares for those who book in advance, such as the £15 fare from London to Aberdeen, a charge of under 3p per mile.[3] Finally, we have a lot of shiny new trains.

On the negative side, cheap fares are generally limited to those travelling on long distance routes and able to book in advance, and to season ticket holders, many of whom pay far lower fares than day travellers. And finally the cost to taxpayers has been huge, partly, but not only, because of the number of new trains.

[2] http://www.rail-reg.gov.uk/upload/pdf/nrt-yearbook-2009-10.pdf

[3] http://www.eastcoast.co.uk/special-offers/

The Current Railway System

Components

The current system has three parts:

- The track is owned by a "public interest company" – Network Rail – on an ongoing basis. It is loosely accountable to its customers, the train operating companies, and to the government, via the Office of Rail Regulation ("ORR"), the relevant government quango.
- The trains are, in the main, owned by leasing companies ("ROSCOs"), who lease them to the operators.
- Train operating companies ("TOCs") run the trains on a franchise basis for limited periods. In addition, "open access operators" can run trains in the gaps between the TOC's trains, using spare "train paths".

Network Rail own and manage principal stations, mainly London terminals, with other stations maintained by the operating companies as part of their franchise.

Operation

1) Network Rail

Network Rail receives subsidies directly from the government, which make up a majority of its revenues. In addition, the ORR sets "track access charges", the amount Network Rail can charge train operating companies to run a train over the tracks. The ORR's aim is to set these as low as possible subject to allowing Network Rail to provide safe and high quality infrastructure. As with all such regulatory price setting decisions (going back to OFTEL, OFGAS and so on), there is an element of bluff as Network Rail argues strongly that it is already amazingly efficient and promises dire results if charges are lowered. Part of the ORR's job is to see through such claims. Network Rail maintains the track, using contractors to a large extent.

2) Train operating companies

The operation of the trains is franchised, with periodic franchising for each operation. Franchises are let for a positive sum in a minority of cases, and for a subsidy in the majority of cases. Franchises do not come up for renewal simultaneously and their lengths differ – for example, the SWT franchise is for 10 years, Arriva Trains Wales for 15, the Chiltern Line 20 and Merseyrail for 25 years. It is currently fashionable to argue for longer franchises, and franchises have also become geographically larger over time. The current Northern Franchise, for example, is an amalgam of the previous North East and North West franchises. The DfT issue remarkably detailed franchise documents, setting out for example the number of trains per hour, and where individual trains must stop. The effect of this is that the

Department is setting the timetable, which hugely reduces the freedom that operators have to run the railways. As a result train operating companies are not really running a customer facing company, but rather a government facing company.

> The most recent South West Trains franchise required the new franchise holder to relocate a vending machine at Wimbledon station. When national government is considering the location of vending machines at a suburban station it is a telling sign that something has gone wrong.

In the initial four years, the franchise holder bears the risk both of costs rising and revenues falling. After that, the franchise the government takes on 80% of the revenue risk.[4] If times are tough, franchise holders can walk away from a franchise more easily than had been thought, as National Express proved in the case of the East Coast Mainline recently, when they walked away from their loss making franchise without having to give up their other franchises, as many had expected.[5] In some circumstances franchises are extended without any competitive bidding at all, such as the recent 6 month extension of the National Express franchise covering services into Liverpool Street[6].

As well as setting the timetables in all but name, the DfT's rolling stock strategy sets out train procurement policies, and "cascades" older trains from one company to another. Again, this limits the ability of train operating companies to determine their own operations. Changes to franchises – including negotiations about who should pay for extra carriages – are all matters for negotiation.

An Eight Point Plan to Improve Performance and Reduce Costs

Outlined below are a range of ideas that would reduce the costs of our railway network currently borne by the taxpayer. In the main the aim is not simply to transfer the costs to the passenger, but rather to better structure the industry to eliminate costs, both by creating greater incentives for technical efficiency, and by eliminating aspects of the railways that are disproportionately costly compared with the benefits offered.

1. Network Rail: break it up

Having Network Rail as a single monolithic company makes it very hard for the regulator to assess the extent to which it is efficient, since it has no good comparators. Comparisons with Europe suggest that Network Rail is very inefficient – to the tune of billions per year. A report published by the Office of Rail

[4] Transport Committee, Fourteenth Report of Session 2005–06, *Passenger Rail Franchising*, HC 1354, para 20. 80% of revenue risk is taken by government for revenue greater than 6% away from the target, with government also covering 50% of the risk for revenue deviations 2-6% from target.

[5] HL Deb, 1 July 2009, col 225, Statement by Rt Hon Lord Adonis

[6] *The Times,* 15th September 2010

Regulation (ORR) stated that in 2008 Network Rail was between 34 to 40% less efficient than the estimated frontier (leading) European infrastructure managers in the peer group. This result is broadly consistent with earlier econometric analysis that the ORR undertook which showed that, compared to the top European infrastructure managers, Network Rail was 40% less efficient[7]. However it is not clear what, if any, of this excess can be attributed to (for example) more intensive track utilisation, requiring greater use of night work for maintenance, or to differences in regulation, as opposed to inefficiency.

British Rail also came out badly from such international comparisons, so it is not simply a "public-vs-private" issue.[8] Breaking up Network Rail would allow the Regulator to benchmark one mini-Network Rail against another – just as happens for almost all other regulated utility companies. Competition and information can spur efficiency.

Network Rail currently divides its network into 17 different primary routes, each with its own utilisation strategy. Although it would be possible to divide the organisation into 17 different companies, that is excessive for benchmarking and risks losing economies of scale. Against that, the network is not homogenous, and so it is necessary to split it up into a reasonable number of larger pieces in order that it can be effectively run. For example, maintaining the "third rail" electric lines south of the Thames has very different challenges to maintaining diesel routes in rural areas, or high speed electric or diesel lines. The regulator should have more than one company for each type of line whenever possible, in order to generate comparative data. The "third rail" network could be divided relatively straightforwardly into the network into Waterloo, and the network into Victoria/Cannon Street, for instance allowing comparisons to be made between the companies operating these two parts of the network.

Eight companies, based on the current administrative division into eight sections used by Network Rail, would seem a plausible starting point.[9] Each company would have an average asset base of around £4.5 billion, a good size to allow economies of scale. ORR would be asked to decide on the exact split, with the criteria being to ensure a good flow of information, without reducing economies of scale. Although the same company would not be allowed to operate similar parts of the network, there is no reason why a "third rail" track company could not also control a long distance track network as well. In the short run the companies would remain in the public sector, but there is no reason for them to remain there in the medium term.

The government should also think seriously about allowing some sections of the track to be maintained by very small companies. There is no a priori reason, for example, why a separate company could not maintain uncomplicated parts of the network such as the Isle of Wight railway line, the line north of Inverness, or the line from Helensburgh to Oban and Fort William. It is at least plausible that local

[7] http://www.rail-reg.gov.uk/upload/pdf/econometric_update_2010_orr_benchmarking_report.pdf

[8] George Muir, Whose Job is it to look at the net cost of running a Railway? *New Transit,* Sept 2010

[9] ibid.

companies, who know and understand the area through which the line runs, will prove able to devise and deliver lower cost policies in areas such as these. Interest in running such sections should be sought prior to the creation of 8 principal track companies.

2. Network Rail: eliminate direct subsidies

There is no good reason for Network Rail to receive any significant amount of direct subsidy from the government. Instead the company should rely on selling its output, that is, on track access charges collected from train operating companies.

Track access charges should be moved in a more commercial direction. Heavier and faster trains increase wear and tear, and this should be reflected in different costs for different trains. Such a move would also induce cost-reducing changes in TOC's behaviour: the most obvious is using shorter (and so lighter and less damaging) trains for off-peak services. In the medium term small adjustments to the timetable to allow for slightly slower speeds at maintenance hotspots (generally curves) could reduce costs, while in the longer term the best approach would be to reduce the weight of trains. Steps in this direction can be taken when trains are refurbished, but dramatic changes come about only with fleet renewal.

Direct payments from government should only exist on occasions when it mandates Network Rail to undertake experimental work – for example, to test a new form of signalling. In that kind of case, however, government should seek to recover the cost in the medium term from the industry.

It is unreasonable for Network Rail to charge existing operators to cover the cost of projects that will benefit their successors, so for that reason upgrades should be funded by borrowing, with a view to recovering the money from subsequent track access charges.

Taken together these proposals give Network Rail and its successors an incentive to minimise costs, and to concentrate on their customers – the train operating companies – rather than on pleasing government. This is the best approach to securing value for money.

3. Awarding franchises: stop building in costs that cannot be covered by income from fares

As outlined earlier, franchise documents are remarkably detailed. The most important aspect of this is that the Department sets out the times of the first and last trains, intervening frequency, number of stops, and so on. In essence, it sets the timetable. Defining output irrespective of costs is not a sensible way to minimise costs. Instead of defining output so prescriptively, the government should instead develop a composite measure of performance for all routes, and then ask train operating companies to define bids that maximise performance, subject to costing the taxpayer nothing.

The DfT already has very advanced methodologies to measure the value of output, with the core measure being passenger miles. We know how many people travel on different routes at the moment,

and have reasonable estimates of how changes in prices affect demand. In addition, we know both the effect of changing train speeds on demand, and the benefits of faster trains for those who travel already. Finally, we know something about the costs of poor reliability. All of this information can be aggregated into an overall measure of performance, against which bids can be judged.

Under this new approach, train companies bidding for franchises would propose a timetable, a set of fares, and compensation for delays which the government would then evaluate. If one company is offering fewer but faster trains, the methodology can assess whether that is a better service than one which offers more but slower trains. If one company offers a better service on one route, and another company offers a better service on another, the government will take into account the number of people travelling on each route in deciding which proposal is better overall. The same is true for weighting performance in the rush hour rather than off-peak, and for weekdays versus weekends. Since we know the value of speed and the value of reliability, both of these can be traded against the prices that the company proposes tocharge for travel.

Of course, not everything can be included in an algorithm, and there will always have to be a "smell test" – do we think that the company can deliver? Can they offer this fare structure only by returning to 1850s standards of open topped carriages? Nevertheless, the vast majority of issues that customers care about can be included in an algorithm that can be made public, and can provide the backbone of evaluating a new generation of private-sector, customer-facing, value-for-money franchise bids.

4. Awarding franchises: start from a zero-subsidy position

The initial bids should be based on a zero-subsidy position. A few franchises currently require the payment of a positive premium to government, which, since that premium has to be recouped from passengers is essentially a tax on rail passengers using that company's trains. In those circumstances franchise bids would include either details of service improvements, or fare cuts for at least some passengers as part of the bid. This could lead to the provision of very, very cheap off peak fares on many core routes, which would be extremely popular with the travelling public.

However, many franchises currently require substantial levels of subsidy. Starting from a zero subsidy position forces would-be operators to think imaginatively about how to eliminate costs for items that customers do not value. Here the comparison is with low cost airlines who have eliminated all sorts of costs, and yet the number of people flying demonstrates that they still offer a product that people want to use. They separate the essentials from the nice-to-have very effectively – and we want the railways to do the same.

In some cases zero-subsidy railway bids will include no service to some stations, and on some lines, because they are so little used as to be hugely uneconomic – some stations with regular service are used by fewer than 100 people a year: Gainsborough Central in Lincolnshire and Shippea Hill in Cambridgeshire are just two examples. In such cases there are four options.

> Although it is fashionable to loath Ryanair and Easyjet, people choose to fly with them, time and time again and they are correspondingly profitable. Given that people choose to use them, policy makers should ask what low cost providers offer, and how we can get train companies to mimic them.
>
> Low cost airlines are as safe and as punctual as traditional carriers, and offer very low fares. They respond to changes in demand – grounding aircraft in the winter season, for example. This suggests that the DfT should place significant weight on safety, punctuality, and prices when evaluating franchise bids, not worry so much about frills, and allow operators to respond flexibly to changes in demand.

First, a niche operator may be willing to fill the gap. This is most suitable when no franchise holder wants to run trains on a particular branch line. It is not difficult to imagine that small local firms, with local knowledge, may well be better at providing cost-efficient service on lines such as those to Newquay and Barnstaple, as well as on routes such as Castle Cary to Dorchester, Aberystwyth and Pwllhelli to Shrewsbury, Paddock Wood to Strood, as well as many routes in the Highlands.

Where no-one, including local community groups, wants to run services without subsidy, it should be for local people to decide what happens. They can have a rail service, with the subsidy paid for locally, or they can choose to keep their cash and the rail service ceases. If the latter option is picked, infrastructure would be mothballed for a period, to allow a breathing period for a change of mind. Where the question is whether to subsidise or close a station, the issue would generally be one for the district council; where the question is one of subsidising or closing a line, the issue would generally be for the county council. In each case the aim is to delegate the decision to the lowest possible level of government, in keeping with the Coalition's localism agenda.

Despite these options however, it is likely that some stations will close. At present 50% of Britain's stations account for 3% of passenger numbers, and the vast majority of the recent rise in passenger numbers has been on the core network. Even accepting that the numbers may not be recorded accurately, some stations clearly have tiny levels of usage, and it is unlikely that local communities will think that a service that they rarely use is value for money.

5. Awarding franchises: encourage more bidders by being flexible as to what you have to bid for

Where possible franchises should be made smaller rather than larger, but tendered at the same time to allow market-led integration, where appropriate. Thus, for example, running trains to Oxford, Worcester and beyond can be (and were) separated from running trains to the West Country. The two franchises were merged by government, but should be offered separately again, and tendered at the same time. If

there are economies of scale, companies will bid for both, if there are not, different companies with different expertise can bid for both separately. The Island Line should be separated from the South West Trains franchise again, and consideration given to separating South West trains services to Reading from the rest of that operation, and separating Victoria services to Kent from Victoria services to Sussex. In general, allowing greater flexibility at the franchising stage will make it easier for companies to bid, and increases the chance of innovative tenders.

Potential operators would also be allowed to bid to operate part of a franchise. A local organisation might bid to run local services, particularly in less busy areas. We have already outlined that niche operators should be invited to serve those areas that attract no bids, but local groups should also be allowed to able to bid for part of the franchise at the start of the franchising process. It is easy to imagine that a local group, concentrating solely on one particular line, could devise a highly cost efficient approach that a larger company, for whom that line is relatively unimportant, might miss.

6. Awarding franchises: increase the availability of industry data

Incumbent companies have better information about individual franchises than other companies and outsiders, which gives them a head start when preparing subsequent bids. In order to encourage a wider range of bids, government needs to ensure that as much information is made public as possible. So for example, the LENNON data recording the number of people travelling between each pair of stations should be made public on a regular basis, perhaps monthly. As well as giving potential bidders the ability to model travel patterns, it would also allow civil society to investigate travel patterns in a way that is likely to indicate new ways of saving money. As well as overall data on usage, data on times of usage, train leasing rates, and so on should be made public as a matter of course. Requirements to that effect can be inserted into franchises, ensuring a level playing field between incumbents and entrants.

7. End revenue sharing

Currently franchises are let with a specified target revenue. From the fifth year of the franchise, if revenues are more than 6% above this target, 80% of any outperformance will accrue to government, with the company only receiving 20%. Equally, if there is a shortfall, the government covers 80% of it. (There is a 50:50 split if revenues are 2-6% from the target). The rationale is that since the government has specified the output, and since operating trains is a close-to-fixed-cost business since operators cannot reduce service levels, the government should share the risk.

This system creates dreadful incentives, which are exacerbated by the move to longer franchises, in which a greater proportion is covered by the revenue sharing agreement. Once revenue sharing begins, then whether revenue is above or below target the companies' incentives to do well are hugely reduced. As one railway executive remarked privately, "If I improve a station, I pay all of the costs of doing so, and only get 20% of the benefit. Do you wonder why I have no interest in improving my stations?" He gave as an example improving the entrance to a station that made people feel safer, and

so increase the number of people travelling at night. Imagine, he said, that the project costs £1 million, and leads to a £4 million improvement in revenue, as well as being a significant improvement for people who already use the station but would feel safer at night. The project is clearer a winner economically, but since the train company would only get 20% of the £4 million increase in revenue, the project is loss-making, and would not go ahead. This cannot be right.

In theory the Department could be mandated to cover a share of the costs of improvements, but in reality no government is going to allow private companies to spend money in such a way, and there would be a real risk that train operating companies would inflate costs in order to get more money from the Department.

The Association of Train Operating Companies (ATOC) has called for revenue sharing to move from 80:20 to 50:50[10]. Although this would be an improvement, abolishing revenue support altogether, so that companies have a 100% incentive to undertake revenue enhancing projects, is the best way forward. Companies need to be given every incentive to make trains attractive, in good times and bad.

The ATOC also suggest that revenue support should be replaced by support based on GDP levels, that is to say, premiums and subsidies would move in line with GDP. This would have the advantage that companies would have a 100% incentive to do the right thing, and is better than the 50:50 support proposal. Nevertheless, the best approach is to leave companies to bear the risk themselves. After all, commercial companies regularly make big long term investments in projects whose profitability is very sensitive to demand levels, without government support. Railways should be no exception: they are commercial firms, and can take commercial risks. This is particularly feasible to do if companies are given more flexibility as to service levels.

8. Running franchises: be flexible

Commercial companies can change the products that they offer and it is this ability to respond to changes in demand - whether caused by cyclical fluctuations or structural factors - that is an important aspect of a company's ability to cope with changing economic conditions.

Train operating companies are essentially denied this freedom, and as a result end up running services that may not have made commercial or other sense at the beginning of the franchise, but which certainly do not make sense when conditions change.[11]

It should be much easier to change or withdraw services. Clearly, however, companies cannot be allowed to make changes at whim but the performance algorithm outlined earlier would provide the

[10] "Franchise Reform", March 2010

[11] A similar argument was advanced by "Insider" in Rail magazine recently: "Cut capacity, meet demand", Rail 615, http://www.railmagazine.com/downloadfile.asp?file=44

baseline. Imagine that South West Trains wanted to replace the off-peak service from Hampton Court to London with a shuttle from Hampton Court to Surbiton, where passengers would change onto a train for London. If the half hourly through service is replaced by a half-hourly shuttle service the overall service has clearly deteriorated. The extent of the deterioration would be calculated using the Department for Transport algorithm. The additional time taken, and the "disbenefit" of changing trains at Surbiton would be calculated, not only for passengers from Hampton Court but for all intermediate stations where passengers may be using the train that started at Hampton Court.

The company would have three options. First, they could propose other train improvements in lieu, which equate to a value at least equal to the loss from this reduction. In this case, for example, they could offer a quarter-hourly shuttle service from Hampton Court, so that although people have to change, they do not have to wait as long for the train. The algorithm will calculate whether this is a better service for people from Hampton Court, and since the algorithm would be public (indeed, most of the material is published by the Department online already), the rail company could see whether a change such as this is likely to be allowed. Alternatively they could use the newly freed up train path to provide an additional train to another destination. Hampton Court might lose its through trains, but those paths could be used to provide additional trains to Kingston. Since Kingston has greater passenger numbers than Hampton Court, it is plausible that this would represent a net improvement, and would thus be a change that would be allowed, were the company to propose it.

Second, the company could offer compensation in lieu of the fall in service, in the form of lower prices for those travelling from the affected stations. Since the fall in quality has a value attached to it, it is straightforward for the company to calculate the extent to which a fall in price would compensate for the reduced service. In many cases it will be economic for the company to offer that, and in general such an offer is likely to be accepted.

Finally, the company could offer compensation to the community in lieu of the fall in service. This would be the obvious approach if it was not practical to compensate travellers via lower prices. Again, since the value of the fall in service is calculable, the minimum amount of compensation that would be acceptable can be calculated. In essence, if the cost to the company of running a particular service, net of revenues, exceeds the compensation costs, then the company should propose withdrawing the service and paying compensation. In keeping with a localist approach, the compensation would be paid the relevant local authority, and it would be up to the local authority to accept or decline the company's offer.

If a particular train is almost completely empty, then the rail company will be able to offer a sizeable sum, since that would be less costly than running a train with virtually no ticket holders. Since few people are using the train, it would make sense for the council to accept a decent offer from the train company wanting to withdraw the train. This is efficient in the short run – the train company becomes more profitable, the local authority is happy. Knowing that this will be possible later means that train

operating companies will be willing to bid more aggressively for future franchises. It also demonstrates to other putative train companies which services are not worth operating, and thus will gradually lead to the railway developing a more commercial timetable.

Finally, every time a train is withdrawn, a new train path becomes available. In areas where train paths are scarce, this allows other operators the opportunity to step in with an "open access" train. This might be an identical service to the one withdrawn, if a different operator believes it can make the service profitable. Or it might be that another operator wants to use that path to provide a service that has not previously operated. In order to allow such open access operators the ability to use such slots, the rail regulator should ban the train operating companies from operating very slow or very short services at bottlenecks whose primary purpose appears to be to prevent other companies from using train paths. The regulator should also have the ability to reschedule trains slightly to create extra train paths if other operators request them.

> The author once caught the train from Worcester to Oxford shortly before midnight on New Year's Eve. The train's guard expressed surprise at having a passenger, stating that this particular train was usually empty all the way, and indeed no-one else got on for the entire journey. That train should not have been run, and operators should be encouraged to nominate trains like this for deletion from the timetable, in exchange for a reduction in subsidy from government. As tax payers there are far better things to spend money on that running trains that (virtually) no-one wants to travel on.

In order to prevent timetables varying week on week, train operating companies would only be allowed to withdraw services twice per year, at the start of the summer and winter timetables. In addition, if an open access operator uses a newly-freed train path, they gain the right to keep that train path until the end of the franchise. This means that the train operating company cannot stop running a train in March, and demand the slot back in September.

This level of flexibility could be introduced immediately, for all existing franchises. It offers the possibility of significant falls in costs in the short term.

Likely Outcomes

There are three likely outcomes from the package of reforms envisioned here. First, both Network Rail and train operating companies will have better incentives to act in ways that minimise costs and provide value for money services. Second, new low cost niche providers are likely to provide low cost services on some relatively little used parts of the network. Third, the number of train miles will fall, as operators pull back from running trains that are consistently used by relatively small numbers of people, and from running stations that are used by only a handful of people each week. This reduction in train miles will lead to a reduction in passenger miles, but the reduction in passenger miles will be far smaller than the reduction in train miles, and will lead to very large financial savings. In some cases the remaining trains

will be able to run more quickly, since they will make fewer stops, which may lead to some compensating increases in passenger numbers.

This is not an “anti-rural” policy. Many of the services that are likely to be most affected are off-peak suburban services that are currently operated at density levels surprisingly similar to peak time levels, despite far lower levels of demand. Some people will have to wait a little longer for the train, other people will have to change trains. But the financial savings would outweigh the costs to these groups of people, perhaps by an order of magnitude. In our current financial environment, it is time to separate out the essential from the desirable. We would all like the train to run non-stop, from our home station to our destination, at exactly the time of our choosing. But we all need to accept that that makes no commercial sense unless many other people share our preferences. Companies should run trains people want to travel on, because that is the socially and economically sensible way to run a railway. Part of the savings made will accrue to all of us as taxpayers, but since prices will also be taken into account when awarding franchises, part of the benefit will accrue to passengers. This has the potential to make the policy popular with those who travel, as well as with taxpayers as a whole.

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About the Author

Tim Leunig is Reader in Economic History at the London School of Economics. Among other work he has produced the definitive study on the value of British passenger railways prior to 1913, and authored the chapter on railways for *Paradoxes of Modernisation*, an Oxford University Press publication looking at public services since 1945. His research has won a number of international awards and been judged 'outstanding' by the Economic and Social Research Council. He has advised Parliament, the Treasury, BIS and the Department of Transport. Tim is the author of several previous Policy Exchange reports including *Right to Move*.

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