

Rail industry must find £3.5bn of annual savings, says transport secretary

Justine Greening says nationwide rollout of Oyster-style technology and fewer on-train staff could help reduce subsidy

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Britain's rail network currently receives £3bn-£4bn of central government subsidy annually. Photograph: Cathal Mcnaughton/PA

Plans for smart ticketing for rail passengers across the UK and the prospect of even higher fares at peak times were unveiled by the government as it looks to save billions of pounds by radically altering the way the rail system is run.

Justine Greening, transport secretary, confirmed on Thursday that she wanted the industry to deliver savings of £3.5bn a year by 2019. Greening said passengers and taxpayers were picking up the tab for the "costly efficiency gap" and that reform was long overdue.

She said deeper collaboration between Network Rail's track managers and the train-operating companies could cut costs.

Greening wants smart ticketing along the lines of London's Oyster card to be extended to other parts of the country. She also announced a consultation on fares that could mean season tickets for part-time workers and "21st-century working practices". It could allow operators to sell airline-style ticketing, with prices rising according to demand, and new "shoulder" fares to smooth the large gaps between peak and off-peak prices.

She proposed selling tickets at corner shops and in surviving local libraries to suit passengers' needs – an idea condemned by unions, which claim 675 smaller railway booking offices are under threat.

While Greening insisted that reform and costcutting should mean commuters eventually pay less overall, passenger groups warned that allowing premium peak-time fares risked derailing any fares review.

Sophie Allain, of the Campaign for Better Transport, said that they welcomed discount fares and more smart and integrated ticketing but added: "All of this will be overshadowed if operators are allowed to charge premium fares on busiest services."

Fares are already set to rise well above inflation next year and Allain said YouGov polling, which the campaign had commissioned, showed only 14% of people believed raising prices faster on busier trains was fair.

Managing rush-hour demand through higher peak fares could delay the need for longer trains, the Department for Transport believes.

The DfT's rail command paper was a response to Sir Roy McNulty's 2011 rail value-for-money study, which said UK railways were among Europe's most costly and the industry could save 20% to 30% by changing working practices.

Current central subsidies to the rail industry run at about £3bn-£4bn a year, excluding expenditure on big infrastructure projects such as Crossrail and the £33bn minimum earmarked for HS2, the high-speed rail tracks linking London with the north.

McNulty cited high wages as a problem, and proposed fewer staff on trains and closing hundreds of smaller booking offices.

The DfT said it would award longer franchises to train operators to encourage investment, and welcomed moves by Network Rail to hand over more powers to its regional route directors. Yet Thursday's command paper was short on specifics of where the billions will be saved, with Greening saying that the detail of how cuts can be achieved would be left to the industry's own bosses to decide via the Rail Delivery Group.

However, the DfT indicated that they should seek to implement more driver-only trains and stated that future franchises would be awarded to companies with a strong record of driving down costs. Greening denied this would mean job losses overall, pointing to investment that would mean more skilled employment in the sector in years to come.

Unions have warned that concessions allowing train-operating companies to run both trains and track would suck more taxpayers' money into private profits.

Bob Crow, RMT general secretary, called the plans "a recipe for exploitation" and warned that jobs were at risk, adding: "The assault on jobs and working conditions set up by McNulty, and now mirrored by the government, will be met by a national campaign of resistance."

The Campaign for Better Transport has warned that super-peak fares would not be effective in managing peak demand, as many commuters have inflexible work times or family commitments. Their research suggested higher peak fares would have only a marginal impact on travel patterns.

The shadow transport secretary, Maria Eagle, said the restructuring plans were "deeply worrying" and left "a massive accountability gap at its heart". She said it would create an even more fragmented system with more costs and more opportunity for train operators to raise fares and close services.

Michael Roberts, chief executive of the Association of Train Operating Companies, said that the proof of government intent would come in how franchises were awarded over the next two years: "The government must genuinely step back from the detail, [and] give the railways the freedom to run better services at a lower cost," he said.

Responding to Bob Crow, he said reducing costs was crucial to deliver services at a price people can pay. "This is not about yesterday's ways of driving trains or manning ticket offices. If it's not affordable none of us are going to have jobs on the railways. There are working practices that can be modernised. That doesn't necessarily mean making people redundant."

Greening also announced a consultation on devolving power over the network, an opportunity welcomed by regional transport authorities, which would like to emulate the kind of integrated model of Transport for London.

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