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Rail industry needs clarity on contracts and public support

The Guardian interviews **Tim O'Toole, chief executive, FirstGroup**, ahead of his George Bradshaw Address on 31 October

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Tim O'Toole, formerly at London Underground, becomes FirstGroup chief operating officer. Photograph: FirstGroup plc

Q: In the inaugural George Bradshaw Address last year, Rick Haythornthwaite said: "We know that many of the public view the leadership of the industry with confusion, suspicion or disdain. They don't trust us and therefore are resistant to changes we want to make." Is there a lack of public support for the rail industry and if so, how serious an impediment is it to the industry's progress?

A: The points that Rick made last year are very important and what we have done on the Rail Delivery Group, and what I hope to bring out in my speech, is to carry forward the answers to the questions he posed. Given the current state of the industry it is critical that we come together to find the answers. There is an issue of public comprehension of the industry and I hope to develop that theme in my speech, pointing to a complexity in the industry that creates value in many ways but it also creates confusion in the minds of the public. They feel that it is difficult to understand the industry and to do business with it, to access it, to be sure they are getting the best deal. It is incumbent on the industry to overcome that. And that, partly, leads to the perception issue that Rick talked about.

Q: The west coast franchise process has been cancelled and the award of three more contracts has been postponed. What does this mean for the franchise system going forward and for its credibility?

A: If there is a crisis in this industry then it is with regard to this subject. We have to work with the government to make sure that we preserve the benefits of what franchises have given us, while addressing the concerns that have been raised. However, those concerns are in many ways unclear to all of us since the deficiencies outlined by the government are to do with its own deliberations on the west coast main line contract. I

don't know if anyone has clarity about what exactly happened. The need to react constructively, and find a new way forward, weighs heavily on FirstGroup in particular, since we were the wronged party who, as the government said, acted entirely in accordance with its instructions. We don't, however, want to exacerbate the problems caused by this decision taken by the department. At FirstGroup we have to find a constructive way forward while at the same time protecting our position.

Q: As chair of the Rail Delivery Group, in your view how far has the industry come in achieving the reforms outlined by [Sir Roy McNulty's report into realising value in GB rail](#)?

A: We have come a very long way in comprehending the reforms outlined by McNulty. That is important because now we know what is in the realm of the possible, what can be developed and what cannot be counted on.

The very large numbers that relate to train utilisation will not be achieved [McNulty said costs could be lowered if trains are used more] because we think there are some basic problems in the analysis. Achieving the numbers outlined by McNulty would require such an extensive change in service patterns that we don't believe there would be sufficient interest.

In terms of changes to asset and supply chain management, we believe we can put structures in place that will allow the industry to grasp those savings. However, most of those savings occur in the CP5 period between 2014 and 2019 and achieving them requires the government to make choices. So they have to approve basic structures and incentivise train operating companies, freight operating companies and Network Rail to co-operate with each other.

Train operators and freight operators have to see that long-term vision in place in order to feel that they are not giving away some competitive advantage in franchising, in order to get those sums. That's why we have to get franchising back up and running. We will not uncover all the savings that McNulty talked about if we don't recover the franchising programme promptly. We will not be able to get the alliance structures, and other structural changes, that will be critical to creating those savings.

Q: How much further does the industry have to go before it can achieve McNulty's vision, as well as £1bn in cost cuts?

A: The £1bn target is a serious ambition. This will come out in the government's High Level Output Statement, which sets out what it wants from the railway over the next five years. As the industry completes its response to that, which sets out how they are going to deliver the HLOS with the funds available, we run into this £1bn number head-on. While at the RDG we are absolutely confident in the work that we have done and it opens up savings, we are working with the government to make sure that everybody has the sums in the right columns, to avoid double-counting and duplication. There is no way that Network Rail can hit its goals without the full cooperation of the rail operating companies and freight operating companies.

Q: Do you sympathise with passengers who complain that rail fares are too expensive, consistently rise higher than inflation, and are poor value for money?

A: I do sympathise with passengers. So long as we have fare increases above inflation, people are going to feel aggrieved. But the growth keeps coming. At FirstGroup we find that the growth is coming not from people paying high-profile fares that we see in the media, but from finding value on the network. The industry labours under the fact that the government's policy is to shift the cost from taxpayers to passengers. That transition makes us look like we are going for big rate increases. I don't think that is a fair depiction

of what is happening. With the government's recent changes on fare increases [being lower than expected], I hope that perception starts to balance out.

Q: You had a successful career in the rail industry in the United States before coming to the UK, how does rail and public transport in the US compare with over here?

A: This speaks to the wider perception of rail among British people. The public transport market in the UK is infinitely superior to the US. The great success in the US has been on the freight side. Passenger services, with the great exception of New York City, have largely been neglected.

Q: What is the international role model for rail that the UK should follow, and why?

A: Paradoxically, governments in international markets, and certainly in Europe, are looking to the UK model. So the whole impetus behind the single signalling solution of the European Rail Traffic Management System, for instance, is an opening of the market and a separation between track and train - like in the UK. One of the reasons why the sovereign rail entities like Deutsche Bahn and SNCF are active in the UK market is that they want experience of it before it spreads through Europe.

Q: If McNulty says the rail industry is too expensive, and you agree with that, why is it so costly and is it an inherent consequence of the fact that rail has three masters: franchisees, Network Rail and the Department for Transport?

A: This is about the structure of the industry and making sure we have a better way of presenting choices to the government about how we spend its money on transport. Since the Strategic Rail Authority went away the government has not had as much assistance in helping it choose how to spend its rail budget. That is a role the Rail Delivery Group is hoping to fill. We will outline to the government the choices that it has. If we as a group continue to cooperate and work together - although the current environment will test that after the West coast mainline decision - then there could be a better way for industry to explain itself, and its costs, to the public.

Q: The train operators appear to have a bumpy relationship with Network Rail at the best of times. How will the RDG improve that?

A: Once the RDG is formalised, it will force Network Rail and the train operators to make the whole structure of the industry coherent. We do not want separate bodies, all of whom seem to have a separate piece of the industry. We want them organised into a more unified structure under the RDG, so we don't have an uncoordinated industry representing itself to the government and the public.

Q: You ran the London Underground for six years and your tenure was widely recognized as a great success. By extension, would a vertically integrated railway be a more successful structure?

A: That's a generous depiction. Although I did not always work with a fully integrated underground [due to the failed PPP to upgrade and maintain the network], the integration of track and train had enormous advantages and I would not dispute that. The challenge facing the UK rail industry is a little different though. One of the things that a more diverse industry gives you is innovation and more answers. It is highly unlikely that if you put a monolith like British Rail in control you would have had the innovation that we have seen, that has driven record passenger numbers - one of the biggest increases in rail use modern history. A vertically integrated structure would not address the main challenges facing the British rail industry right now.

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