

Institution: University of Essex
Unit of Assessment: 19 – Business and Management Studies
Title of case study: Private Railways: Changing Tracks and Driving Debate
<p>1. Summary of the impact</p> <p>Stittle's research on Britain's rail network has provided an evidence base for much public and parliamentary debate about the merits of the private rail industry and about how best to reform Britain's railways. Stittle's contribution to rail-reform debate has been achieved through citations of his work by MPs in parliamentary debate, and through publication of many of his research findings in a report published by the main railway unions. Through its substantial influence on the railway unions' report, Stittle's research has had impact on the unions' campaign for better state oversight of the railway industry. The results of his work have thus been changes both to the campaigning activities of railway unions and more broadly to public debate about the rail industry.</p>
<p>2. Underpinning research</p> <p>Stittle's research studies the contemporary British railway industry, with particular focus on the effects of the privatisation of Britain's railways and the conduct of railway network operators, private train operators, and rolling stock companies. The findings of his research show the failings in the separation of ownership and control of the railway infrastructure from that of passenger and freight train operations. Stittle (Teaching Fellow/Lecturer at Essex from 2001, Senior Lecturer since 2009) has published analyses of the negative consequences of this separation for both the passenger and freight train industries. More specifically, the research has focussed on the following areas:</p> <ul style="list-style-type: none"> ▪ Stittle's work on passenger services includes a case study (2011) of privatised train operator Great North Eastern Railways (GNER). In his case study Stittle observes the general structural and financial weaknesses of the privatised model by using GNER as an illustrative example. He shows that GNER's failure to meet its contractual obligations was due to, <i>inter alia</i>, fragmented railway asset ownership and a lack of coordination between train and railway infrastructure operations. ▪ His research on passenger rolling stock companies ('Roscos') has revealed that assets were under-valued at the time of privatisation, leading to substantial private gains in subsequent sales of the companies and excessive returns obtained by the Roscos (which in turn feeds back to the train operating companies in the form of higher lease charges – see the publications for 2008 and 2012 below). ▪ Stittle has also conducted research on the British privatised rail freight industry. This research has identified issues of regulatory capture, the benefit of 'hidden' state subsidies for the freight operating companies, and their disappointing post-privatisation performance (see 2004). In addition, the research included study of the formation of Network Rail (NR – published as McCartney and Stittle, 2006). This research showed that NR was used to keep high levels of public debt (incurred to rectify the damage done by NR's predecessor, Railtrack) 'off balance sheet'. The debt was incurred under the name of NR, but still indemnified by the government, allowing the government to omit these particular state contingent liabilities from the Treasury's Public Sector Net Debt statistics. ▪ Stittle has also found that private train operating companies (TOCs) have benefited from indirect government subsidies. His research shows that subsidies that the government pays

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to NR, responsible for the railway infrastructure, lead to reductions in charges levied on TOCs by NR, but not to a reduction in rail fares for passengers (published in McCartney and Stittle, 2006). A more recent paper develops this research into the distortion of financial statements. This paper shows how the railway industry has frequently manipulated its depreciation and its asset valuation policies in its financial statements for political and financial reasons. In particular, the paper highlights Network Rail and explains how its financial statements were revised shortly after formation in order to inaccurately present its debt as less than its asset base (published in McCartney and Stittle, 2011).

Stittle's research findings constitute a body of evidence about the failings of private rail network operators. This body of evidence has informed a variety of stakeholders in policy debates about the future ownership and control of British railways.

3. References to the research

Stittle, J. (2002) Regulatory control of track access charges of Railtrack plc, *Public Money and Management*, 22 (1), 49-54. DOI: 10.1111/1467-9302.00296

Stittle, J. (2004) Accounting for UK rail freight track charges. Privatisation, profits and the pursuit of private sector vested interests, *Accounting Forum*, 28 (4), 403-425. DOI: 10.1016/j.accfor.2004.05.002

McCartney, S. and J. Stittle (2006) 'Not our problem': UK Government's fiscal obligations towards the privatised railway network, *Accounting Forum*, 30 (2), 139-153. DOI: 10.1016/j.accfor.2006.02.003

McCartney, S. and J. Stittle (2008) 'Taken for a ride' – the privatisation of UK rolling stock industry, *Public Money and Management*, 28 (2), 93-100. DOI: 10.1111/j.1467-9302.2008.00627.x

McCartney, S. and J. Stittle (2011) 'Carry on up the east coast' – a case study in railway franchising, *Public Money & Management*, 31 (2), 123-130. DOI: 10.1080/09540962.2011.560709

McCartney, S. and J. Stittle (2012) 'Engines of extravagance': the privatised British railway rolling stock industry, *Critical Perspectives on Accounting*, 23 (2), 153-167. DOI: 10.1016/j.cpa.2011.10.001

4. Details of the impact

As a product of extensive analysis of the problems that have beset the privatised British rail networks, Stittle's research has provided evidence for parliamentary debate about the merits of the current industry, and has informed public discussion of the virtues and vices of private railways. His primary impact on public and parliamentary discussion has been mediated via *Rebuilding Rail* a report and campaign document produced by the UK's major railways unions, while other impacts have included consultation on TV media and citations of his academic publications by politicians and policy think tanks. The effect of this has been to improve the evidence base for railway union campaigns, to influence the form that union campaigns have taken, and to influence policy debate.

In June 2012 Transport for Quality of Life, a transport think tank and NGO, published a report entitled *Rebuilding Rail* which was jointly commissioned by the main railway unions: RMT (National Union of Rail, Maritime, and Transport Workers), ASLEF (Associated Society of Locomotive Engineers and Firemen), TSSA (Transport Salaried Staffs' Association), and Unite [corroborating source 1]. *Rebuilding Rail* discusses the future of the rail industry and the methods by which the industry can be brought back under closer state control and accountability. The report has functioned as the unions' official statement on the rail industry and of their position in on-going

debate on the future of railway operations.

Stittle's research influenced the report in two ways. First, he is widely quoted as an expert witness for the report, specifically on the problems of the passenger franchising model, the structure and financing of Network Rail, and the funding of the rail freight industry (*Rebuilding Rail* pp.16, 28, 32, 37). All of Stittle's comments in the report are informed by his research. Second, the paper directly cites his publications in this area. The report cites his 2011 paper to support its contention that some private train operating companies (TOCs) have not made the anticipated premium payments to the government (p.21), that TOCs are insufficiently accountable for their premium payments (p.38), and that the franchising of train services has resulted in little real competition between TOCs (p.22). His 2004 paper is cited in the report as evidence that there have also been problems with privatised freight train services (p.29). Finally, the 2006 paper is cited to support the contention that Network Rail is insufficiently accountable for its actions because the government is ultimately responsible for NR debt (p.64).

The report has had an on-going influence on policy debate about railway reform. It continues to inform MPs' comments on the railways, both in House of Commons debate and in news media. The significance and validity of *Rebuilding Rail* has been acknowledged in interview by Maria Eagle MP, Labour's Shadow Transport Secretary. Eagle told *The Observer* that the report makes a 'coherent case for reform' of the railways [corroborating source 2]. Natalie Bennett, Green Party leader, cited the report in support of her argument for renationalising the railways on the Green Party website [source 3]. The report has also been used to support arguments put forward by NGO political campaign group Action for Rail, which has argued that rail franchising is unsustainable [source 4]. Finally, the importance of the report is attested by its coverage in national and specialist media, including *The Observer* [source 2] and *Rail Technology Magazine* [source 5].

Both the *Rebuilding Rail* report and Stittle himself were favourably cited by John McDonnell MP in a House of Commons debate about rail fares. In this debate McDonnell paid 'tribute to the detailed work of John Stittle, the senior lecturer in accounting at the University of Essex, in the *Rebuilding Rail* report' [source 6]. Using Stittle's research, McDonnell explained how 'we have increased the public subsidies to Network Rail, resulting in a reduction in the track operational costs for private companies, which has enabled them to pay the premiums. Under privatisation, there has been a straightforward subsidy from the taxpayer to the private companies to run the system, the passengers have been hit by high fares, and the premiums that the companies pay back to the state, which they extol the virtues of, have actually been paid for by subsidies laundered through Network Rail'. McDonnell used these research findings to demand 'a re-examination of the whole structure'.

Stittle's other contributions to public debate of rail reform, arising from the research, include:

The McNulty Review: In 2011 his research (2008) was cited in an investigation by engineering and business consultancy firm Arup [source 7: sec 10.1.2]. The investigation was commissioned by Sir Roy McNulty's independent review of the costs and efficiency of the British railway system [source 8]. The review recommended to the government a series of cuts to reduce the costs of running the railway system. The recommendations about ways to reduce the costs of supply-chain management were supported by the Arup investigation, which was in turn supported by Stittle's research into the privatisation of the rolling stock industry. The government's response to the McNulty review was published as the Department of Transport's 'Reforming our Railways' statement. This response endorsed the recommendations of the McNulty review and set out the means to achieve the cost reductions suggested by the review [source 9: paras 1.15, 3.45, and 6.5]. More specifically, the government response included measures to improve the rail supply chain, as suggested by the Arup-informed McNulty recommendation [see paras 4.68 – 4.70].

ITN's Tonight programme: Some of the more general aspects of the failings of rail privatisation from Stittle's research also fed into an ITN *Tonight* documentary, 'Off the Rails' which was transmitted on national television at 7.30pm on 25th October 2012. He was contacted by Independent Television News specialist editor to consult on various financial aspects of railway privatisation – which drew on his train franchising research – to assist in researching and advising on the privatised railway industry [source 10].

RMT: In 2011 the RMT trade union commissioned a report by *Just Economics* into the value for money of UK rail system in comparison with France, Germany, Italy, and Spain. Stittle's case study of GNER (2011) was cited to support the report's view that 'the interests of GNER's parent company...were at odds with the public interest' [source 11]. The RMT used the *Just Economics* report, supported by Stittle's research, in their written evidence [source 12] submitted to the Rail 2014 Consultation called in 2012 by the Scottish Parliament's Infrastructure and Capital Investment Committee. Specifically, the RMT argued that maintaining or increasing employment levels in the rail industry had potential socio-economic benefits. This contention was supported by figures from the *Just Economics* report, itself supported by Stittle's observations about previous mismanagement of the railways.

5. Sources to corroborate the impact [All sources saved on file with HEI, available on request]

1. Transport for Quality of Life, *Rebuilding Rail* (2012)
2. Toby Helm, 'Labour backs calls to return railway network to public control', *The Observer*, 30 June 2012: <http://www.theguardian.com/uk/2012/jun/30/labour-railway-network-state-control>
3. Green Party, 'Green Party calls for end to failed privatisation experiment of national rail services', 28 November 2012: <http://greenparty.org.uk/news/2012/11/28/price-hike-proves-rail-should-be-renationalised/>
4. Action for Rail, 'How franchising scams the taxpayer for billions', 12 October 2012: <http://actionforrail.org/how-franchising-scams-the-taxpayer-for-billions/>
5. *Rail Technology Magazine*, 'Labour backing for proposals to begin renationalising the railway', 2 July 2012: <http://www.railtechnologymagazine.com/Fares-rail-policy-and-DfT-news/Page-1/labour-backing-for-proposals-to-begin-renationalising-the-railway>
6. Hansard, 5 Sep 2012, Columns 277 and 278
<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120905/debtext/120905-0002.htm>
7. Arup, 'Rail value for money study', March 2011
8. Sir Roy McNulty, 'Realising the Potential of GB Rail', *Department for Transport*, May 2011
9. 'Reforming our Railways', *Department for Transport*, March 2012
10. Specialist Editor, ITN (Stittle is also credited at the end of the programme)
11. 'A Fare Return', *Just Economics*, 2011
12. 'Written Evidence from the National Union of Rail, Maritime, and Transport Workers', submission to the Infrastructure and Capital Investment Committee, Scottish Parliament