Railways: Railtrack, 1994-2002

Standard Note: SN/BT/1224

Last updated: 24 March 2010

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Section Business and Transport

The Note gives a history of Railtrack from when it was set up in 1994 to 2002 when it emerged from administration.

Railtrack was set up on 1 April 1994 under the *Railways Act 1993* to manage the rail infrastructure (track, stations, etc.). It was sold to the private sector on 20 May 1996. The Labour Government made changes to the operation and supervision of the rail industry in the *Transport Act 2000*, particularly to the regulator's powers over Railtrack's investment plans. Railtrack's main sources of revenue were the charges it levied on train operators for track access and the lease income it received for stations and depots. Until 2001 Railtrack did not receive direct revenue subsidy from the Government although it was indirectly dependent on the significant amount of public sector support received by the train and freight operating companies.

Various reasons were put forward for the company's troubles, some dating back to the time it was privatised. For example, privatising an industry that continues to need large subsidies leads to problems; the form of privatisation chosen involved a mass of complicated and antagonistic relationships between Railtrack and its customers and the regulator; and no account appeared to have been taken of the poor state of the railway. Poor management and inadequate direction did not help; nor did the three major fatal rail accidents that occurred on its watch – all attributed to factors under the company's overall control.

Railtrack plc was put into administration on 7 October 2001 and came out of it on 1 October 2002. Network Rail took over many of its responsibilities on 3 October.

Library Standard Note SN/BT/1076 provides further details on the 2001 administration and the position of the company's shareholders. Standard Note SN/BT/2129 gives details of the company after October 2002 when it emerged from administration as Network Rail.

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1 Overview

The *Railways Act 1993* provided the legal framework for the privatisation of British Rail (BR) and the introduction of a new structure for the rail industry. The Act received Royal Assent in November 1993 and many of the principal changes were brought into effect on 1 April 1994.[1]

Railtrack became a separate Government-owned company on 1 April 1994 when the track, signalling and freeholds of stations, other buildings and operational land were transferred to it. It employed about 11,000 people (of whom 6,000 were signalmen and supervisory staff) organised in seven geographical zones. It owned and managed the vast majority of track, signalling and other infrastructure of Britain's railways. Train operators were granted access rights to the track and were charged for that access. Railtrack was in charge of co-ordinating train movements through central timetabling, train planning and signalling and was also responsible for the safety of the operational network. It operated the rail network, including signalling, and provided electricity for the train operators.

Railtrack was the freeholder of passenger train stations and light maintenance depots. In most cases, stations and depots were leased to the train operating company (TOC) that ran most of the services through the station or made greatest use of the depot. Railtrack retained responsibility for operating the 14 large mainline stations that had potential for commercial trading or property development and involved private sector operators in developing these stations. It also had a property portfolio including, as well as the stations, operational railway land, buildings and installations that it took over from British Rail.

The relationship between Railtrack and its customers and principal suppliers was governed primarily by contractual agreements. The most complex ones were the track access agreements, the major station access agreements, the leases of stations (other than the major stations), the light maintenance depots and other rail facilities and the maintenance and renewal contracts. The principal contracts with its customers, and the infrastructure maintenance units (IMUs) and track renewal units (TRUs) included performance regimes that

[1] for more information about rail privatisation see HC Library standard note SN/BT/1157

provided financial incentives to the parties aimed at improving the punctuality and reliability of the services.

2 Privatisation

When the original scheme for rail privatisation was unveiled in 1992 the idea of selling Railtrack to the private sector was scarcely mentioned. It appears to have been the Government's intention to privatise Railtrack eventually but the priority was to transfer the train services to the private sector. Only after that process was completed would Railtrack follow.

The first mention of the possibility of privatising Railtrack was in an October 1992 consultation document. This commented that it might be possible for track to be sold outright to the private sector, subject to the general right of access being preserved for passenger services and to the oversight of the regulator.[2] The then Secretary of State for transport, John MacGregor, confirmed this point in a debate in January 1993 when he said: "The track and signalling will remain in public ownership, although in the long term privatisation of that is not ruled out".[3] The following month the commitment to eventual privatisation had hardened:

> Railtrack will be the owner and manager of railway infrastructure. It will for the present be in the public sector. But from the outset Railtrack will be independent of British Rail. In the longer term, the Government wishes to see the private sector owning as much as possible of the railway, and in the Railways Bill is seeking powers to allow the future privatisation of all infrastructure currently owned by British Rail.[4]

There was no specific mention of Railtrack in what became the *Railways Act 1993,* although by implication it was covered by Part II, which enabled the Secretary of State to restructure BR as he thought best. Nor did Railtrack feature much in Parliamentary debates on the Bill, although it was referred to from time to time.[5] Section 113 of the 1993 Act did, however, specifically state that the principal objective of the Secretary of State was to ensure railway services were performed by the private sector.[6] In November 1994 the then Secretary of State for Transport, Dr. Brian Mawhinney, announced that the Government intended to "privatise Railtrack within the lifetime of this Parliament".[7] In his speech to the Conservative Party conference in October 1995, his successor, Sir George Young, confirmed the company would be floated in the spring of 1996. The ‘pathfinder prospectus’ was issued to financial institutions on 15 April 1996 and gave more definite information about the future company after privatisation.

The Labour Party was opposed to the privatisation of the railways, including the sale of Railtrack, and campaigned to prevent it happening. It wanted to see a "publicly owned and publicly accountable" railway but was not prepared to promise large sums of money to buy back the company once it had been sold. The Labour Party's policy towards Railtrack had to be included in the prospectus for the privatisation and the then Opposition Spokesman for Transport, Clare Short, set out the Party’s position in a March 1996 speech.[8] A Labour

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2 Department of Transport, *Franchising: a consultation,* October 1992

3 HC Deb 12 January 1993, c790

4 Department of Transport, *Gaining Access to the Railway Network,* February 1993, para 2.1

5 e.g., the then Railways Minister, Roger Freeman, stated "Railtrack will be in the public sector for the foreseeable future" (SC Deb (B), 23 February 1993, c400)

6 this section was repealed by the Labour Government under the *Transport Act 2000*

7 HC Deb 24 November 1994, cc729-739

8 Labour Party press notice, “Labour sets out policy on Railtrack”, 29 March 1996

Government would aim to create a "cohesive and responsible public railway service". This would involve three instruments of control: regulation, subsidy and a gradual increase in public ownership. She said that a Labour Government would "reconstitute British Rail as a fully publicly owned, publicly accountable company" and "dependent on the availability of resources, and as priorities allow, seek, by appropriate means, to extend public ownership and control over Railtrack".[9]

Railtrack was sold on 20 May 1996 at a UK price of 380 pence a share to be paid in two phases. The details were reported to Parliament by the then Secretary of State, Sir George Young:

> I am pleased to report that the government's UK public offer and international offers of Railtrack shares were successfully completed this morning when dealings in interim rights started on the London stock exchange.
>
> As a result of bids received in the international offers, the price of the second instalment for all investors in the UK public order and the international offers were set at 190p per interim right. Accordingly, the price for Railtrack interim rights purchased in the United Kingdom public offer was 380p per share, comprising 190p paid on successful application and 190p to be paid by 3 June 1997. The price for interim rights purchased in the international offer of Railtrack shares was 390p per share, comprising 200p paid on successful application and 190p to be paid by 3 June 1997.
>
> The Government offered for sale up to 434.8 million Railtrack shares in the UK public offer and the international offers (…)
>
> Total gross proceeds from the UK public order and international offers are expected to amount to some £1.67 billion, of which some £849 million is expected to be received in this financial year. Total gross proceeds may be further increased by a maximum of £254 million to the extent that, if at all, the global co-ordinator, SBC Warburg, exercises its option to acquire further shares (…)[10]

The cost of the Railtrack sale to the Government was £42.5 million;[11] the costs to Railtrack were £46 million in 1994-95 and £32 million in 1995-96.[12]

The National Audit Office (NAO) published a report on the Railtrack sale and said that the Government could have raised much more money by selling the company in a series of tranches as had been the practice with other nationalised industries. It calculated that sales proceeds might have been increased by at least £600 million if the Government had proceeded with a phased sale and had retained 20 per cent of the shares, or £1.5 billion if the Government had retained 40 per cent of the shares.[13] The Public Accounts Select Committee published its report on the privatisation in June 1999 and agreed that it had achieved poor value for money.[14]

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9 SBC Warburg etc., *Railtrack share offer prospectus*, 1 May 1996, p101

10 HC Deb 20 May 1996, cc35-36W

11 HC Deb 4 June 1996, c429W

12 HC Deb 26 November 1996, c159W

13 NAO, *The Flotation of Railtrack* (session 1998-99), HC 25, 16 December 1998

14 PAC, *The Flotation of Railtrack* (twenty-fourth report of session 1998-99), HC 256, 30 June 1999

3 Maintenance

Railtrack had to fund the maintenance of and the investment in the rail infrastructure, including track and stations. Condition 7 of Railtrack's licence stated that its purpose was to secure:

- the maintenance of the network;
- the renewal and replacement of the network; and
- the improvement, enhancement and development of the network.

Railtrack set out in its annual Network Management Statement (NMS) how it intended to carry out its duty in respect of projections for future network quality, planned modifications to the network, and the relevant financing arrangements.[15] The NMS had to be approved by the Strategic Rail Authority (SRA) and the regulator.

Maintenance and renewal of the track accounted for more than half of Railtrack's spending on the network. If it was not properly maintained, there was a risk of serious delays and cancellations to trains, a poor or potentially unsafe service to rail users and workers, and increased costs in the future to make good deterioration in the condition of the assets. The Office of the Rail Regulator (ORR) was responsible for ensuring that Railtrack maintained and renewed the network properly and for ensuring the regulatory regime provided appropriate incentives for Railtrack to do so.

At privatisation the only commercial incentives for Railtrack to improve its performance were provided by contracts between Railtrack and the TOCs, approved by the ORR in 1995. These provided for Railtrack to receive bonuses or penalties depending on its performance in avoiding delays. When the regimes were established it was anticipated that the financial effect would be broadly neutral, but in fact Railtrack benefited from bonuses most years as, until the late 1990s, they were responsible for fewer delays than in 1995-96, the base year.

The ORR did not require Railtrack to set targets until September 1997 when it amended its network licence.[16] In 1998-99 Railtrack succeeded in reducing delays by only two per cent against a target of 7.5 per cent. The ORR told the company it wanted a further 7.5 per cent reduction in 1999-2000 and would fine the company £4 million for every percentage point by which it fell short of the target.[17] Figures published in May 2000 showed that Railtrack had missed its target by 2.6 per cent, implying a penalty of £10.8 million. The penalty could, however, be reduced if Railtrack could demonstrate that it had taken all reasonable steps to reduce delay.

Railtrack's performance was the subject of a report (carried out before the Hatfield derailment) by the consultants Booz Allen Hamilton. In 1999 the ORR commissioned the consultants to review all aspects of Railtrack's performance between 1995 and 2001 as part of the periodic review. The eventual report was very critical of the lack of investment by Railtrack and found that the company was falling far short of meeting its performance targets. It found that track renewals had averaged around 1.3 per cent a year during the control period (1995-2001); this was low by comparison with European railways, which typically replace around two to three per cent per annum. Railtrack's 1995 Business Plan had quoted

[15] a summary of the NMS can be found in: "Railtrack's forward plan", *Modern Railways*, May 1997
[16] ORR press notice, "Regulator calls for greater public accountability from Railtrack", 21 May 1997
[17] ORR press notice, "Rail regulator launches enforcement action against Railtrack", 19 August 1999

2.2 per cent renewals per annum. [18] Overall, in terms of maintenance, the report found that Railtrack's physical activity in renewing assets had been 'below expectations':

> Renewal of rail has exceeded initial expectations, but renewals of other track components has not met initial targets. Railtrack has not delivered the major signalling schemes anticipated at the start of the control period, but has undertaken life extension works to maintain system performance. Railtrack has not delivered the expected output on stations as not all of the backlog of station maintenance inherited in April 1994 will have been cleared by April 2001.
>
> The control period is a very short timeframe in which to assess the sufficiency of a renewals programme, particularly where average age of assets is being increased as a deliberate policy action. In absolute terms, the volumes of work being done on the network have been low relative to comparators, which raises a concern that there may be an emerging backlog (although it should have been expected that a newly privatised Railtrack should seek to re-examine required rates of renewal).
>
> Railtrack appears to have focused its investment efforts on assets likely to generate performance improvements in the short run, such as renewal of rail, rather than investments in long term drivers of performance and quality, such as for example ballast renewal. Although performance outputs have been maintained, there has been some (temporary) decline in asset quality and an increased risk of deteriorating long term asset condition. [19]

In April 2000, the National Audit Office reported on the regulation of Railtrack's maintenance and renewal of the network. It found that although Railtrack was spending more on maintenance and renewals (then £1.7 billion a year) than had been forecast five years earlier, the ORR was not able to monitor the incentive regime because of inadequate information. The NAO recommended that the ORR give greater clarity on how it would assess Railtrack's progress and secure a better picture of the network's assets. [20] The Public Accounts Committee published a further report in July 2000. It concluded that passengers were suffering unacceptable delays as a result of poor maintenance, but it also pointed out the deficiencies in Railtrack's licence:

> The *Railways Act 1993* established a general framework for the regulation of the railway following privatisation, and provided for railway companies' licences to impose obligations on them in the public interest, for example to maintain the assets on which the public depend. When in 1994 the department of transport licensed Railtrack to operate the network, they intended that the company would remain in the public sector for some time. Accordingly, the licence was less detailed than would have been appropriate for a privately owned company with Railtrack's responsibilities, for example with regard to obligations for maintenance and renewal and for providing information to the ORR on the condition of the network. This gap in the licensing arrangements was partially responsible for the problems with Railtrack's maintenance and renewal of the network. The department did not change the licence when Railtrack were privatised in 1996.
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> Railtrack's licence at privatisation contained serious shortcomings because of haste in privatising Railtrack, and, as a result, passengers have seen poorer quality track, weak contracts between Railtrack and train operators, and possibly unjustified performance

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[18] Booz Allen Hamilton, *Railtrack's Performance in the Control Period 1995-2001*, 26 March 1999, para 72

[19] ibid., paras 127-129

[20] NAO, *Ensuring that Railtrack maintain and renew the railway network* (session 1999-2000), HC 297, 12 April 2000, executive summary, para 19.2

> bonuses to Railtrack. We are concerned that this haste contributed to serious deficiencies in the subsequent regulatory regime.
>
> In 1997 the ORR changed Railtrack's licence to set out the company's obligation to maintain, enhance, develop and renew the network. The ORR consider that the licence still does not go far enough in imposing obligations on the company for maintaining and renewing the network, and they propose further amendments to fill the gaps, including requiring Railtrack to maintain a comprehensive database of their assets and their condition. The ORR need to rectify these deficiencies in the licence without delay.[21]

A study of Railtrack's assets was started after privatisation and a new licence condition came into force on 18 April 2001 requiring Railtrack to establish and maintain a register of the condition, capacity and capability of its assets.[22] Railtrack was consequently required to produce regular reports to show the development of the register.[23]

4 Use of contractors

Railtrack's use of contractors came in for increased scrutiny following the fatal accidents at Ladbroke Grove in October 1999, where 31 people were killed when a high speed passenger train collided with a turbo diesel multiple unit train travelling in the opposite direction; and Hatfield in October 2000 where four people were killed and 34 were injured when a GNER train travelling from King's Cross to Leeds was derailed.[24]

The Transport Select Committee published a report on the renewal, maintenance and development of the UK rail infrastructure in March 2001. The Committee concluded that Railtrack's past performance in maintaining, renewing and developing the network was "seriously inadequate". It also found the regulation of the company to be wanting with serious weaknesses in the way in which the work expected from the company was specified, how its performance was monitored, and how the company could be held to account. The Committee was also of the view that the financial structure of the industry was flawed as it did not provide for the increased demand for passenger and freight services.[25] A *Financial Times* article in February 2001 highlighted problems in the area of contracting and managing contractors:

> Underlying all these changes were growing problems with Railtrack's incredibly complex web of contractors. In each of 25 areas maintenance and renewals (replacing or restoring track, sleepers and ballast) were let separately, often to different companies. Grinding was done nationally by Serco, and rails were dropped by trains owned and run by Railtrack, but maintained and staffed for unloading by Jarvis. Contractors mostly failed to pass on asset information to Railtrack and details were often lost when contracts were passed on. Contractors felt they did not get sufficient information about the weight and speed of trains.
>
> Meanwhile, the pressure to cut costs has been immense, leading to skimping on direct spending, a massive increase in more contracting-out, and growing tensions between

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[21] PAC, *The Office of the Rail Regulator: Ensuring that Railtrack maintain and renew the railway network* (thirty-fifth report of 1999-2000), HC 536, 19 July 2000, paras 12-14

[22] ORR, *The periodic review of Railtrack's access charges: final conclusions*, October 2000, para 1.33

[23] HC Deb 6 March 2002, c370W

[24] more information on these and other serious rail accidents can be found in HC Library standard note SN/BT/3114

[25] ETRA Committee, *Rail investment: renewal, maintenance and development of the national rail network* (sixth report of 2000-01), HC 18, 21 March 2001

Railtrack and the companies over the disruption. Evidence to the Commons transport committee and to a special seminar of the Ladbroke Grove rail inquiry (following the fatal crash near Paddington in 1999) backs up alarming statements to the *Financial Times* by railway workers about the effects. Allegations about the direct effects are wide-ranging. They include contractors leaving longer gaps between visual track checks; ordering inspections from moving trains and at night by spotlight; making less frequent changes of sleepers and points; and cutting down on track lubrication.

The problem with sub-contracting is more complex.

First, the big seven contractors - Jarvis, Balfour Beatty, GTRM, Amey, Amec, First Engineering and Serco - began letting more and more work to sub-contractors. They in turn used more sub-contractors - who often relied on employment agencies. By the end of last year there were more than 2,000 registered railway infrastructure companies and 84,000 registered workers - but the number of permanent staff had nearly halved from 31,000 to 15,000-19,000. The first consequence was the breakdown of the old comradeship, which used to mean that problems were easily spotted, repairs made, and people could talk to each other. Track workers operated in gangs and knew their stretch of rails like their own back gardens. Instead, workers became nomadic, moving to the next job with little or no local knowledge and instructions not to talk to rival workers except via a supervisor miles away.

The second big problem was a growing lack of control over the staff and their work. There have been complaints of sub-contractors recruiting workers out of pubs to fill gaps on the night shift. Lord Cullen's inquiry heard safety briefings were discarded by some groups and were "shambolic" at others, and that a lack of quality control often "led to shoddy workmanship". "Maintenance levels are thought to have dramatically reduced," added the report. "The emphasis is now on reactive or breakdown maintenance rather than preventative maintenance." In an admission that has shocked leading people in the industry, Railtrack has now said contractors were almost totally self-regulating. Even when a monitoring system was introduced it did not include a measure of gauge corner cracking. Increasingly, the company had fewer staff qualified to monitor contractors' work, and even when they were "audited" more experienced employees were concerned that Railtrack seemed more worried about checking paperwork than the actual work being done. [26]

Lord Cullen published the second part of his enquiry into the accident at Ladbroke Grove in 2001. In this he looked at the management of safety and the regulatory regime. The Inquiry heard evidence about the use of contractors that caused him concern:

I find, first, that the current process for the award of contracts was not being operated with due regard to the amount of training and preparation of the contract workforce. Secondly, the controls in place for the management of the work of contractors and sub-contractors were inadequate. Thirdly, there is a need for an immediate and sustained improvement by the industry in the manner in which the employees of contractors and sub-contractors are controlled. Fourthly, the argument for reduction in the number of contractors is well founded. Further, it is clear that contractors should work to exactly the same safety standards as those directly employed. Competence is of vital importance. [27]

The Health and Safety Commission (HSC) published a report on the use of contractors in the maintenance of the mainline railway infrastructure in May 2002. It described the background to the use of contractors and reported on progress implementing the seven

[26] "Why an accident like Hatfield was waiting to happen", *Financial Times,* 22 February 2001

[27] HSC, *The Ladbroke Grove Inquiry: Part 2 Report*, 28 March 2001, para 1.7

recommendations relating to contractors in Lord Cullen's report. It also set out how Railtrack intended to proceed with its contractor management:

> As a result of the lessons learned from Hatfield and its experience of the early maintenance and renewal contracts, Railtrack carried out a review of maintenance and renewal processes. This review led in May 2001 to the adoption of 10 Strategic Principles for asset stewardship, designed to enable Railtrack to be contractually able to exert greater control over its infrastructure assets. In brief, these state that Railtrack will:
>
> - manage responsibility for material asset stewardship decisions;
> - deliver clear asset engineering policies, standards, and specifications;
> - continue to contract out maintenance and renewals in this control period;
> - directly manage asset information;
> - demonstrate cost effectiveness of maintenance and renewals;
> - lead industry research and development;
> - direct examination of its network;
> - direct work prioritisation decisions and the resulting work plans;
> - direct all engineering access to the network and manage possessions;
> - develop a long-term view of the people and capability required.
>
> In 2002/03 the company plans increased spend on maintenance and renewal involving rail grinding and automatic track-laying machinery as well as in developing the use of track testing equipment on trains.[28]

The HSC concluded that while "the process of contractorisation does not, of itself, result in poor health and safety standards. On the railways, as elsewhere the challenge is establishing and maintaining effective management controls.[29]

In an interview in May 2002 Railtrack's the Chief Executive, John Armitt, said that he was 'deeply concerned' about the use of casual, unqualified labour for carrying out maintenance on the railways, including replacing track and points. He did not think the answer to safety problems was for Railtrack to employ labour direct but to use longer contracts with greater financial security for engineering groups. [30]

5 Finances

The rail industry's activities generally are subject to a high degree of regulation under both the *Railways Act 1993* and the network and station licences. The Office of Rail Regulation (ORR) is responsible for regulating the stewardship of the national rail network, the relationship between train operators and the network operator and other key aspects of rail service provision. As regards Railtrack, the ORR's main functions were the issue, modification and enforcement of licences to operate the network and stations; and the

[28] HSC, *The use of contractors in the maintenance of the mainline railway infrastructure*, May 2002, para 41
[29] ibid., para 63
[30] "Railtrack chief keeps to own timetable", *The Times,* 10 May 2002

approval of agreements for access by operators of railway assets to the track and stations. It was responsible for ensuring that Railtrack maintained and renewed the network properly and for ensuring the regulatory regime provided appropriate incentives for it to do so. It also set the charges for track and station access. Track access payments provided the bulk of Railtrack's income (approximately 90 per cent); though Railtrack was also eligible for network grants from the Strategic Rail Authority (SRA) after 1 October 2001[31] and it could also raise money by borrowing from financial institutions.

Railtrack's total funding requirement was set by the ORR. Decisions on outputs of the network (for example performance, capability and capacity) were principally for funders and train operators (and here there was a key role for the SRA and Government). It was then up to the ORR to decide the price of these outputs, and to ensure that agreed outputs were delivered. The track access charges approved by the ORR determined the main costs of the TOCs' and the major part of the track owner's income.

In 1994 the ORR issued documents on passenger and freight access charges for the first five year period to April 2001. Papers were published on the structure and the level of the charges.[32] Individual track access charges for franchised passenger services were to fall by two per cent a year in real terms from 1996-97 onwards, broadly in line with the reduction in Railtrack's overall costs; 91 per cent of the total charge was fixed. Payments were made irrespective of the type and number of trains operated or the amount of passenger revenue generated by these services. The remainder was variable and was for track usage and traction.[33] Additional charges were levied for the use of stations and to fund specific new investment projects. A system of performance-related payments was used to reflect achievement of quality of service objectives, for example the punctuality of trains. Charges to freight and open access passenger operators were negotiated directly and reflected the value to operators of using rail infrastructure and also recovered at least the marginal costs.[34]

The first access charges review, covering the second five year period of Railtrack's operation from 2000-06, was finalised in October 2000 and came into effect on 1 April 2001.[35] This was the first full regulatory review of Railtrack's access charges since its privatisation in 1996 and provided the opportunity for a comprehensive reappraisal of the financial and regulatory framework within which the company operated. The aim of the review 2000 was to determine the income that Railtrack needed to obtain from charges from franchised passenger services to operate, maintain and renew the existing infrastructure as well as to undertake a certain number of enhancements. In general terms, it provided for the following:

- Projections of expenditure increased to £14.9 billion, compared to £14.3 billion in Julys draft conclusions [Railtrack's request was for approximately £1 billion more]
- Additional work combined with improved management - the review provides for substantial additional work. The Regulator has concluded that Railtrack should be able to manage this additional work more efficiently. However, he has accepted

[31] Section 211 of the *Transport Act 2000*

[32] ORR, *Railtrack's Track Access Charges for Franchised Passenger Services: Developing the Structure of Charges: a policy statement,* November 1994 and: *Railtrack's Access Charges for Franchised Passenger Services: The Future Level of Charges,* January 1995

[33] further details on these initial track access agreements can be found in section III.A of HC Library Research Paper RP 95/96, *Rail privatisation: a progress report*, 6 September 1995, available from HC Library

[34] ORR, *Framework for the Approval of Railtrack's Access Charges for Freight Services: a policy statement,* February 1995

[35] ORR, *The periodic review of Railtrack's access charges: final conclusions*, 27 October 2000

Railtracks argument that the assumed efficiency savings should be set at the lower end of the Regulators range of 3-5%. The target has therefore been set at 3.1% a year over the next five years.

- Incentive-based regulation of outputs - the review sets out what Railtrack is expected to deliver for this money, establishes the arrangements for monitoring and incentivising delivery of these outputs, and provides a mechanism for funding additional investment.
- Appropriate returns on investment - the value of the core regulatory asset base (RAB) at 31 March 2006 is set at £7.9 billion, an increase of £1.2 billion since his draft conclusions in July 2000. Following the recent Competition Commission report, the assumed cost of capital has also been increased to 8% compared to a range of 7.0-7.5% identified in the Regulators December 1999 document.
- A stronger, clearer and simpler performance regime - this assumes that Railtrack achieves its own target improvement of 5% in Railtrack-caused delay plus catch-up of last years shortfall in the current year (2000-01). The figure for the next five years has been set at 2.5% per annum. This provides Railtrack with a further year to catch up the shortfall from 1999-2000.[36]

Thus the revenues that were eventually agreed were less than Railtrack claimed it needed, though more generous than those that were originally proposed. The regulator said the company would have to fund the difference by raising its efficiency in each of the following five years. Press comment was broadly supportive, though some thought that the Regulator had been ‘soft’ on Railtrack considering its track record.[37] The Regulator indicated after the Hatfield crash that it would ‘look sympathetically’ on any application by Railtrack for an interim review due to the crash presenting a ‘material change of circumstances’ which knock on effects for costs and performance.[38]

After 2001 the Strategic Rail Authority (SRA) was able to make payments direct to Railtrack.[39] In its response to a 1999 report of the Environment, Transport and Regional Affairs Committee the Government announced that it favoured a direct relationship between the SRA and Railtrack, which "would reflect the long-term, strategic significance of enhancements to railway infrastructure" and "give the SRA more direct control over the specification and delivery of publicly-funded enhancements".[40] Powers to achieve this were consequently included in the *Transport Act 2000*.

As Railtrack's inability to enhance the network became plain, Sir Alastair Morton, then Chairman of the SRA, envisaged involving organisations other than Railtrack in the development of the network, possibly through Special Purpose Vehicles (SPVs).[41] The IPPR think tank, in a study partly funded by the SRA, had concluded that Railtrack lacked the project management skills and the ability to raise enough money to enhance the network and

36 ORR press notice, “£15 billion to deliver a modern, safe railway with greater public accountability”, 23 October 2000

37 see, e.g.: "City relieved as Regulator allows…", *The Independent,* 24 October 2000; "Regulator gives £4.9bn increase to Railtrack", *Financial Times,* 24 October 2000; and "No excuses now", *The Economist,* 28 October 2000

38 ORR, *Regulatory statement – statement on the implications of Hatfield*, 15 January 2001

39 for full details on the SRA, see HC Library standard note SN/BT/1344

40 *Government response to the report on integrated transport white paper* (third special report of session 1998-99) HC 708, 12 July 1999; original report: ETRA Committee, *Integrated transport white paper* (ninth report of session 1998-99), HC 32, 31 March 1999

41 SPVs are basically joint venture investment companies – they could include train operators, contractors and bankers, see: “Winsor weighs rail upgrade options”, *New Civil Engineer*, 16 March 2000

that some of the money would be better spent through SPVs.[42] The SRA wanted Railtrack to be split into a day-to-day operation and maintenance company and a separate subsidiary to undertake the major enhancements. Sir Alastair was prepared for the two to continue within a single group but wanted major projects to be separately financed and managed to completion.[43]

By spring 2001 it was obvious that Railtrack had financial problems. On 2 April 2001 a 'statement of principle' agreement was signed between Railtrack and the Government, and a framework was agreed for a more clearly defined partnership with the SRA. At the same time it was announced that the Government had agreed to bring forward funding from beyond 2006.[44] Under the agreement, Railtrack was to focus on its core business - operation, maintenance and renewal of the network - and responsibility of major enhancements would rest with third parties, including the SRA.[45] The regulatory review published by the ORR in October 2000 had included a sum of £4.7 billion in direct grant to Railtrack. Railtrack decided that it did not want the money to be paid direct and it and the SRA agreed that it should be channelled through a new body called Renewco. Railtrack also revised upwards the projected cost of the West Coast Main Line renewal project and indicated that it would not exercise its right to build stage two of the Channel Tunnel Rail Link. [46]

The SRA had initiated a number of major long-term studies to identify ways in which capacity could be increased. The studies were listed in its annual report for 2000-01 and in its long-awaited strategic plan which was eventually published in January 2003, after Railtrack had gone into administration. In the short term, the SRA's focus was on developing a new industry structure, which would include SPVs, and on finance it indicated that almost all new projects would be financed by Public Private Partnerships.[47]

6 Administration

6.1 Background - what went wrong?

At first the railways seem to have performed reasonably well following privatisation. More trains were running (around 1,700 more each day than before privatisation); 25 per cent more passengers were being carried since 1994-95; the amount of freight lifted had increased 40 per cent in the same period; and both punctuality and reliability improved, although performance had declined since the high point of 1996-97.[48] Railtrack's initial share price of 380 pence rose to 1,700 pence two years after privatisation, but by 2001 the position was very different and on 1 October 2001 the share price was 265 pence.

[42] David Nissen and Tim James for IPPR, *Expanding the rail network in Britain*, July 2000

[43] Sir Alastair Morton speech to the Rail Passengers Council Conference 2000, 6 December 2000

[44] HC Deb 2 April 2001, c8W

[45] Railtrack and the SRA set up a Joint Enhancement Committee under the chairmanship of the SRA and were discussing a procurement and funding framework for project development, that should feed into the SRA's strategic plan (then expected in November 2001) when the company went into administration

[46] Railtrack press notice, "Railtrack secures £1.5 billion funding settlement and details final quarter business progress", 2 April 2001

[47] SRA, *The Strategic Plan 2003,* January 2003; these were very similar plans to those set out in the 2002 plan, see pp22-23

[48] Railway Forum fact sheet, *Britain's growing railways* (factsheet no. 1), 30 January 2001

Various reasons were given for why things began to go wrong for Railtrack and some of the points made by commentators are summarised below.[49]

- **Privatising a loss-making company:** Railtrack had problems from the start. The rail industry was heavily subsidised as other nationalised industries were not, and so privatising an industry that would continue to need large subsidies caused problems. Apart from property, Railtrack's income came solely from the TOCs, whose access charges were regulated by the ORR and supported by Government subsidy. Railtrack was therefore ultimately dependent for its profitability on public subsidy.

- **The company was perhaps a more ambitious creation than first realised:** It was the central feature of the system, managing the movements of thousands of miles of track, not just an engineering company.

- **Contractual base of the privatisation:** The form of privatisation introduced for the railways involved a number of complicated and sometimes antagonistic relationships between Railtrack and its customers and Railtrack and its regulators. The system of incentives imposed on Railtrack was a major flaw; as Lord Cullen said in his report on the safety regulation of the railways, Railtrack faced greater penalties for making trains late by carrying out repairs than it did for allowing the number of broken rails to increase.[50]

- **Many of Railtrack's major decisions were taken by Government and its agencies:** Unlike a normal private company which makes decisions on how much and where to invest, what to charge and what new services should be introduced, Railtrack had little freedom of action. Nor did it face any real competition.

- **Asset condition:** At the very beginning, the poor state of the railway was not recognised as the drain it would become. The railways had been badly neglected through decades of state ownership. There was no register of assets available to the new company - and it was still not complete at the time the company went into administration. The poor state of the railway network was probably the source of most of Railtrack's problems. Broken and cracked rails combined with antiquated signalling and safety systems produced endless delays, requiring Railtrack to make hefty penalty payments to the TOCs. More seriously, this neglect of an overstretched network contributed to the accidents at Ladbroke Grove (October 1999), Hatfield (October 2000) and Potters Bar (May 2002) and their serious consequences for performance. After Hatfield the company admitted that it had no idea of the condition of much of its network. Keen to protect its profit in order to attract investors to its expansion programme, Railtrack put the squeeze on maintenance costs.[51]

- **Poor safety record:** Failures in this area became abundantly clear in the accident investigations and inquiry reports published as a result of the Ladbroke Grove, Hatfield and Potters Bar accidents.

- **Poor management:** In 1994 those BR employees who opposed privatisation, and wanted the company to remain much the same as it had been, tended to stay with

[49] see, for example, Christian Wolmer, *Broken Rails: how privatisation wrecked Britain's railways*, 2001; "Signal failure", *The Sunday Times,* 14 October 2001; and "Cabinet simply watched as 'poll tax on wheels' went off the rails", *The Times,* 8 October 2001

[50] Lord Cullen/HSC, *The Ladbroke Grove rail inquiry: Part 2 report*, September 2001, para 4.19

[51] see, for example: "Disastrous round trip was marked by failure to maintain lines", *The Times,* 8 October 2001

Railtrack, probably not expecting it would be privatised so soon, whereas those who favoured privatisation and the opportunities it offered, were often those who joined the TOCs. In the early years, Railtrack had a negative and combative attitude towards the TOCs: it was not proactive in its investment plans and failed to invest as much as it should. The Railtrack Board appeared to panic in the wake of the political storm that followed Hatfield. The Board, fearing that senior executives would be charged with manslaughter, effectively ordered the shutdown of much of the network. Railtrack then embarked on a hugely expensive national recovery plan for the railways. From one perspective, this was long overdue, but from another the urgency was massively overdone. By May 2001, replacing 500 miles of rails and the payment of serious penalty charges to the TOCs had cost Railtrack millions, pushing the company heavily into the red.[52]

- **Role of the ORR:** The regulator (Tom Winsor) imposed tough performance targets on Railtrack and was held to have contributed to its problems. For example, Nigel Harris of *Rail* magazine concluded that the regulator's "refusal to compromise and his crushing performance targets had the industry running in all directions, trying to keep plates spinning on sticks. More dangerously, it skewed the industry's sense of what was important".[53]

6.2 Proposals for restructuring

The spate of accidents and the cost of repairs meant that by October 2001 Railtrack was insolvent, even if it was not bankrupt, and plans for some sort of restructure of Railtrack had been around for some months. The four most widely talked about are outlined below.

Renationalisation was consistently ruled out by Ministers as too expensive. The market capitalisation of Railtrack depended on the share price but during the summer 2001 it was about £2 billion (at its height it was about £5 billion). The debt liabilities however accounted for £4 billion. In the view of Ministers, this was a waste of £6 billion that could be spent on investment. Furthermore such a move would require legislation, which would lead to paralysis in the system rather than improvements.[54] Politicians also feared that they would then be held responsible for every shortcoming of the company. In a May 2001 debate in the House the then Transport Minister, Keith Hill, said:

> Re-nationalisation would probably take a couple of years and involve complex and controversial primary legislation. During that time, the industry would effectively be paralysed. The initial costs to the taxpayer would comprise not only Railtrack's market capitalisation of around £2.5 billion at the current stock market valuation but £4 billion of debt liabilities. None of that money would buy additional rail investment. It would all go towards compensating shareholders and funding the company's debt. Renationalisation would also involve the public sector in directly funding Railtrack's investment. The additional debt through which the company currently plans to finance its activities would become public sector borrowing.
>
> I share the conviction of Labour and Opposition Members that serious mistakes were made in the privatisation process. However, after years of fragmentation and instability, the answer is not yet more upheaval. What we now need is evolution rather than revolution, especially when the revolution would be at enormous cost to the public purse and deliver nothing directly in improved rail services.

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[52] see, for example: "Watchdog's severe targets skewed company's judgement", *The Times*, 8 October 2001
[53] ibid.
[54] HC Deb 3 July 2001, c137

> It has been argued that the public money going to Railtrack should generate an equity stake. However, the money that the government will be paying Railtrack, in renewal grants for the west coast main line, for example, is to meet the cost of improvements to the network. An equity stake would have to be paid for on top of that money, and it is not clear what the taxpayer would get in return for the extra cost beyond a right to dividends. [55]

Furthermore it could have been argued that, under European law, if the company was nationalised, shareholders were entitled to receive an average of the share price over the previous three or five years.

In addition, the Environment, Transport and Regional Affairs Committee asked the then Chairman of the SRA, Sir Alastair Morton on 29 November 2000 about taking a shareholding in Railtrack. He replied that he had two interests, one was regulation of the industry and the other was the return on investment. In both cases he thought there were better ways of regulating Railtrack than through the ownership of shares. Shareholders did not have much power: he had far more through the contractual relations that he and the ORR had with the company.[56]

The Labour peer Lord Berkeley, Chairman of the Rail Freight Group, argued for splitting Railtrack geographically into seven **mini-Railtracks.**[57] Michael Schabas also argued for breaking up Railtrack into regional businesses. In May 2001 he wrote:

> Why not break up Railtrack in zones, each a separate PLC on the model of the water or electricity distributors?
>
> Each of the half dozen Railtrack Zones would become a separate PLC. Current shareholders in Railtrack PLC would each get shares in the various 'Baby Railtracks', which would be traded separately. This is how the US telephone system was split up in the early 1980s. The 'Baby Bells' are now flourishing, worth many times the value of the old American Telephone & Telegraph.
>
> Existing contracts would be split between the new companies. This would be a horizontal, not vertical, separation. It would not significantly increase the number of contract interfaces. While some train operators would have contracts with two or more baby Railtracks, each baby Railtrack would have fewer contracts to manage than the current national Railtrack. In Australia, it is routine to negotiate access across several states, each with their own track authority. So it will need to be in Europe, if there is to be significant cross-border freight (unless one subscribes to the monstrous vision of a pan-European Railtrack!).
>
> There would of course still be a central timetabling function, selling the paths around the network as directed by the SRA and the Regulator. This might be managed by a subsidiary of ATOC. The national timetable is already developed interactively between the train operators and Railtrack zones. With freight and passenger now charged essentially a published tariff, it would be fairly straightforward to divide up access revenues for cross-zonal services.
>
> The baby Railtracks could collaborate on research, technical standards and contracting procedures, just as the regional water companies do, but this would be standardisation from below, not from above.

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[55] HC Deb 1 May 2001, c176WH

[56] ETRA Committee, *Rail Investment: Renewal, Maintenance and Development of the National Rail Network* (sixth report of session 2000-01), HC 18-II, 27 April 2001, Q700

[57] "Nostalgia for British rail is non-starter", *Financial Times,* 22 December 2000

> Railtrack is of course already spinning off a separate safety function.
>
> With Railtrack's monopoly broken, there would be a much more open and dynamic rail infrastructure industry. Suppliers and the regulator could compare and demand 'best practice'. There would be positive differences between the baby Railtracks, and a healthy movement of senior staff within the infrastructure side of the industry. [58]

Other suggestions involved the TOCs taking over responsibility for maintenance in their regions, without actually owning the infrastructure.

Restructuring or "Project Rainbow" was the Railtrack directors' preference. The Chairman, John Robinson, presented it to the Government in outline on 26 July 2001. It involved the Government suspending the regulator and funding Railtrack directly for a few years until it sorted out its problems. He warned that Railtrack would need an additional £4 billion. In return the Government would receive an equity stake depending on how much the company improved: if neutral, the Government would get about half the shares; if it was extraordinary good, it would get nothing; and if things were very bad, it would have them all.[59]

A not-for-profit company or "Project Ariel" or something similar was a possibility mooted by various commentators. Tony Grayling of the LSE consistently put the case for a not-for-profit Railtrack and was perhaps its best-known advocate. He first presented a paper advocating a not-for-profit Railtrack at a conference organised by the IPPR think tank on 21 February 2001; his book, *Getting back on track*, explored the argument further, and was presented in draft at a seminar on 19 September 2001, attended by Government advisers. It was finally published in June 2002; the executive summary gave a brief overview of why Grayling and the IPPR favoured this approach:

> The Institute for Public Policy Research has advocated and welcomes the government's preferred option for the new operator of Britain's rail network to be a not-for-profit company. Properly designed and integrated with other parts of the industry, the creation of a not-for-profit network operator would be an important step in getting the railways back on track. There are strong reasons in principle for common ownership of the rail network, a complex natural monopoly with vital public interest objectives, including safety. A not-for-profit company would have advantages over a traditional state owned industry in terms of accountability to stakeholders and access to private finance. It would have lower costs of finance than Railtrack and any profits would be reinvested in the network, not distributed to shareholders. The Secretary of State should reject alternative bids and underpin the not-for-profit status of the new network operator by statute, when the opportunity arises.[60]

6.3 The Administration Order

On 7 October 2001 the then Secretary of State for Transport, Stephen Byers, petitioned a High Court judge to put Railtrack plc into 'railway administration' under section 60 of the *Railways Act 1993*.[61] The *Railway Administration Order Rules 2001* (SI 2001/3352) were discussed in the House of Lords and the House of Commons in November 2001.[62] Neither the SRA nor the ORR was consulted beforehand about the Order.

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[58] "Railtrack - heart of the problem", *Modern Railways,* May 2001

[59] "How the wrong kind of company came off the rails", *Financial Times,* 14 October 2001

[60] Tony Grayling for IPPR*, Getting back on track*, June 2002, executive summary

[61] DTLR press notice, "Railtrack placed in administration", 7 October 2001; for more details on the Order and the position of the shareholders, see HC Library standard note SN/BT/1076

[62] HL Deb 15 November 2001, cc758-762; and: HC Deb 22 November 2001, cc547-560

The Government's intention was that the railways would continue to run normally while in administration. However, delays increased, middle ranking managers left the company, and cost-saving plans were postponed. Initially the Railtrack directors continued to run the network while the administrators (Ernst & Young LLP) concentrated on sorting out the company's future. On 14 December 2001 it was announced that John Armitt would take over as Chief Executive, replacing John Robinson and Steve Marshall[63] and on 12 February 2002 Railtrack Group and Railtrack plc formally separated and Railtrack Group, under the chairmanship of a lawyer, Geoffrey Howe, devoted itself to fight for shareholder compensation.

There were various indicators as to what the Government wanted to happen next. The Secretary of State initially hoped that administration would last three to six months;[64] and the successor company would be in the private sector. Responsibility for enhancements had already been removed from Railtrack and was to be undertaken by SPVs being developed by the SRA. Immediately after Railtrack had been taken into administration, the Secretary of State said that he would "propose to the administrator that a private company limited by guarantee (CLG) be established to take over Railtrack's responsibilities". The Government's intention was to replace Railtrack with a not-for-profit private company limited by guarantee to maintain and rebuild the network. It would have no equity shareholders so would not pay dividends. The role of the company would be to deliver a "safe, well-maintained rail network" and it would have responsibility for "operations, maintenance and renewals" (i.e. enhancements were not included).[65] It would have the same sources of funding as Railtrack: property income, track access charges and grant. Approximately 85 per cent of its income would continue to be covered by long term contracts with the TOCs.[66]

In terms of future financing, the new company would have the existing debt transferred from Railtrack and would be able to borrow more. The cost would depend on the company's credit rating; the Government's intention was that its debt should have a triple-B credit rating. While future funding would not be underwritten by the Government or carry an unlimited guarantee (if the new company had a Government guarantee, the debt would count towards the public sector borrowing requirement), as the financial institutions were unlikely to want to lend to the new company without some reassurance, the Government proposed a standby loan from the SRA that would be available as a 'cushion' between poor financial performance and debt providers.[67]

The state-backed German bank WestLB was initially reported to be interested in making a formal bid for Railtrack. Other private sector companies were also rumoured to be interested in buying Railtrack (e.g. Babcock & Brown) but hesitated because of the lack of a completed asset register. Any offer would have been made with no knowledge of the liabilities in store. Swiftrail, the company backed by WestLB, then proposed a collaborative effort with private bidders and Government jointly buying/operating the network.[68]

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[63] DTLR, *Statement by Stephen Byers: Appointment of senior management team at Railtrack*, 14 December 2001

[64] TLR Committee, *Passenger rail franchising and the future of railway infrastructure* (first report of session 2001-02), HC 239-ii, 8 March 2002, Q32; in the end it lasted almost exactly a year

[65] HC Deb 15 October 2001, cc955-6

[66] HC Deb 23 October 2001, c194W

[67] ibid.

[68] see, e.g.: "WestLB steps up pressure", *The Guardian*, 14 January 2002 and "Railtrack auction threatened as Babcock & Brown bails out", *The Independent*, 3 March 2002

On 1 October 2002 a High Court judge released Railtrack from administration and on 3 October Network Rail took over the running of the country's rail infrastructure. In theory it was for the administrators to decide what would happen to Railtrack. Under the *Railways Act 1993* the responsibility of the administrators is to the court and the rail network so the Government may only make proposals. The administrators have a duty to consider other possibilities, including a takeover. The Secretary of State, however, has to approve any transfer under Schedule 7 of the 1993 Act and since any successor company needs a Government subsidy, its agreement is vital to any final solution. In this case, the Secretary of State published guidance on the principal issues on which he needed to be satisfied before he would agree a transfer scheme.[69] It had no legal basis and there was no need for the administrators to heed it but the aim was to save time and work for everyone involved. Agreement was also needed from shareholders, bondholders and safety regulators.

Primary legislation was not needed to transfer the company out of administration, as it was not needed to put it into administration.

6.4 Network Rail

Network Rail is a company limited by guarantee (CLG) broadly as set out by the then Secretary of State in his statement of October 2001.[70] The company took over the assets and liabilities of Railtrack plc and its role as network operator. The company is 'not for profit' which does not mean it may not make a profit but that to do so is not its primary aim. Any operating surplus will be reinvested in the rail network.

Network Rail was incorporated as a company on 22 March 2002. The bid of Network Rail for Railtrack plc was announced on 25 March 2002.[71] Under the terms of the proposal, the Government (through the SRA) provided a £300 million subsidy to Network Rail (this needed approval from the European Commission). The Government justified the payment by saying that the proposal would take Railtrack out of administration months earlier than expected, saving the taxpayer £1 million per day.[72] Network Rail agreed to pay £500 million to Railtrack Group to be passed on to investors. A sale and purchase agreement for the entire issued share capital was entered into on 27 June 2002. The completion of the sale was subject to conditions including the approval of Railtrack Group shareholders (agreed on 23 July 2002); approval of the European Commission for any state aid in the Government's support for Network Rail (agreed on 17 July 2002);[73] and the discharge of the railway administration order made in respect of Railtrack (achieved on 1 October 2002). Railtrack Group and Network Rail also entered into an agreement on 27 June 2002 for the acquisition by Network Rail of the right to operate, manage and maintain the Channel Tunnel Rail Link (CTRL) and the concession to manage St. Pancras station.

The statement by the then Secretary of State, Alistair Darling, of 27 June 2002 said:

> Railtrack Group and Network Rail have now concluded a sale and purchase agreement to acquire Railtrack plc. I would like to set out in some detail the terms of that agreement. In line with its original offer, Network Rail will pay £500 million—of which £300 million will be provided by the Government—as well as taking over Railtrack's debt, which now stands at £7.1 billion. This includes loans from the

[69] DTLR press notice, "Byers publishes Railtrack transfer scheme guidelines", 31 October 2001
[70] HC Deb 15 October 2001, cc954-76
[71] HC Deb 25 March 2002, cc582-595
[72] ibid.
[73] HL Deb 30 July 2002, 172WA

European investment bank and the German bank, KfW, totalling just over £1 billion, which Network Rail plans to assume.

In parallel, London and Continental Railways is acquiring from Railtrack its interest in the first phase of the channel tunnel rail link for £295 million. At a cost of £80 million, Network Rail will acquire the right to operate, manage and maintain the channel tunnel rail link and the concession to manage St. Pancras station. I can tell the House that Network Rail has already secured up to £9 billion of bridge financing from commercial banks to fund its acquisition costs and to refinance Railtrack's existing debt, as well as to fund the immediate operation of the railway.

Network Rail will also put in place additional commercial financing of up to £7 billion for its medium-term requirements. This is necessary to cover operational expenditure as well as to cover substantial cost overruns inherited from Railtrack, which will have to be met. Network Rail will also need—as would any owner and operator—access to back-stop contingency funding. For this reason, the SRA will provide additional standby credit facilities; this contingency funding of last resort has been set at £4 billion. Further details of this funding and of the short-to-medium-term standby credit facilities offered to Network Rail by the Strategic Rail Authority are set out in the two Minutes that I am laying before the House in the normal way. The House will also wish to know that the Rail Regulator has today issued a statement setting out his approach to a request for an early regulatory review.

These are large sums by any standards, but they are necessary, given the size of the task facing Network Rail, and they would be needed by any successor to Railtrack. There is no escaping the fact that Britain's railways need very large-scale investment—investment that we believe is essential. It is because of the need for long-term sustained investment that the Government are, through the 10-year plan, increasing the average annual investment in the railways—on top of continued support for running costs—to £4.6 billion. That is more than three times the annual average in the 10 years prior to 1997 (…) [74]

[74] HC Deb 27 June 2002, cc971-989