Accounting Forum 39 (2015) 51–63

Contents lists available at ScienceDirect

Accounting Forum

journal homepage: www.elsevier.com/locate/accfor

An illusion of success: The consequences of British rail privatisation

Andrew Bowman[a,b,*]

[a] Research Associate, ESRC Centre for Research on Socio-Cultural Change (CRESC), The University of Manchester, United Kingdom
[b] Andrew W. Mellon Postdoctoral Fellow Society, Work and Development Institute, University of the Witwatersrand, South Africa

ARTICLE INFO

Article history:
Received 7 July 2014
Received in revised form 4 October 2014
Accepted 7 October 2014
Available online 14 November 2014

Keywords:
Rail
Privatisation
Network Rail
Subsidies
Train operating companies
Franchising

ABSTRACT

This article accounts for the British experiment with rail privatisation and how it has worked out economically and politically. The focus is not simply on profitability and public subsidy, but on the appearances which accounting arrangements create. The article scrutinises the Network Rail subsidy regime, which enables train operators to achieve fictitious profitability without increased direct state support. This enables supporters of privatisation to claim train operators produce a net gain for the British taxpayer. The claim forms the heart of a trade narrative which is employed by the industry and their political backers to deflect criticism and stymy reform.

1. Introduction

This article accounts for the British experiment with rail privatisation and how it has worked out economically and politically. The objective is to create a more complex analysis of the consequences of rail privatisation which focuses not simply on levels of profitability and public subsidy within the rail system, but on the appearances which these financial arrangements create, and their political consequences. The starting point for this analysis is a paradox between stories of brilliant success achieved by private train operating companies (TOCs), and a financial backdrop of accumulating public liabilities and complex state subsidy arrangements.

Twenty years after the Railways Act of 1993 which dismantled the integrated state monopoly, British Rail, the political sponsors of the privatised system are able to make confident claims about successes achieved. The Conservative Party Transport Minister Patrick McGloughlin, celebrated the twentieth anniversary of the founding of the Association of Train Operating Companies (ATOC) – the trade association established by private passenger train operators in 1993 – in July 2013 with a speech which heralded "20 years of rising investment [and] 20 years of extraordinary growth on our railway":

> And think back to where we started. As a junior transport minister in the 1980s, I remember British Rail. Underinvestment in tracks and trains. Poor reliability. Managers whose good ideas were too often stifled by a lack of cash . . . And an ageing network in a declining industry. John Major – then the Prime Minister – knew things could be better. So tonight, I'd like to pay tribute to the people who got it right. And those who over the past 20 years have made it

* Permanent address: Andrew Bowman Society, Work and Development Institute (SWOP), University of the Witwatersrand, Johannesburg, Private Bag 3, Wits, 2050, South Africa. Tel.: +44 7921 928 077.
E-mail address: andrew.bowman5@gmail.com

http://dx.doi.org/10.1016/j.accfor.2014.10.001
0155-9982/

> happen. Let me start with some facts. For most of the time since the Second World War rail traffic has been falling. Since privatisation, journeys have doubled. The network is roughly the same size as 15 years ago. But there are 4000 more services a day . . . This is the success of privatisation. I could go on reading out figures (Department for Transport, 2013).

The rhetorical approach employed by ATOC is identical: highlighting past failures allegedly brought about by state mismanagement and under-financing, while using a barrage of statistics to demonstrate "the unprecedented growth and stunning improvements" since privatisation (ATOC, 2013). Particular emphasis is placed on passenger journey numbers, which have risen at a rate of just under 4% per-year from 1997 to 2012. This compares favourably to a 60 year average of 0.58% and is well ahead of passenger growth figures achieved in France, Germany and the Netherlands (Ibid, p. 16–20). These claims constitute a form of "imaginary" – a discursive construction of what a successful privatised rail system should look like – that forms the core of the rail sector's trade narrative.

Attempts to actively manage perceptions about a company, a sector or a national economy have assumed an increasing prominence in recent decades and coincided with an increased academic focus on the role of economic discourse and narrative in shaping economic life (Miller & Rose, 1990; Callon, 1998; Froud, Johal, Leaver, & Williams, 2006). Within this field of study, trade narratives are not a technical language of expertise but simple and easily repeatable stories created by industry associations and lobbying groups, which differ across sectors but share common devices. Trade narratives serve to defend sectoral interests without appearing to favour the interests of particular companies. They do so through strong selective emphasis on positive attributes while occluding or explaining away negatives (Bowman et al., 2013a, p. 6). When successful, trade narratives ventriloquise journalists and front-bench politicians, creating an echo-chamber where decontextualised statistics and supportive assertions repeat themselves to frame public debate. Perhaps the most prominent case in British public life of trade narrative in practise has been the financial services industry. Lobbyists for and supporters of London finance in the pre-crisis period pushed a narrative which explained the beneficence of financial innovation and the need for light touch regulation which was endlessly repeated and politically endorsed. In the post-crisis period the City's trade narrative switched to emphasise its tax and employment contribution in order to ward off reform (Froud, Nilsson, Moran, & Williams, 2012). In the case of rail, the trade narrative has attempted to counteract criticisms of privatisation through selective emphasis of specific performance metrics which endorse claims of success, specifically rising passenger numbers, falling direct public subsidy and slim net profit margins (Bowman et al., 2013a). However, if the framing of economic data is the process by which a trade narrative is corroborated, it is also the area in which it is vulnerable and can be undermined by events.

In case of rail, the trade narrative is particularly vulnerable because while data on passenger numbers supports one story of success delivered by private enterprise, the accounts of Network Rail – the company responsible for railway infrastructure after the collapse of Railtrack PLC in 2001 – tell a different story about state subvention for the railway system on an even greater scale than under British Rail. McGloughlin's speech and ATOC's flagship report released the same month (ATOC, 2013) do not mention the significant growth in the debt burden shouldered by Network Rail to fund infrastructure improvements – from just under £9636m in 2002/2003 (Network Rail's first full year of operations), to £30,358m as of March 2012 (Network Rail, 2003, 2013). Over this period, the annual cost of interest payments on this debt financing increased almost seven fold to just under £1.4bn in 2012, surpassing spending on track maintenance which fell below £1bn that same year (Ibid, Network Rail, 2012).

While nominally a 'private' company Network Rail's financial viability has depended on government guarantees to underwrite its bonds. This had the impact of reducing borrowing costs because Network Rail was essentially able to borrow at a risk free rate with Government guarantees. Moreover, alongside the group of companies that make up Britain's privatised rail transportation system, Network Rail has also received significant additional state subsidies (Ibid, Jupe, 2009). In recognition of this, the Office for National Statistics (ONS) issued an announcement in December 2013 stating that Network Rail would be reclassified as a "Central Government body". This has the effect of bringing over £30bn of additional debt onto the government balance sheet (Joloza, 2013). The ONS's decision was required to bring the UK's national accounting systems in line with the rest of Europe. However, the implications for the UK rail sector are profound, raising questions about whether the rail system can be considered privatised in any meaningful sense. Indeed, in April 2014, the Debt Management Office – the Treasury agency responsible for managing cash and debt on behalf of the UK government – went a step further. It announced that: "Government has now determined that, in future, value for money for the taxpayer will best be secured by Network Rail borrowing directly from the Government, rather than by Network Rail issuing debt in its own name" (Debt Management Office, 2014, p. 1). This effectively ended direct private sector involvement in financing Britain's rail infrastructure.

This article questions what is going on here economically and politically. From an economic and financial perspective, much appears to have gone wrong with rail privatisation. However, the political narratives from the sector and senior politicians are about privatisation working well and delivering on its promises. This article employs accounting numbers to critique the political rhetoric surrounding the privatisation of Britain's railways. To begin with, the article argues, it is necessary to understand that rail privatisation, is a mess born out of efforts to relieve long-term problems with cost recovery and under-funding. As the subsequent analysis explains, this economic confusion also has political consequences.

The first section of the article takes a historical perspective on railway finances under nationalised and private ownership, highlighting, in Gourvish's terms (2002, p. 2), the "deep-seated confusion about what the railways were actually supposed to achieve in a mixed economy". Privatisation in the early 1990s was intended to secure financial sustainability through private