RAIL REFORM: FOR BETTER OR WORSE?

In a guest editorial, **GRAHAM CROSS**, Managing Director of SLC Investments, assesses the merits of the Williams-Shapps White Paper

I was asked by a friend on the day the Williams-Shapps Plan for Rail was published whether the Government had renationalised the railways. I answered that the making of the key decisions has been well and truly nationalised, but the operation of the trains is outsourced to the private sector. The train operator will become all arms and no brain. The brain will be in the new public body called Great British Railways (GBR). But how will GBR use its brain? How will the new system actually work, what will change, and will it lead to better outcomes for customers, taxpayers and the regional economy?

HAPPY DAYS?

The Williams-Shapps Plan for Rail could be great news for politicians, taxpayers and passengers.

Imagine you are a Government minister: you have established GBR as a public body, reporting to you, staffed with rail experts, able to take all the key decisions on your behalf, acting in the national interest. You will input into a whole industry 30-year strategy and can use railways as a tool to advance public policy aims. Decisions over service specifications and use of infrastructure will be taken in the public interest. You set the budget and so can protect taxpayers from unnecessary spending.

Imagine you work at GBR: all the powers and responsibilities needed to get things right are focused into your organisation. As GBR staff you can set timetable specifications, alter fares, control the brand, give instructions about what infrastructure is needed, and press private operators to deliver good services. You can take co-ordinated decisions about changing timetables, rolling stock and infrastructure all at the same time, and focus on long-term revenue generation. You are clear that ministers are your boss, and you have good relationships with local leaders wanting to shape the agenda.

Imagine you are the operator of a new Passenger Service Contract: no longer are you bound to achieve an optimistic revenue target set by an absent bid team; timetables can be decided through co-operation rather than competition; no longer must you burn management effort chasing out responsibility for delays. Fares and ticketing are simplified, so the rail system becomes easier for passengers to understand, raising satisfaction. Whenever a crisis occurs, you just wait for instructions from GBR.

But can it really be this good? What will need to be got right in the detailed design of the new system to make sure it works well? Let's look at the money, the organisation and the customers.

FOLLOW THE MONEY

In the Williams–Shapps Plan for Rail, Government subsidy and passenger revenue is paid to GBR, which will meet the cost of running the infrastructure and pay fees to the holders of Passenger Service Contracts to operate the specified train services. It is implied that passenger train operators will no longer pay charges to access the infrastructure, and the Schedule 4 and 8 incentive regimes will thus become redundant.

When I joined Railtrack in 1996 it was drilled into me that the train operators (TOCs and FOCs) were our customers, because they paid us our income through track access charges. In the Williams–Shapps Plan for Rail, Passenger Service Contract holders (who will presumably replace today's franchised TOCs) are absolutely tied to GBR for the supply of infrastructure and the provision of money. They cease being customers of Network Rail and become suppliers to GBR.

The Schedule 8 performance regime has actually been of great

comfort to train operators. It has ensured that every delay is recorded and investigated, a root cause found, and a financial incentive placed upon the party at fault to resolve it. Schedule 4 is designed to incentivise Network Rail to keep possessions infrequent and short and provide plenty of advance notice. With no Schedule 4 or 8 regimes in place, and the loss of the customer-supplier dynamic, train operators risk an unchecked increase in infrastructure failures with no incentive upon GBR to resolve them, and no incentive to plan possessions efficiently. This would result in passengers suffering from a decline in punctuality and ever more longer, short notice disruptive engineering work. New incentives will need to be put in place to make sure this does not happen.

Since privatisation, the rail sector has enjoyed financial security through the double lock of franchised TOC subsidy profiles being secure in 7+ year contracts bid by the private sector, and Network Rail being guaranteed the income it needs to meet its budget through five-year settlements determined by the independent Office of Rail and Road following an affordability check added by the 2005 Railways Act. This has, broadly, been one of the major gains from the structure put in place at privatisation: it ensured rail was sustainably funded, a far cry from the preceding nationalised era, and shielded rail from the austerity cuts which many public services and local authorities suffered after 2010.

In future, the double lock will be removed and GBR's budget will be decided through the politician determined Comprehensive Spending Review process, in competition with other public services, giving at best three years' certainty of future budgets. Rail is a long-term asset, and mechanisms will need to be found to enable train operation and infrastructure investment to be sustainably funded into the future, avoiding stop-go spending cycles.

HAZARDS

In the Williams–Shapps Plan for Rail, Government has in effect taken all the railway's problems into a public body for which ministers are directly accountable. GBR could buckle under the weight of decisions it must take: issues which hitherto were decided locally by TOC executive teams will become GBR decisions, many of which will need ministerial sign-off and become politicised. GBR will be a large organisation with immense responsibilities and could develop a misguided 'we-know-best' approach.

With train operators no longer taking revenue risk or retaining fares, they will not naturally have the motivation to build relationships with customers and receive and then act upon feedback or pursue growth plans. At Chiltern Railways, which took full revenue risk, there was one key commercial imperative: to grow passenger revenues faster than the subsidy profile declined. This was achieved through listening to and acting upon customer feedback, innovating on product offer, for example through early adoption of free Wi-Fi, and investing in linespeed improvements, new stations, car parks and trains to grow profitable revenue flows.

Pioneering spirit: loco No 68009 *Titan* propels the 12.55 Birmingham Moor Street to London Marylebone Chiltern Railways service across the M42 at Widney Manor on 23 December 2020. John Whitehouse

Passenger volume growth on long flows is good news as it results in higher levels of fare income and therefore lower levels of subsidy needed from Government. As yet there is no draft Passenger Service Contract, with the Department for Transport focused on negotiating post-pandemic National Rail Contracts in which there are no incentives to grow passenger volumes. The Williams-Shapps Plan for Rail says that in the new Passenger Service Contracts there will be incentives to drive revenue growth. These incentives will need to be intelligently designed and quickly rolled out if the train operators are not to lose the entrepreneurial spirit which contributed to more than doubling passenger journeys in the 25 years since privatisation.

DESIGN OF GBR

GBR will need to be carefully designed to make sure it does not lose touch with customers, can function efficiently, and is effective in delivering on its mandates to grow passenger numbers and promote rail freight.

To ensure it has the ability to spot opportunities to grow, GBR will need to be tuned into local markets to detect opportunities and the need for changes. Chiltern Railways created a new station at Bicester Village not because DfT told it to do so, but because its management team found out through local contacts about plans to build a designer outlet village which would draw customers from London and wanted a slice of that travel market.

The proposed regional divisions of GBR will need to be strong and effective. They will need to be more than operational units, and more than a stakeholder liaison function, capable of thinking beyond the day-to-day challenges of operating infrastructure. They will succeed by working closely with devolved bodies, metro mayors and local authorities, and finding efficient ways of receiving and acting on customer feedback, whilst not forgetting the importance of inter-city, inter-regional and nationwide freight flows.

To ensure it has commercial nous, GBR should look beyond the civil service and infrastructure provider for many of its staff, and recruit people from TOCs, owning groups and the regions. A strong body of staff will need to have the particular rail, commercial and market facing skills which enable them to turn opportunities spotted and feedback received into revised timetables, fares and investment plans.

To be effective, GBR will need to have as much operational independence as possible from ministers and be able to make decisions quickly. Ministers will need to discipline themselves to focus on developing the 30-year strategy and securing and setting appropriate budgets, whilst giving GBR the space and permission to make sound decisions about the specification for services and products.

LOTS TO DO

At a day-to-day level nothing has actually changed yet, but there is a job of work ahead to operationalise the policy stated in the Williams-Shapps Plan for Rail. Legislation will be needed, but is not yet drafted or committed. Contracts, access agreements and licences will have to change or be replaced in a way which protects consumers and investors. To an extent, the success or otherwise of GBR cannot be foretold until these details develop. Involving people who actually understand how the whole system hangs together will be key. I hope the railway's people and its supporters will commit to making these reforms work and achieve the intended outcomes.

If the railway is to continue to matter to the economic success and wellbeing of the country, and cease being an unduly large draw on the taxpayer, it must not become distracted by reorganisation. It must focus on sensibly operationalising the reforms, and at the same time urgently recover its mojo, remember how to welcome and attract customers, and resume its growth trajectory. mr

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Graham Cross gained a degree in geography from Oxford University and joined the Railtrack management training scheme in 1996. He has worked at the Office of Passenger Rail Franchising (OPRAF), the Strategic Rail Authority (SRA), Chiltern Railways, London Overground, Heathrow Southern Railway and now leads SLC Investments, part of the SLC Group, which helps local authorities and developers to improve the railway and find innovative new ways of financing rail improvements such as electrification.