



Rail_____Partners

**Working together
for a better
railway: a new
public-private
partnership**



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Rail is at a fork in the tracks

“In short, we exist to make the railway better by harnessing the expertise and commercial drive of private sector operators for the benefit of those who use the railway, passengers and freight customers, and those who pay for it, including taxpayers.”



Andy Bagnall
Chief Executive, Rail Partners

The railway is on the cusp of a seismic moment of change – perhaps a change even more significant than the decision in 1992 to privatise Britain’s railway. Thirty years ago, consistently declining passenger numbers under British Rail left the Government with a choice – continue to manage decline, or harness the private sector to reinvigorate the railway. In 2022, as we emerge from the pandemic, a similar choice faces policy makers – how best to avoid decline and enable recovery. And the private sector again has a critical role to play.

Even before the pandemic, the May 2018 timetable failure highlighted that the previous system was no longer fit for purpose. Accountability in the system had become blurred. In addition, customers were already changing how they engaged with rail, season ticket sales were already declining, there was increased need to reduce costs, boost productivity and better meet customer expectations.

Covid-19 accelerated these trends as well as having a profound impact on the railway’s finances. While the rail freight sector has largely recovered and in some places is exceeding pre-pandemic levels, the passenger sector is facing a cumulative shortfall of around £20 billion in fares revenue by 2025, with the gap currently being plugged by taxpayers. This is unsustainable, the rail industry cannot take more than its fair share of public funds.

The scale of change needed to address this immediate issue will inevitably cause turbulence, as we are seeing play out in the current industrial action. But change we must. And alongside addressing the immediate cost challenges, government is also undertaking the biggest shift in how the railway is organised since privatisation in the mid-1990s. Rail Partners has been created to demonstrate to those leading the reforms that harnessing private sector creativity and expertise can support the delivery of government’s economic, social and environmental aims, develop innovative solutions to complex systemic problems and enable the industry to be financially sustainable in the wake of the pandemic.

The private sector has previously restored the industry’s finances to good health. In the privatised era, passenger numbers were more than doubled and an annual operating deficit of £2bn was turned into an operating surplus. And the private sector is already showing it can again help restore financial stability. In those limited cases where commercial incentives are currently in place, operators are recovering revenue much more quickly than those not afforded the same commercial freedoms. Expanding those incentives, for example by activating existing mechanisms in National Rail Contracts for the majority of operators, could help address this £20 billion deficit at a much faster pace, accelerating the railway’s recovery.

Thanks to the commercial expertise and resilience of the rail freight sector, freight volumes have recovered strongly from the pandemic. As recognised in the ‘Plan for Rail’ white paper, a largely private rail freight sector has shown great agility and made significant investment to grow and diversify the freight market in response to changing customer demands.

So, as we navigate reform, we must choose the right fork in the track to take. If we take the wrong track and implement reform in the wrong way, the destination is further cost pressures, reduced service levels and decision making so far away from the customer that their experience is negatively impacted.

The alternative, taking the right track, is where the private sector is harnessed to innovate and respond to customer needs, driving up patronage and modal shift to rail freight, supporting net zero targets, levelling up and rejuvenating the sector. This in turn would free up vital public funds to support other key services and level up the country.

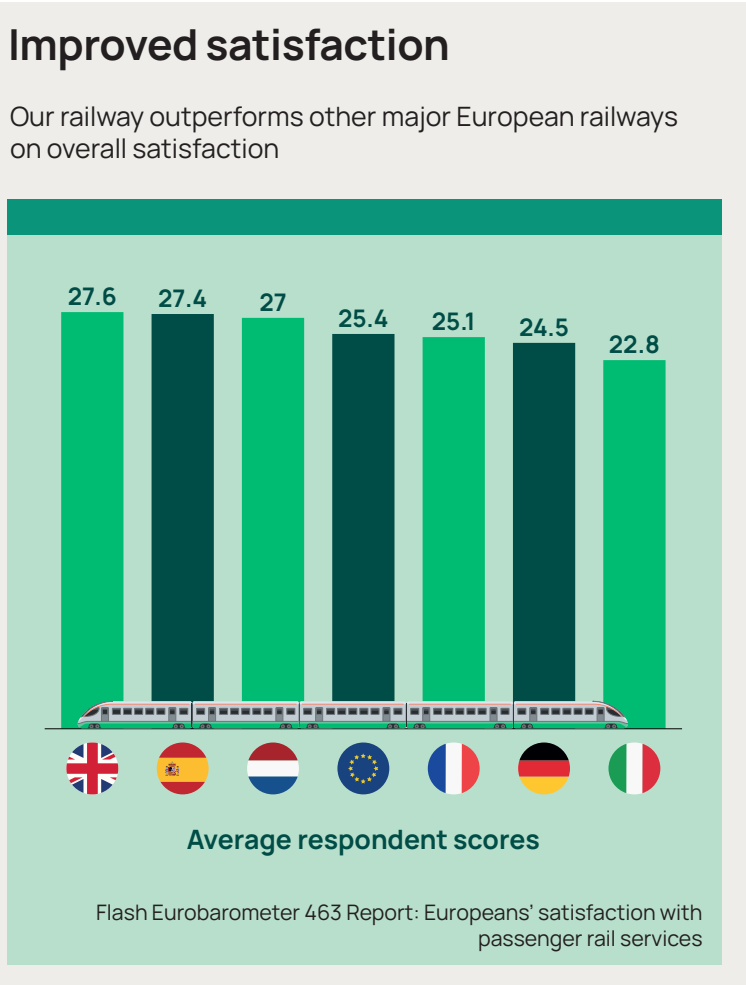
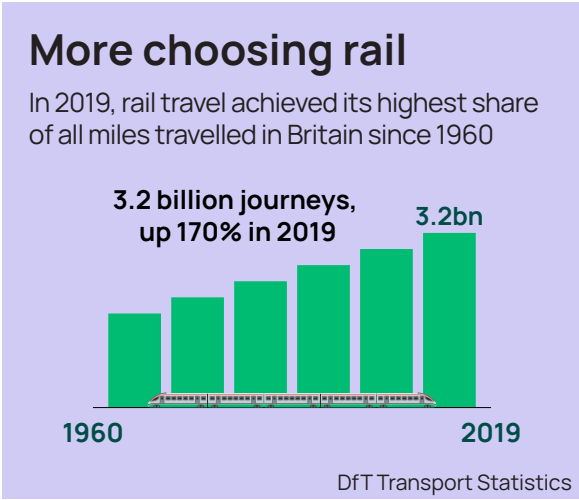
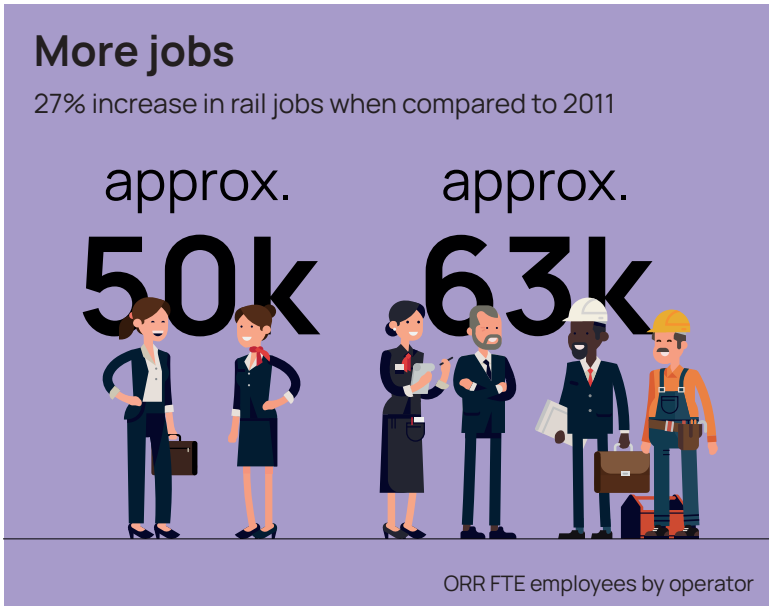
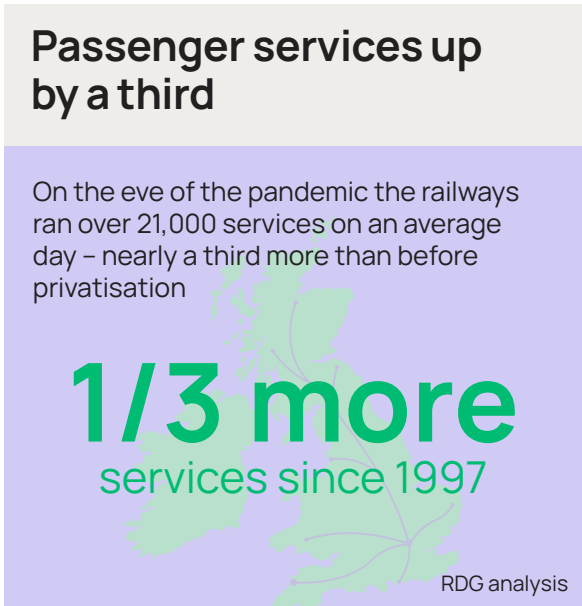
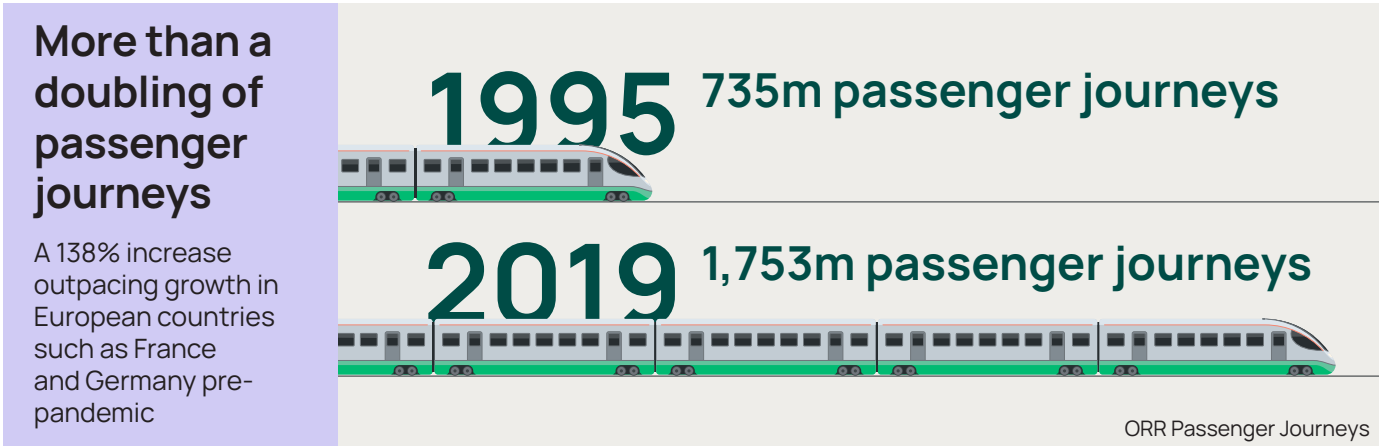
Rail Partners advocates for independent owning groups, and for freight operators, bringing their voice to decision makers and wider stakeholders to help create the conditions which allow them to focus on delivering the best possible services for customers.

In short, we exist to make the railway better by harnessing the expertise and commercial drive of private sector operators for the benefit of those who use the railway, passengers and freight customers, and those who pay for it, including taxpayers.

As big as the challenges the sector faces are, I am excited to be supporting the members of Rail Partners and the wider industry to bring about the change necessary to set the railway up for success for the next generation. We must move on from the old arguments around ownership and instead bring the best of both sectors together in true partnership.

In choosing our name, we wanted to be explicit that collaboration is central to everything we do – working with government and the rest of the industry to deliver the shared ambitions of the ‘Plan for Rail’ white paper, and to secure the brightest possible future for rail and the best possible customer experience.

The private sector has helped transform the railway over the last 25 years...



...with the right reforms, it can help set the railway up for recovery and growth over the next 25 years.



The challenges the railway faces are significant

The railway faces three interrelated and complex challenges

1. Attracting customers back to rail to increase revenue and support economic recovery
2. Reducing the need for taxpayer support by increasing efficiency and cutting costs
3. Developing stronger public-private partnerships focussed on delivering for customers

In the next few years, the railway has to grow passenger numbers again after their collapse as a result of the pandemic, addressing an expected £20 billion shortfall in revenue by 2025. Unless it does so, the risk is that the whole industry falls into a spiral of decline, with fewer passengers and less revenue addressed through service reductions which in turn mean further reductions in passengers and revenue.

Equally pressing is the need to stabilise the industry's finances. The taxpayer has injected an additional £16 billion to date. With other competing demands on public money, such as the need to reduce the NHS backlog, it is simply unsustainable for the railway to take more than its fair share. Asking passengers to pay higher fares just as we are trying to attract people back to rail cannot be the answer either.

This means that, unless the whole industry can change and become more efficient today, it will be impossible to create the conditions for a growing railway tomorrow.

These two challenges must be addressed at the same time as the railway undergoes the most significant structural reform since privatisation in the 1990s. The creation of Great British Railways is the centrepiece of reform, but the wider aspirations are nothing less than putting in place the foundations for the railway to thrive for the rest of the twenty-first century and beyond. Get these reforms right by creating a renewed public-private partnership that delivers for customers and the railway can face the coming decades with confidence. The consequences of getting them wrong, on the other hand, could not be more serious.

On the positive side, there is a clear way forward. With the right design of Great British Railways; Passenger Service Contracts that are fit for purpose; a transformation in customers' experience of fares, retail and ticketing; and the right framework for freight, then the foundations for success will be in place.

With the right reforms we can meet these challenges head on



Great British Railways must be a guiding mind not a controlling mind.

It needs to be a strong, independent public sector body at the centre of a reformed system with the necessary freedom from government. Generating a commercial culture inside GBR will be an essential prerequisite of success. It also needs to avoid over-centralisation, and give operators sufficient freedom to do what they can do best, not create a bureaucratic, inward-looking system.

If it does, then Great British Railways can play a vitally important role in joining up the system, focussing the whole industry on delivering its objectives and improving accountability for the customer.

The new rail contracts are key to an effective public-private partnership.

While there is no doubt that it had run its course and change was essential, franchising was a successful system on any objective measure. The new Passenger Service Contracts must look to similarly harness the same private sector creativity and entrepreneurialism which, over 25 years, consistently demonstrated its strengths and ability to innovate in growing patronage and revenue, reducing waste, making best use of existing assets and driving modal shift.

The new contracts must give operators the right incentives to grow revenues back and control costs, and the right levers over timetabling and fare setting so they can respond to customers' needs quickly, using the in-depth knowledge of local needs and markets they have built up over a quarter of a century. Innovation cannot be specified from the centre.

Equally essential is the need for a range of contracts, a recognition that one size does not fit all. More specified concessions may be the way forward in urban commuter markets, but for long-distance services there needs to be a degree of revenue risk transferred to operators and sufficient commercial freedom for operators to respond. Much of the railway, though, sits between these two distinct markets, and so many contracts will need to be a mixed model. The Government should set out a clear timeline for developing the contracts and a pipeline for taking them to market.

Over 25 years, private sector operators more than doubled passenger numbers, increased the number of services by a third, and were midway through replacing over half the fleet of trains across the country – new for old – when the pandemic began. With the right contractual levers and incentives in place they can achieve similar success once again, for the benefit of customers and taxpayers.



Transforming the customer experience is vital.

This means a retail revolution, with modern products helping to grow new markets. Buying tickets, and the perceived ease and fairness of the transaction, go to the heart of how people judge the railway. It is central to that experience and had become one of the biggest causes of concern to customers. For change to happen, and to move towards a much more transparent system in the future, there needs to be an acceleration towards single leg pricing as the bedrock of that system. A transformed experience is equally essential for the growing number of customers who have accessibility needs and expect the railway to respond.

An ambitious target to treble freight volumes by 2050 is needed.

Rail freight contributes £2.45 billion to UK plc every year, with over 90% of the economic benefits occurring outside of London and the South East, and each freight train removing up to 76 lorries from our roads. The economic and environmental rationale for developing a rail system that enables rail freight to flourish is compelling.

There was much that was positive in the white paper, most obviously the proposed introduction of a rail freight growth target and the commitment to a fair access regime. Now, that must be set with a high level of ambition – trebling freight volumes and thus trebling the benefits over the next decades. If that target is set and met, that is worth £7.35 billion to UK plc and equates to 21 million fewer HGV movements annually, supporting the economy and the environment.



Decarbonising the railway is critical to achieving net zero.

With the right structures, contracts, fares and access regime, and the contribution of the private sector not squeezed out, the railway will be in a position to meet the challenges it faces, and set itself up to overcome perhaps the biggest challenge of all – addressing the climate emergency.

Rail is already the most carbon-friendly way to move freight and the lowest emitting form of mass transport. Attracting passengers back and growing the freight market will make a real difference in terms of reducing transport emissions in the short term. Further ahead, decarbonising the railway is critical to achieving net zero. A sustained commitment to electrifying the railway and other decarbonisation measures will not only benefit our environment but our economy, with the potential to create thousands of new, 'green' jobs across Britain, and secure rail's future through and beyond the next century.



Rail Partners sees five priority areas as critical to the success of a new public-private partnership

Great British Railways must be a guiding mind not a controlling mind.

The success of Great British Railways (GBR) will depend on a clear vision and a culture which enables and encourages collaboration, with everyone, not just operators but the whole supply chain, including the rolling stock companies, pulling in the same direction to modernise the railway.

Having established GBR, government must provide it with the freedom it needs to deliver, resisting the temptation to immerse itself in delivery and constantly micromanage the industry.

GBR must set the direction of travel, but not make every single decision itself. A culture of collaboration depends on creating a system where private sector operators are rewarded when they succeed in delivering, not just penalised when they don't. Where they can look outwards to customers and respond to what they need and not always have to look inwards to GBR asking for permission to act.

As it stands, GBR is set to be both the central strategic body – setting the direction of travel and overseeing the new contracts – and the infrastructure delivery manager – operating, maintaining and renewing the tracks and signals. This makes it vital that the boundaries of responsibilities and accountabilities between these two parts of the organisation, as well as their relationship to operators, are absolutely clear. If they aren't, there's a risk that the perception will form that GBR is in the position of being able to mark its own homework.

To avoid this, and to hold GBR to account fairly and effectively, the role of the Office of Rail and Road as the independent industry regulator is vital, as is clarity on how economic, safety, operational and consumer regulation will be undertaken in a reformed railway.

1

We are calling for:

1. Operational freedom from Government for GBR

Government to set the high level objectives for rail, but then give Great British Railways the freedom it needs to act as an effective guiding mind and resist the urge to continually involve itself in the day-to-day running of the railway.

2. GBR as the guiding mind but give flexibility for passenger operators to respond to customers

Great British Railways to set the direction of travel and ensure the system is coherent but give operators the freedom within their contracts to respond creatively to customer needs and deliver the strategic goals for the industry.

3. ORR to have effective regulatory oversight over GBR

The Office of Rail and Road to have all the necessary regulatory powers to hold Great British Railways accountable for its performance in delivering a safe, punctual and reliable railway.

The new rail contracts are key to an effective public-private partnership.

The new Passenger Service Contracts, which are being introduced to replace franchises, will be critical to future success. They must maximise the private sector's strengths – innovation, an unrelenting focus on quality, great customer service, commercial and operational expertise, and contract management.

Private sector operators already have an in-depth knowledge of customer needs and markets because they are closest to those customers. Over 25 years, they consistently demonstrated their strengths and ability to innovate in growing patronage and revenue, reducing waste, making best use of existing assets and driving modal shift. They more than doubled passenger numbers, increased the number of services by a third, and were midway through replacing over half the fleet of trains across the country – new for old – when the pandemic began.

If Passenger Service Contracts are set up appropriately, with the right commercial incentives – including fair rewards for outperformance and fair consequences for underperformance – they can achieve similar success. This is already being demonstrated. Those operators with revenue incentives are collectively outperforming DfT contracted long-distance operators without such incentives in terms of revenue growth post-pandemic. If the gap persists, this would amount to £1bn in lost revenue over a Spending Review period. Stronger revenue growth could be achieved by other operators if existing revenue incentive mechanisms in National Rail Contracts were activated, and similar mechanisms were then included in future Passenger Service Contracts.

Passenger and revenue growth is vital to improve the industry's financial sustainability and address the expected cumulative £20 billion shortfall in fares revenue by 2025 resulting from the pandemic. Growth will also support wider economic growth – especially 'levelling up' in the regions – and decarbonisation.

The concession model, where operators are paid a management fee simply to deliver a contract in which almost every detail has been specified from the centre, will sometimes be the right solution – most obviously for commuter services – but will not be right for every different rail market.

Instead, there should be three base models of contracts reflecting the different markets being served – a long distance model and a mixed markets model (e.g. long-distance and regional), as well as a concession model. The important role open access operators can play in growing markets also needs to be considered given the choice and benefits this can bring to customers.

Passenger Service Contracts must be flexible enough to enable private sector operators to respond quickly to changing customer needs across those different markets by developing innovative products and services, and give operators the levers they need to help GBR deliver the strategic goals of the white paper.

It is also essential to encourage strong competition for those markets – not least through a less complex and more streamlined bidding process – focussed on outcomes and enabling the innovation that is one of the greatest strengths of the private sector.

Working in partnership with Great British Railways (GBR) to enhance all aspects of the customer experience, the private sector can help deliver those strategic goals faster than the public sector can do alone, increasing revenue at a greater pace, delivering a clear vision of the future and a financially sustainable railway for the decades to come.

We are calling for:

1. Passenger Service Contracts to incentivise and enable operators to deliver for customers

Passenger Service Contracts to give operators the incentives and the levers they need, including those related to fares and timetabling, to respond to customer needs and deliver a transformed customer experience.

2. Three base models of contract

Contracts which are right for the market they are serving. Contracts which incentivise private sector operators to use all their proven creativity and capability to deliver the best possible outcomes for taxpayers by growing revenues and reducing costs.

3. A simplified procurement process

Contracts which have the right balance of risk and reward, with a simplified bidding process, in order to create a vibrant competitive market for those contracts.

2

Transforming the customer experience is vital.

Attracting and retaining customers means providing them with an experience that matches or betters the experience they receive from other transport modes, other services and industries.

Critical to this is recognising the Government's aspiration for a simpler better railway – and customers' clear expectations for products that reflect how they want to use it – easy to understand, more flexible, and with fares that are value for money, make sense and can be trusted.

A fares, ticketing and retail revolution is needed, with a modernised customer experience that is adaptable to their changing needs. This means more Pay-As-You-Go in urban areas and prices designed to fill empty seats on long distance journeys. The white paper is clear that GBR will create a single retail website but a level playing field for third party retailers should be ensured to continue to encourage innovation. A modern approach to ticketing is needed with new ways to pay through expanding the availability of digital tickets to cover more journey types and investing in more tap-in-tap-out systems across the railway.

With a large number of customers having some form of accessibility requirement, rail must also focus on transforming their experience, building on recent progress and making travel by train an option for everybody.

A transformed customer experience which attracts people back to rail, while creating efficiencies and additional revenue, is key to the long-term financial sustainability of the whole industry.



We are calling for:

1. More Pay As You Go and dynamic demand-led pricing

Continued progress towards more Pay As You Go. Fares which can be priced dynamically by train operators to spread demand more evenly across the day and week.

2. A competitive retail market to drive innovation

A level playing between GBR and third-party retailers once GBR takes over retailing from train operators. Markets generally thrive when there is fair and healthy competition. It provides choice for customers and a continued drive to innovate and improve the product offering.

3. A modern approach to ticketing – digital first

Digital tickets, as in other sectors, should be the norm, available on more journeys for more customers. Greater coverage of tap-in tap-out technology across the railway network will enable this.

An ambitious target to treble freight volumes by 2050 is needed.

Rail freight already contributes billions of pounds to the UK economy, connecting businesses and industries across Britain and beyond to markets across the world. Moving more freight from road to rail can reduce emissions, as well as boosting regional economies, particularly outside London and the South East.

The 'Plan for Rail' white paper recognised that more freight moved by rail is good for the economy and the environment, committing to putting in place a growth target for freight. This target must be ambitious. Achieving such a target will enhance rail freight's contribution to UK plc.

Government and Great British Railways have a crucial role to play in supporting rail freight. They can help create the conditions in which an ambitious target can be delivered and the private sector has the confidence to invest. This includes a stable, predictable and supportive access and charging framework overseen by the Office of Rail and Road as the independent regulator.

It is vital, given the limited availability of funding in the short- to medium-term for infrastructure schemes, that better use is made of existing capacity to enable freight to grow. This means considering how best to balance the capacity requirements of passenger and freight services and seeking out every opportunity to unlock additional capacity.

There should also be a clear roadmap of priority investment projects that create additional freight capacity to support the growth and decarbonisation of rail freight; and a programme for electrification should prioritise infill electrification – where short stretches of electrification would unlock end-to-end electric freight services – and strategically important schemes that enable the rail freight sector to invest its own capital to decarbonise at pace.

Greater use of grants and incentives for customers to encourage them to invest in a switch to rail freight are also a key part of the solution.

4

We are calling for:

- 1. An ambitious rail freight growth target to treble volumes by 2050**
A target to treble rail freight volumes by 2050 would support decarbonisation, the levelling-up agenda and export growth through the ports and Channel Tunnel.
- 2. An access regime that provides freight companies with confidence to make long-term investments**
An access and charging regime that supports the delivery of an ambitious growth target by giving private operators the confidence to invest and helping make the best possible decisions on allocating capacity to freight on the rail network.
- 3. Key capacity and infill electrification schemes to be prioritised**
Recognising the short-term constraints on funding, we need to maximise the use of existing capacity. Prioritise infill electrification schemes and other projects which have disproportional benefits in terms of creating more capacity for rail freight.
- 4. An enhanced grants and incentives regime to encourage freight modal shift**
Government to expand the system of schemes, grants and incentives which promote rail freight as the pillar of a low-carbon freight and logistics sector and support the sector's decarbonising initiatives.

Decarbonising the railway is critical to achieving net zero.

Rail must be ambitious. It is already one of the greenest ways to travel and transport goods and, with the planet facing a climate emergency, the importance of low carbon passenger and freight transport has never been clearer.

Rail's existing green credentials mean it can become the backbone of a decarbonised transport network. In the short-term, rail's greatest contribution to the climate fightback will be coaxing travellers and freight off the roads, out of the skies, and onto rails. Today, for example, even with diesel traction, every tonne of freight moved by rail instead of road reduces emissions by 76%.

Government and Great British Railways need to develop a clear strategy of fare levels, marketing and targeted discounts to encourage people to use public transport and active travel, supported by integrated government transport and planning policies. Transport policy, fiscal and investment decisions should reflect the environmental, social and economic benefits of rail and other forms of public and shared transport, creating a level playing field.

Beyond this, the full decarbonisation of rail offers a once-in-a-generation opportunity that can multiply the benefit of modal shift in both the passenger and freight sectors and create jobs and prosperity across every nation and region of the UK, while building cutting-edge skills and innovations to export globally.

Far from being simply a cost to be borne, we cannot afford to miss out on the substantial benefits from fully decarbonising the railway. Previous analysis has shown that this includes the creation of around 6,000 jobs – with opportunities to 'level up', enhance the diversity of the rail workforce, and upskill our people; economic benefits of £2.2 billion generated by the roles needed to deliver a decarbonised railway; a reduction of 33 million tonnes of carbon emissions between now and 2050; and a further £2.2 billion of value from health improvements as a result of cleaner air.

To make this a reality, government and Great British Railways need to invest in a long-term programme of electrification, as well as creating a structure and framework that supports private sector investment in innovative hydrogen and battery rolling stock technologies to improve the environmental performance of existing rolling stock. Railway demand has the potential to become an anchor customer for hydrogen, creating a platform for the development of UK industries serving both domestic and export markets.

Using the latest green technologies, we can contribute to the national and global effort to cut greenhouse gas emissions, improve air quality and unlock new, greener, high-skilled jobs for the industrial revolution of the future.

We are calling for:

- 1. Fares, marketing and discounts to encourage passenger modal shift**
Fare levels, marketing initiatives and discounts that encourage people to choose rail and support the recovery of more environmentally friendly public transport modes in the wake of the pandemic.
- 2. A level playing field across transport modes to reflect relative environmental costs**
A level playing field should be created for rail with other transport modes whereby policy, fiscal and investment decisions reflect the environmental, social and economic benefits of rail and other forms of public transport.
- 3. A long-term strategy to decarbonise the railway**
A long-term commitment to decarbonise rail, drawing from the Traction Decarbonisation Network Strategy, through investment in a sustained programme of electrification as well as the development of a framework that supports private sector investment in innovative green technologies including hydrogen and battery power.

5



Rail Partners represents the independent train operating company owning groups and freight operating companies shown overleaf.

Between them, they have hundreds of years of experience on Britain's railway and have moved tens of billions of passengers and billions of pounds worth of goods. Their experience, dedication, creativity and investment helped transform the industry over the last 25 years since privatisation. With the right reforms today, they can make a similar contribution to building the industry after the pandemic for the next 25 years.

Rail Partners has been established to deliver the policy and advocacy functions previously undertaken by the Rail Delivery Group (RDG) on behalf of its owning group and freight operator members, as the remainder of RDG transitions to become part of Great British Railways. We also provide technical services to train operating companies in both public and private sectors.

The partners we speak for



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