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What's heading down the tracks? The Future of Passenger Rail in Britain

Discussion paper

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EXECUTIVE SUMMARY

Passenger rail was in the process of transforming before the pandemic took hold. The pace and shape of this change has been significantly impacted by Covid-19. It has left the sector reliant on governments to ensure its survival in the short-term and unsure of the long-term habits of rail users. Government and industry must now collaborate to ensure the railways bounce back strongly.

This discussion paper develops an argument around four key tenets – firstly, a new contracting model is needed to enable the long-term viability of the railways. Secondly, the environmental role of rail must be recognised and prioritised. Thirdly, a relentless focus is needed on the needs and wants of passengers. Finally, a new identity is needed for the railways, and the transport sector as a whole, to re-engage with potential passengers. 11 recommendations are made that would deliver a more sustainable, greener and passenger-focused rail network.

For a radical re-think of how passenger railways operate to be realised, a new relationship between Government and train operators is needed. The franchise model was increasingly not fit for purpose pre-pandemic. However, with such uncertainty imbued into the system by Covid-19, a more equitable split of risk is needed between the organisations involved in delivering services. That means governments will need the control and confidence of being able shape a system that will meet the changing needs of passengers post-Covid, whilst at the same time seeking to encourage a healthy number of train operators – who are concerned about not knowing how home-working and other factors will impact usage in the long-term – to participate in the sector. Operators must also be given the freedom to leverage their experience and expertise to deliver the innovations that will future-proof Britain's railways. As such, the model that will best suit the sector is one resembling the concession contracts used to deliver London Overground and Merseyrail.

A thriving rail sector is important not only for the sake of the economic and social benefits the railways deliver by bringing communities and companies closer together; if an important part of 'building back better' is to be the greening of our society, increasing rail usage will be the most impactful way to bring down carbon emissions in the most polluting sector – transport. This will of course mean sensible fiscal incentives and measures that ensure organisations involved in the railways can realise the benefits of green investments, which often takes many years. Perhaps more importantly however is the need to integrate as much of the transport network as possible. The first and last mile of journeys are the biggest barriers to many potential rail users. By ensuring a more joined up transport network – particularly leveraging zero-carbon transport solutions like bike and scooter sharing systems – more people can be encouraged on to the railways, with their first and last mile taken care of via other public transport options.

One idea above all else must be central in driving the creation of a new model of delivery for rail – the passenger is the priority. The railways have drifted from focusing on delivering the journeys passengers want in the way that they want them, to managing a train network with those that use it an afterthought. A revolution in the way we think about the railways is needed that puts the passenger at the forefront of the minds of the people who design and deliver rail services. That is why the third set of recommendations in this paper are a suite of policies which would focus the sector once again on the passenger. This includes giving greater prominence to measures of passenger satisfaction in deciding rewards and penalties for operators, and giving rail-users a role in designing and deciding who runs services. We advocate for a new model of Passenger-led-procurement, based on the concepts of citizen assemblies and participatory budgeting, which would see those that use the railways have a greater say than ever - helping design the services they use and participate in the procurement of an operator.

Finally, this paper makes recommendations that the railways – and where possible the wider transport network – cultivate a more cohesive and impactful identity. As such this paper advocates for a new national identity for rail part of which should be a clear brand for country-wide intercity travel, coupled with relevant regional sub-brands which would renew public transport's means of communicating and appealing to citizens.

The analysis and recommendations in this paper are aimed to help deliver a new relationship between government, operators and passengers. This is done with one objective in mind – to ensure a thriving, future-proof rail network with the passenger given a central role in the design and delivery of services.

The paper's 11 recommendations can be found on pages 35-39.

INTRODUCTION

Context

Britain's railways elicit a myriad of often contradictory images and emotions. At one end of the spectrum, we think of sitting back contently, cup of tea in hand, our eyes gazing upon passing countryside – what better way to travel; at the other, we recall a crowded Monday morning station as we rush to obtain a ticket, only to find that the rush was all in vain – the train is delayed by an hour. These two contradictory images encapsulate the public's view of Britain's railway and wider infrastructure. Romanticism tempered with perceived experience. Perhaps the perception explains why some 64% of the public support renationalising the railways[1]. However, this group may be surprised to hear that almost 9 out of 10 passenger trains arrive on time [2]. As ever with public services, users remember the bad and forget the more regular good.

The complexity of opinion versus the reality is displayed in the rail network itself. There are multiple franchise operators, various owners of the trains themselves, thousands of businesses large and small in the supply chain, and a bewilderment over where central government responsibility begins and ends. Such complexity motivated the UK Government to commission the *Williams Rail Review* in 2018, the recommendations of which are currently being considered by ministers.

How we did get here? Following privatisation in 1993, British Rail was divided into two parts: the national rail infrastructure (track signalling, bridges, tunnels, stations, and depots) and the operating companies whose trains run on that network [3]. Other parts – such as trains and freight services – were hived off separately [3]. The infrastructure is owned, maintained, and operated by Network Rail, a publicly-owned company [3]. Most rail services are delivered by companies who have bid for and won the multi-year franchise contracts awarded by the Department for Transport, and the Scottish and Welsh governments with a small number of exceptions; such as London and Merseyside, which are awarded by the regional government transport authority and contracted using a slightly different model called a 'concession'. Northern Ireland has a separate rail network, uses a different gauge (size) railway track, and has a publicly owned operator that manages both the trains and infrastructure. In the rest of the UK the trains (“passenger rolling stock”) are owned by private companies, generally banks, and leased to the franchise operators. The companies who operate the franchises are generally private (publicly listed) and in some cases part of non-UK state owned national railway companies.

Struggling to keep up? This vast patchwork of different stakeholders, operating within the confines of a rigid – and not always complementary – rail network, illustrates the complexities of rail policy in the UK. This backdrop and the huge challenge of the pandemic on the rail ecosystem, prompted an editorial in *Rail Review* to say, “our railway is facing a crisis like no other, and one that is threatening to become existential, rather like the canals did during the railway mania” [4].

The future of rail, which was already at a crossroads, has been brought into sharp relief by the pandemic, which has greatly impacted already less-than-hoped-for revenues. In September 2020, the situation prompted the UK Government to announce that rail franchising will be scrapped [5]. In the meantime, the UK Government has implemented emergency measures to ensure the viability of passenger rail franchise holders in the short-term, whilst considering the efficacy of transitioning to a different system over the long-term.

For all these travails, the UK’s railways have multiple macro tailwinds that are cause for optimism: a new generation of trains is arriving, which will improve accessibility and customer experience; there is a fast-growing staycation market; just 60% of ‘Generation Z’ hold driving licenses, a large and untapped potential growth market; and there is a significant role for rail to play in a greener transport system [4].

This paper will provide an outline of the current system in Great Britain (i.e. excluding Northern Ireland), how we expect it to develop and some thought-provoking, creative ideas on how the railways can maximise the potential of a new model and new context, post-pandemic.

THE PAST, PRESENT AND FUTURE OF FRANCHISING

Even before the Covid-19 pandemic, questions were being raised over the future viability of the franchising model.

The rail franchising model that dominates the British rail network stems back to the *Railways Act 1993*. The first franchises under the model were signed for the South West and Great Western franchises on 19 and 20 December 1995 respectively. 1996 saw these franchises come online and since then franchising has become the dominant contracting model for the delivery of passenger rail in Britain.

What is franchising?

A rail franchise has a contractual model which defines the relationship between the Train Operating Company (TOC) and the authority that procured it (the UK Government, Welsh Government, Scottish Government or in some circumstances regional government). It is the most common form of contractual model for heavy rail passenger services in Britain. There are 19 franchises in Britain, each covering a specific part of the rail network. 16 of the franchises are run by private companies, which in some cases are part of non-UK state owned national railway companies. The UK Government does retain the capacity to manage services directly – and does currently operate two of the 'franchises' – through its Operator of Last Resort (OLR). This is a government-owned-company, that has the capacity to operate a passenger rail franchise if and when a franchisee is unable to do so. The Welsh and the Scottish government have identical arrangements in place – and the Welsh Government has already taken ownership of the franchise covering the majority of lines within the nation through Transport for Wales; and the Scottish Government is set to take over the ScotRail franchise, when it ends in March 2022.

In normal circumstances, following a detailed and competitive bidding process, a multi-year contract is agreed that hands operational control over passenger trains to the successful TOC. The contract – or 'franchise agreement' – stipulates a series of standards and measures that the operator must adhere to. These specifications could include requirements to run specific services, meet passenger satisfaction targets, upgrade trains or stations, and/or a range of other measures. Beyond these stipulations, the winning TOC has the scope to innovate in its delivery of the service, including in ticketing, marketing and service provision.

The winning TOC bidder – franchisee – is contracted to run the train services within the area of the network defined by the contract for a specific period of time (usually 7-10 years). The franchisee is responsible for managing the whole train operating business including costs and the fare revenue. The bids to run a franchise are made to the government and reflect the economics of the train services in the franchise. For some services, the projected cost is greater than the expected fare revenue. A government, therefore, may choose to subsidise this service if it deems it necessary and/or valuable to the passengers the franchise will serve.

Therefore, whether a franchisee pays the government, or the government pays the franchisee is defined by the nature of the services being procured and the bid made. Regardless of the agreement, there will be a franchise payment, which comes in two forms:

- Premium – if revenues are expected to exceed the cost (including profit) of running the franchise, the TOC agrees in the contract to pay a fee to the government
- Subsidy – conversely, if it is expected that the cost of running the franchise is more than the expected revenue, then the TOC agrees in the contract to receive financial support from government

These are the two main ways TOC's earn income and expect to deliver an appropriate profit reflecting the risks. However, there are also other sources of revenue such as the sub-letting of commercial spaces within the railway stations that TOCs lease from Network Rail, on-train catering and advertising, as well as depot access and maintenance for other TOCs, all of which will be factored into the financial projections included in the bid.

As the *Campaign for Better Transport* highlight, "it is crucial to note that a TOC that pays a premium is not necessarily making a profit, and one that receives subsidy is not necessarily making a loss. The profit line is part of the cost base of the franchise and, as a flexible cost, may be varied if the revenue is not what is expected in order that the TOC can make the franchise payment" [6]. In other words, a TOC does not receive a subsidy simply because it is not generating the revenues it had hoped for, and a TOC that agreed a contract to receive subsidies may incur higher costs than expected that exceed any government support. The franchisee, therefore, takes on the vast majority of the financial risk in the current model.

As noted by the National Audit Office (NAO) "the rail franchise model has high fixed costs and low profit margins" [7]. These fixed costs do not fluctuate with passenger numbers and include the staffing of trains and *track access charges* – fees paid for the operation, maintenance and upgrading of rail infrastructure – which are payed to the UK Government rail infrastructure management company, Network Rail. These charges are determined by the Office of Rail and Road through their 5-yearly Periodic Review of Network Rail.

For 2019-20 – the final full financial year prior to the Covid-19 pandemic – the cost of running the railways was £22.1bn. Around 58% of these costs were incurred by train operators (including the 'premiums' they paid to governments), 37% by those managing the rail network and 5% by freight and HS1 [8].

Prior to the pandemic, franchises collectively returned 97p of every £1 from ticket fares back into the network through the form of investment in track, trains, and staff [9]. This reaffirms that franchise operators are committed to investment in the railways.

Franchising and the pre-pandemic decline

Until 2019-20 rail franchises in England made a net-contribution to the UK Government through their payment of premiums[1] [7]. In other words, TOCs paid more to the UK Government to run the services than they received in subsidies.

However, since its recent peak in 2017-18 the net income for the UK Government from franchises has been on a downwards trend. Rising from £281m in 2010-11 to £1.29bn in 2017-18, the Department for Transport (the largest contracting authority in Britain, covering England's 16 franchises) only received £222m from franchisees in the last full year prior to the pandemic, 2018-19. Since the pandemic, the system has become a net cost for the UK Government (explored further below). However, even prior to Covid-19, the Department for Transport had anticipated paying net subsidies of £85 million in 2019-20 to English franchise operators [7].

As reported by the National Audit Office (NAO), the rail industry has faced financial pressures from franchise operator revenues growing unexpectedly slower than anticipated, which has "impacted the ability of operators to pay premia to the Government" [7].

The scope for reasonable profit has gradually reduced since the start of franchising in 1995 and is now very small. With high-fixed costs

[1] On a Britain-wide basis (England, Scotland, and Wales) premiums dipped below subsidies for the first time a year earlier in 2018-19.

and a less than anticipated rise in passenger numbers, this narrow path for profit has diminished evermore. In the last full financial year (2019-20), on a Britain-wide basis, operators incurred expenditures of around £10.3 billion with revenues of £10.4 billion (including subsidies), generating operating profits of around £100 million [7], [10].

So, has franchising failed? Far from it. One statistic perhaps best exemplifies this – rail demand has more than doubled since rail privatisation in 1994/95. In 20 years, rail journeys increased by 97% to reach a record 1.8 billion journeys in 2018/19, and have increased faster than any other mode of transport [11].

It is also worth noting that the UK rail system is one of the safest in Europe, has attracted billions in private investment (up 63.5% in the decade leading up to the Covid crisis), and massively increased services (28% more than 1997) [12].

However, there is clearly a need to evolve the system. And although the pandemic has hastened this need for transformation, as we can see from the above, the franchising model was soon to be unfit for purpose regardless of the Covid-19 crisis. Operators, governments, passengers, and all those involved in the supply chain must not argue for a return to the past, but to evolve the passenger rail system, ensuring it is ready to meet the needs of society well into the future.

It is crucial that the model selected by the Government is one which seeks to recognise the long-term strategic benefits of a thriving passenger rail network – from de-carbonisation and better air-quality, to greater productivity and economic activity. However, perhaps most important is the need for operators and contracting authorities to put the needs and wants of existing passengers, as well as potential passengers and society at large, as the top priority in the design of any future model. To put it bluntly, whatever comes next will only work if people choose to use it. This will, however, require investment, time and creative thinking in both design and implementation.

Franchising and the pandemic

At the onset of the Covid-19 pandemic in the UK in 2020, it was clear that the UK Government would need to intervene in order to ensure stability in the sector. Department for Transport statistics show that rail usage dropped to a low of 4% of their normal usage in April 2020, following the first UK-wide ‘lockdown’. Passenger numbers increased to a peak of 43% in September of the same year, before sharply declining again during the various lockdowns in England, Scotland,

and Wales. During 2021 passenger numbers were slightly higher than previous periods when 'stay at home' measures were in place, at circa.20% [13] and further increases are expected as lockdown measures are eased in each nation during 2021.

To avoid the collapse of the passenger rail sector, the UK Government and other contracting authorities introduced Emergency Measure Agreements (EMAs) in March 2020. They took effect from 1 April, with their financial provisions back-dated to 1 March. For the majority of TOCs, the EMA applied until 20 September 2020 and operated as a temporary amendment to the underlying franchise agreement, which remained in place [14]. These agreements transferred all revenue and cost risks to the Department (or other relevant contracting authority). Operators were paid a fixed management fee for operating services, with a potential performance payment based on reliability, punctuality, and other targets.

In July 2020, the effect of the EMAs was described as the "de facto nationalisation" of Britain's railways when the Office for National Statistics (ONS) decided that train operators' debts would be counted on the Government Balance Sheet [15].

EMAs were replaced by Emergency Recovery Measures Agreements (ERMAs) for the majority of TOCs in September 2020. The ERMAs are a further temporary amendment to the underlying franchise agreements and vary in length from around 6 to 18 months.

In a Written Statement to Parliament, the Transport Secretary said EMRAs meant that:

> *"Operators have now been placed on far more demanding management agreements, with tougher performance targets, and lower management fees. Management fees will now be a maximum of 1.5% of the cost base of the franchise before the pandemic began" [16].*

Despite these measures, TOCs have remained the primary operators of rail services in England[2]. In Wales and Scotland, the respective governments have already, or will be, taking direct responsibility for the management of services from a TOC. In Wales this was from February 2021 and in Scotland the current ScotRail TOC contract was due to expire end of March 2022 and therefore it will be brought under OLR at that point.

The arrangements are expected to stay in place up and until reforms

[2] Two franchises were already being run by the Department for Transport's Operator of Last resort InterCity East Cost (since 2018); and Northern (since 1 March 2020)

from the *Williams Review* can begin to be implemented and as such the DfT is transitioning each TOC from ERMA's to an interim concession – agreements which are similar to the ERMAs, but a longer lifespan – under the Direct Award process [16]. TOCs will therefore remain operating under these conditions until a new model, replacing franchising has been implemented.

With the current levels of uncertainty, encouraging investment and creating the conditions for a healthy, competitive rail market will be difficult. TOCs and the wider rail sector will be reluctant to invest as the pandemic is making factors like passenger numbers difficult to predict. This nervousness will only be exacerbated if the UK Government (and other contracting authorities) delay or fail to offer clarity on the new contracting model.

The UK Government must, therefore, use this time to engage with and reassure TOCs, existing and potential new ones, plus the wider rail supply-chain that the future contracting model they plan to implement creates a sustainable, long-term operating environment.

The Williams Review

Pre-pandemic concerns regarding the future of the railways – coupled with the significant issues in the North and the South East of England following the May 2018 timetable changes – led to the appointment of Royal Mail Chairman Keith Williams to undertake a "root and branch review" of the sector.

The *Williams Rail Review* was established in September 2018 to look at the structure of the whole rail industry and the way passenger rail services are delivered. The review, according to the Department for Transport, "will make recommendations for reform that prioritise passengers' and taxpayers' interests" [17].

The review has concluded and is reportedly with UK Government Ministers. Mr Williams confirmed in a speech that there had been a delay in publication because "events which could not have been predicted", including an enforced end of franchising, had caused some of his recommendations to be redrafted [18].

Despite it not being public, it is already clear that the *Williams Review* is likely to make some significant recommendations in relation to franchising and the relationship between the public and private sector. Williams is, for example, quoted as saying (prior to Covid-19) that "franchising cannot continue the way it is today" [19], [18].

Alongside the creation of an overarching "operational guiding mind" for the sector, Williams has also hinted that something closer to a 'concession' model will be brought in across the railways [20]. This was seemingly confirmed by the Secretary of State for Transport in an evidence session with the Transport Select Committee in June 2020:

> *"Not everyone will be as familiar with it as you are, so, to remind the Committee, the Williams Review envisages a railway that is brought back together a lot more and has a central guiding mind or, as the media always calls it, a Fat Controller in charge, and you end up not in a situation where the left hand does not know what the right hand is doing; if the bird that hits the overhead line and brings it down is larger than a pheasant it is Network Rail's problem, and if it is smaller it is the train operating company's problem, and all of those weird outcomes. Instead, it will run a system that is a bit more like the way that Transport for London actually contracts other operators to run London Overground lines. They are run as concessions. Most people would not realise that because they look like part of TfL, but London Overground lines are run privately. They are run on the basis of the fare being collected centrally, by TfL in that case, and investment decisions being made by the central organisation. That is basically what Keith Williams proposed." – Rt Hon. Grant Shapps MP, Secretary of State for Transport [21]*

How this transition to a new operating model will take place is yet to be confirmed, but the Department (and other contracting authorities) will need to quickly engage with the sector to ascertain its capacity to meet any new requirements. In particular, with the uncertainty currently surrounding the level and pattern of demand for rail, operators and companies seeking to invest in the network need reassurance.

WHAT'S COMING DOWN THE TRACKS? THE EXPANSION OF THE CONCESSION MODEL

A transformation to the contracting model is seemingly inevitable and a welcome opportunity for the rail community to re-focus on contemporary issues, demands and expectations of passengers and the taxpayer.

Forms of contract for delivery of passenger rail services vary across different countries – the companies operating them will mainly be familiar with different forms. Serco, for example, currently has two UK rail contracts one of which is the franchise (Caledonian Sleeper) and the other a form of concession (Merseyrail, a joint-venture with Abellio) and previously operated another franchise (Northern Rail), but also concession style agreements in light rail (the Docklands Light Railway, Metrolink, and the Dubai Metro).

Although the sector has a broad understanding of the direction of travel, defining the detailed form of a future passenger rail model is still very much 'up for debate'. This section seeks to explore some of these key arguments and how a future model must take account of the current uncertainty.

Nationalisation vs privatisation – focussing on the wrong things

As noted in a *Williams Review Evidence Paper* examining international railway models:

> *"[T]he delivery of train services in every country is typically provided through a mixture of public and private entities, albeit to varying degrees" [22].*

The pandemic has created the need for significant state intervention for the continued survival of the British rail sector. This is, however, true of a vast number of different industries, both within the wider transport sector and the economy at-large. It would be a mistake to plan for future rail services based on their need in a worst-case scenario that may yet not come to fruition beyond this year.

Competition and the role of industry in helping create a better rail network is clearly evidenced both in the UK and by looking at international examples.

Japan, for example, which is often cited as having one of the most efficient railways worldwide, has long had significant private sector involvement – with all passenger services, bar loss-making regional railway companies, being delivered by the private sector.

From a European context, although the UK was an early adopter when it came to the involvement of the private sector in the railways, other nations followed soon after, such as Sweden. Others have dragged their heels but are now in the process of opening up the market, for example, the EU's latest series of rail reforms (published in 2016), known as the "*Fourth Railway Package*", is seeking to encourage greater competitivity in procurement that is likely to inspire further private sector involvement [23]. This is following the trend of domestic legislative reform in places like Netherlands, Germany and France, where private sector involvement is being encouraged in the hope of creating better service outcomes.

Perhaps one of the best insights in terms of comparators between rail passenger experiences in Europe is the 2018 *Flash Eurobarometer* 463 [24]. The survey, commissioned by the EU's Directorate-General for Mobility and Transport, asked passengers to rate rail services including buying tickets and train stations; getting information and handling complaints; the availability and reliability of trains and seats; services on trains; accessibility (stations and trains); and, assistance for persons with reduced mobility. Of the 26[3] countries included in the survey, the UK ranked 6th, above many countries which have greater state involvement in their railways such as the Netherlands, France, and Germany.

Although there are calls for greater state ownership in the rail sector, these are often driven by an ideological approach that does not take account of the data and passenger insights that have been developed over the past two-and-a-half decades. The aim of any future passenger rail system should be to ensure the best possible outcome for those that use it and the taxpayer more broadly. An evidence-based approach must be taken to ensure the correct mix of public and private involvement.

The concession model

Early indications seem to show that the *Williams Review* – and the Department for Transport – are supportive of moving towards concession contracts as the means by which passenger rail services are procured and delivered. But what is a concession model and how is

[3] The survey excluded Cyprus as there are no operational railways in the country. It included the UK as the survey was conducted prior to the UK's exit from the EU.

it different to the current franchising model?

Although it will invariably involve the same type of organisations, a concession model is a different form of contractual arrangement between a TOC (usually from the private sector) and a public authority (the Department for Transport, Welsh Government, Scottish Government or relevant regional authority). In this model, the contracting authority defines much more closely what the TOC should deliver and pays them a fixed 'management fee' for running the service. Thereby the contracting authority retains the bulk of the risk of rising and falling revenue (i.e. rising or falling passenger numbers), and the TOC focuses exclusively on the operation of the service. Oftentimes within a concession agreement, an operator can earn bonuses on performance measures such as customer satisfaction, punctuality, and staffing levels, but also penalised when performance falls short.

Bidding for the concession is still likely to be a competitive process. However, unlike a the process for a franchise, bidders generally do not have to produce timetables or revenue projections, as these will be managed by the contracting authority [25]. Furthermore, the marketing of the service is typically a responsibility retained by the contracting authority where there is an existing distinctive regional brand across other services (TfL, TfGM), albeit the TOC may undertake some of the local activity.

Put simply, a concession model means the Government retains the financial risk and reward of falling or rising passenger numbers by taking responsibility for the revenue from ticket sales.

It pays a fixed-fee (with the scope for bonus and penalty payments) to a TOC to operate the specified services.

There are two examples of this model already in operation (for heavy rail) in the UK – Merseyrail and (as mentioned by the Secretary of State in the evidence to the Transport Select Committee cited above) London Overground. They are not exact replicas of one and other, however, both contain the hallmarks of a concession model. For example, Merseyrail's 2003 concession contract has a lifespan of 25-years (with 5-year review clauses). London's contracting authority, Transport for London (TfL), has chosen to keep its contracts relatively short, normally at about seven years – it feels the changing landscape of London works better with shorter terms [26].

Due to it taking on a greater portion of risk, the contracting authority generally has more control over service provision as compared to the franchise model. In other words, because the government takes on the risk of the revenues from selling tickets, it has more power to tell the TOC what to do. This can be leveraged by the Government when it is looking at the overall viability and role of transport in contributing to regional economic activity.

This also means, however, that the Government (or other contracting authority) will have a greater responsibility in managing the challenges faced by the railways – from modernisation to workforce management. Contracting authorities cannot expect to minimise the scope for innovation and revenue generation for operators, whilst at the same time expecting TOCs to handle the same level of operational risk and range of issues. As such, there will need to be a clear strategic direction from the contracting authority and a willingness for it to manage issues and risks directly.

Furthermore, although this new relationship arguably constrains the operator's capacity for innovation – one of the main benefits of greater private sector involvement – it generally increases the closeness of the relationship between contracting authority, operator, and other bodies. For example, TfL make the operator pay a fine of 10% of any penalties imposed on Network Rail for delays. They claim this means the "train operator is incentivised to chase Network Rail to the best of their abilities" and ensures closer co-operation between operators and Network Rail [26].

Equally the scope for innovation for franchisees has increasingly been constrained by contracting authorities over recent years. Since its inception the size of franchise agreements have increased as the Department for Transport – and its equivalents at the devolved and local level – have sought to specify more and more detail in relation to service provision [27]. Excluding supporting documentation, franchise agreements typically extend to 500-800 pages in length. The level of detail specified in these contracts minimise the ability of TOCs to innovate as they strive to meet the plethora of contractual requirements.

Fares have also faced increasingly tight regulations. According to the Rail Delivery Group (RDG) around 40% of rail fares are 'regulated', including season tickets on most commuter journeys, some off-peak return tickets on long distance journeys and anytime tickets around major cities [28]. This has restricted the ability of franchisees to implement more flexible fares, which could have both been more dynamic and better value for passengers and the taxpayer.

This means, even under the current model, one of the key detractions of the concession model for TOCs – the comparative constraint to innovate – is already in place 'through the backdoor', whilst the risks associated with franchising (fluctuating ticket sales/revenues) is retained.

A more equitable split of risk through the implementation of something closely representing a concession model may, therefore, be welcomed by TOCs.

The benefits of a concession model in a post-pandemic world

A slower than anticipated rise in passenger numbers was already exacerbating concerns amongst TOCs about the allocation of risk in franchise contracts. The Covid-19 pandemic intensifies these concerns. Not only in the midst of the pandemic, but beyond the health emergency, the lack of certainty over passenger demand due to increased homeworking – to name but one potential long-term impact – makes it difficult to plan for operators.

The Rail Delivery Group cite responses to their 'General Public Tracker' which show that 30% of people intend to take the train less frequently even after the Covid-19 crisis subsides.

Commuters are most likely to reduce travelling by train according to their research. Transport Focus data, also cited by RDG, suggests that 49% of people expect to work from home more often in the future [29]. This trend is confirmed in another survey, by the Campaign for Better Transport, which identified a 12% increase in the number of people opting to work from home rather than a place of work even after restrictions are lifted [30]. This is particularly significant as the most commercially viable franchises tend to be those which have a significant commuter passenger base.

That said, there is an anticipation that the use of trains for leisure travel may increase post-pandemic.

With the current uncertainty, TOCs may welcome the greater financial certainty and lower risk-profile of concession contracts. However, any new model must allow for flexibility and scope for innovation. Therefore, the UK Government – and other relevant contracting authorities – will need to work in consultation with the TOCs to ensure there is financial and operational flexibility to account for the uncertainty created by the lack of clarity in relation to passenger demand in post-pandemic Britain. For example, if passenger numbers exceed the expected demand, any concession model contract must allow for greater investment and return for the operator.

AN OPPORTUNITY TO CHANGE RAIL FOR (THE) GOOD

Why are the railways worth saving? The pandemic may well have sounded the death knell for may operations without government intervention. But for decades, many parts of the network have been loss-making. The costs of running services, particularly outside of high-demand commuter areas, outstrips ticket sales.

In their 2019 report *The Future of Rail*, The Campaign for Better Transport identified three broad areas under which we can answer the questions 'what is the railway for?':

1. **Economic** – from commuters creating access to cities, to crating access to hospitality, tourism and leisure facilities, the role of passenger railways in enhancing economic opportunity are significant.
2. **Social** – since the industrial revolution, the railways have connected communities, bringing society close together. It is an accessible form of public transport that is open to people at all income levels and age groups.
3. **Environmental** – although the industry is continuing to de-carbonise, rail is already a low-carbon transport mode and accounts for just 1.4% of the UK's domestic transport emissions; meaning it has one of the smallest carbon footprints of any section of the UK transport network. Rail travel also leads to significantly lower level of pollutants when compared to other forms of travel, meaning better air quality [31].

For these benefits to be fully realised the rail network needs to be used by an ever-larger portion of the travelling public. Alongside this it needs to utilise the latest technologies and continue to find efficiencies.

In this period of transition, the UK Government (and other contracting authorities), operators, and the wider rail sector must seize the opportunity for reform. A new contracting model and other improvements must match the ambitions of governments and the public at large in terms of the climate, the economy and social outcomes.

Low-carbon transport and rail's comparative advantage – Understanding rail in the context of other modes of transport

All three of the factors listed above which define 'what the railways are for' are important – rail is vital for a thriving economy, democratic in terms of access to transport, and an environmentally conscious mode of travel. However, the rail sector's key advantage over *other transport modes* is its environmental credentials. Road and air transport also both play important roles in driving economic development and social cohesion, however, they are significantly more environmentally damaging than rail transport. For example, travelling by air between London and Edinburgh creates 5 times the carbon rail transport does. Furthermore, according to the latest Office for National Statistics (ONS) figures, around 46% of greenhouse gas emissions by households are related to travel, mostly from domestic car use [31].

Of course, as a result of the pandemic travel – be it by rail or other means – has dramatically reduced. There is a great deal of uncertainty about how homeworking, the greater use of online collaboration tools (such as Zoom and Microsoft Teams) and changed appetites towards public transport will impact overall levels of travel in future. Minimising the need for travel may well reduce environmental impact, however, in the post-Covid world, regardless of the rate at which travel bounces back, there is a need to encourage people on to greener ways to get around.

The UK Government has set a target of the nation becoming a zero-emissions economy by 2050 and many rail operators are aiming to meet this aspiration in their sector even earlier. Rail already has an important role in reducing the carbon footprint of travellers as a low-emission mode of transport. However, the sector also needs to reduce its existing emissions. For example, the industry is seeking for all-diesel trains to be removed from the network by 2040 [32].

To realise the full potential of rail as a zero-carbon mode of transport, reforms are needed in three key areas.

Efficiency and infrastructure

The technological solutions that will underpin the decarbonisation of the railways are already available – from battery powered trains, to electrification. The latter, in particular, simply requires a clear, long-term commitment from governments and Network Rail that they will invest in the necessary infrastructure. Of course, '*simply*' requiring a multi-million-pound investment is a complex and significant task in itself, however, what is being emphasised is that this is possible – perhaps even necessary – if net-zero emissions targets are going to be met by 2050.

However, train operating companies also have a central role in delivering the infrastructure and making use of innovations to reduce waste and create a more environmentally friendly network.

As we know, the prospective costs of failing to address the climate crisis the world is facing are vast. However, as with many sectors, the creation of competitive market conditions which also encourage long-term thinking is a challenging balancing act. The pressure and flexibility of shorter-term arrangements create the competitive conditions that can drive quality and efficiency; however, the same conditions create a disincentive for the longer-term commitment that most environmental technologies require before receiving a return on investment.

The relatively short life-spans of most franchise contracts (5-7 years) have probably acted to discourage investment in many of the green-technologies which would lead to long-term gains when it comes to reduced emissions from passenger rail. As it stands, operators may not be able to absorb these costs, or redeploy any expertise or assets when a contract comes to its end. Any new contracting model should, therefore, be predicated on longer-term agreements, that would allow operators to better realise the benefits of their green investments. This must, of course, sit alongside investment by the UK Government (and other contracting authorities), given the scale of the challenge and its wider social importance.

Increasing the length of contracts may not cover some of the very long-term investments needed to meet the existential challenge of climate change. Therefore, alongside introducing longer life-span contracts, the UK Government should explore mechanisms that allows operators to pass-through the costs and benefits of investments as the competitive processes leads to contracts being swapped between TOCs.

Such mechanisms exist for other assets, for example, there is a Residual Value Mechanism which allows operators to pass on the cost (and benefits) of some investments on to future operators. However, the existing mechanism is not appropriate for most environmentally-focussed investments. That is why in their submission to the Department for Transport's policy paper *Decarbonising Transport* [32], the Rail Delivery Group called for the creation of a "Residual Value Mechanism (RVM) for sustainability and environmental initiatives". It highlighted two primary issues with the existing system: "Firstly, to qualify for the RVM to be applied, the useful economic life of any residual value asset must not exceed 15 years – whereas sustainability and decarbonisation investments can have much longer lifespans. Also, the business case test can be too focussed on the financial benefits, rather than the wider economic benefits that environmental investments can provide" [33].

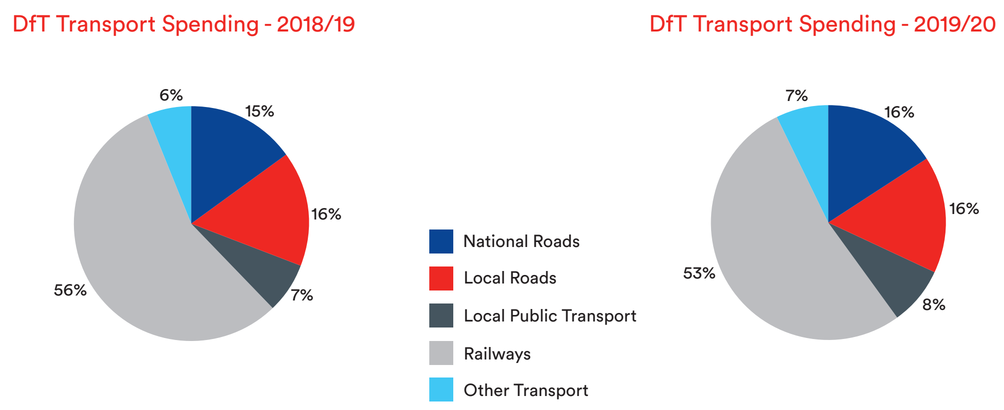
Furthermore, although the comparative environmental benefits of rail are clear, they are rarely clearly articulated in franchise contracts. Future contracts should include a clear requirement for decarbonisation and other environmental targets to be met. These should be linked to payments in the same way as other performance metrics. This would not only create a financial incentive for operators to better deliver on one of rail's 'reasons for existing', but encourage wider engagement with the environmental agenda by the supply chain and the wider rail sector. These targets should not, however, be prescriptive in terms of process – operators will have the best insights and the greatest capacity for innovation when it comes to meeting any targets. As such, TOCs should be responsible for how they meet these targets, but the contracting authority will be responsible for monitoring and overseeing that they are met.

Including such targets in future contracts would also – of course – assist the UK Government in meeting its broader objectives in relation to decarbonisation, air quality and dovetails with recent procurement legislation in relation to Social Value.

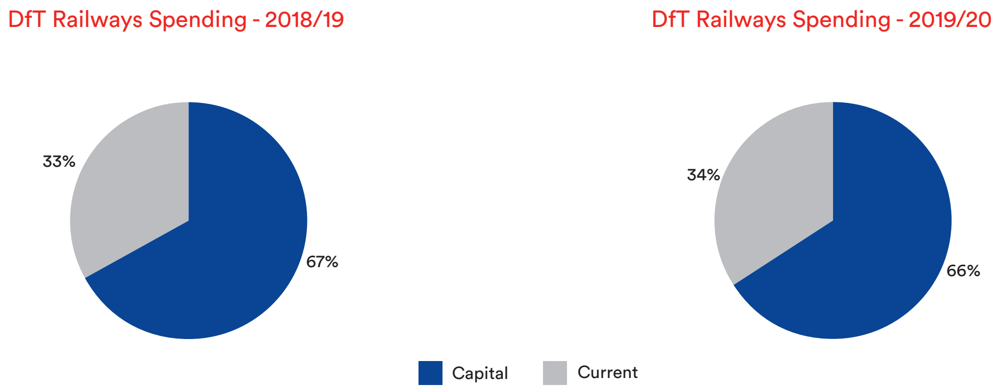
A fair fiscal deal for rail

Rail is the biggest single recipient of UK Government transport expenditure. It accounts for around half of UK Government spending on transport. That said, until 2020, rail franchises in England offset some of these costs through the premiums they paid. On a Britain-wide basis (England, Scotland, and Wales) premiums dipped below subsidies for the first time since 2010 in 2018-19.

The second largest recipient of DfT funding is roads (national and local) at around 32%.



The majority of Department for Transport funding for the railways is spent on capital projects, not resource. This means, around two thirds of UK Government money being spent on the railways is going towards infrastructure, not the day-to-day running of trains. A significant portion of this infrastructure (capital) budget is managed by the Network Rail – a public body.



These infrastructure investments will, in the long-term, mean cheaper, quicker, and cleaner rail travel. This won't, however, address the immediate issue that travelling by less environmentally friendly means – for example, by plane or car – is often more financially attractive. We know, for example, from the latest National Rail Passenger Survey, the proportion of journeys rated as satisfactory by passengers regarding value for money for the price of their ticket was less than half (47%) [34].

Better representing the environmental impact of travel through taxation, as well as reducing the costs of the railways, should be considered by governments if they are aiming to meet de-carbonisation targets. Fuel duty, for example, has been frozen for a decade, whilst electricity prices and taxes, a key cost for low-carbon rail operators, have significantly increased.

Governments should consider tax solutions that are transport-wide, accounting for their environmental impact.

Fares and passenger up-take

Overall satisfaction rates of rail passengers in the UK are relatively high. In the latest *National Rail Passenger Survey* (Spring 2020) the percentage of journeys rated as satisfactory was 82%. However, the area where there has been consistently low scores is in relation to value for money [34].

The cost of using rail has increased in the last twenty years at a rate above inflation (CPI). However, it has risen at a slower rate than the cost of buses, coaches, and taxis [35].

For the environmental benefits of rail to be realised in full, passenger rail will need to retain much of its existing user-base as well as enticing new passengers to use the service. This will require a mix of better-quality experiences and competitive pricing as compared to other modes of transport.

Fare reform has long been a priority of the rail sector. The *Williams Review* and the current crisis presents an opportunity to implement significant, lasting reforms when it comes to fares. Not only will this be required to meet the changing demands of passengers – for example, the expected drop in number of commuters even post-pandemic – but also to keep up with the practices found elsewhere in the transport system.

The scale of the potential gains made by fare reform are outlined in research by KPMG, which indicates that it could lead to an extra 300 million people travelling on currently empty seats on long-distance and regional trains over a 10-year period. They calculate that this would reduce CO2 emissions by 1.2 million tonnes, equating to 61,000 fewer cars on roads in Britain [36].

One of the greatest barriers to greater take-up of rail services is the issue of the 'first/last mile'. That is, the passenger getting to the station from their home, or from the station to their destination. Rail journeys often, therefore, form part of a multi-modal journey – with passengers using cars, buses, or active travel options for their first/last mile. Much like fare reform, better integration between rail and other forms of public transport such as buses to make the journey as easy as possible has long been a focus of the rail sector.

Unlocking the potential of the 'sharing economy' or micro-mobility asset hire models as they are also referred to, should also be a focus of the future passenger rail network. Public bicycle hire systems, as well as the trials underway for public scooter share systems [37], and on-demand feeder services should be better exploited and integrated into the passenger rail network. This could include integrating these mobility solutions into booking and journey planning systems (such as apps) and allowing passengers to book them as part of a single transport journey or rail ticket. This will not only give passengers a ‘whole-of-journey’ solution – creating a more convenient and attractive offer for passenger rail users – it will encourage the use of zero-carbon, active travel, which itself brings health and environmental benefits. This should be considered under the umbrella of the rail service provision.

Passenger-first procurement

Any future passenger rail system must put the passenger at the centre of its design. Although it may sound obvious, it is often forgotten that the passenger railways’ primary purpose is to transport people from one place to another. The organisations that run the railways have often become narrowly focussed on running *train services*, rather than the actual *delivery of journeys* for passengers. A shift in philosophy is required to ensure that the railway of the future focuses on this fundamental purpose of delivering the journeys passengers want in a manner in which they want them, instead of creating services for services’ sake.

This is not a novel concept and has been expressed by Keith Williams (*Williams Review*), the industry, passenger groups (such as Transport Focus) and countless others. However, how this is achieved has lacked clarity, direction, and agreement.

There have been strides in the right direction, such as the inclusion of targets based on passenger surveys in franchising performance metrics. However, the current approach has not gone far enough. Passengers must have a central role to play in being able to directly inform the design and delivery of rail services. Under a new, more collaborative approach to the specification, procurement, and oversight of passenger rail services, those that use the trains should help choose how they are run.

What this could mean is a refreshed approach to the engagement with passengers – including widening that to the public at large as potential users, through a ‘continuous conversation’ at local level. This can then enable the process of specification, procurement and ongoing oversight of passenger rail services to be more heavily informed by passenger views.

Design & Procurement

As it stands, there is a series of stakeholder engagement activities, followed by a public consultation in the early stages of a franchise procurement process. These are the only real mechanisms by which passengers can inform the shape of any rail contract.

There is no consistent process for stakeholder engagement or public procurement in rail franchising. However, a relatively standard approach for franchise procurement would be:

- **Phase 1 – Stakeholder Engagement** – The contracting authority seeks to engage with the broadest number of rail users and other interested parties as possible (suppliers, local transport groups etc.) at this point. Generally, this is done through surveys. The information gained from this exercise informs the design of the public consultation.
- **Phase 2 – Public Consultation** – Passengers, along with other interested parties such as local transport groups and local government, are given the opportunity through this consultation which lasts between 6-12 weeks. The consultation document defines the questions that will be asked and is based on the information gained from the Stakeholder Engagement. Responses are collected through multiple channels, including online and public events. From this public consultation a briefing is produced, which includes an outline of how the contracting authority will take account of the public views.
- **Phase 3 – Pre-qualification Questionnaire (PQQ)** – Potential operators are asked to submit high-level information on finances and experience. The contracting authority then selects a smaller number of eligible potential operators to continue to the next phase.
- **Phase 4 – Invitation to Tender** – The contracting authority publishes a technical specification for what they would like to see from the service. Operators then develop plans to deliver the service to the standards set out.
- **Phase 5 – Evaluation**[4] – Once submitted, tenders are reviewed by the contracting authority. Rail experts independently analyse the bids and develop a report outlining the options to the contracting authority. This may lead to an iterative process, where the potential operators and contracting authorities engage in a dialogue to explore options, financing, and other issues. The analysis is subject to a final audit by an external, independent review.
- **Phase 6 – Award** – After the evaluation process has been completed the contracting authority selects the operator it

[4] The Welsh Government was the first administration to use a 'competitive dialogue' process in their procurement of the Wales and Borders Franchise in 2018. This process saw bidders engage in a more collaborative approach, working with the Welsh Government as the contracting authority to refine service specifications before a final bid was submitted.

believes is best suited to run the service. This is not necessarily the cheapest, but the most cost-effective in terms of quality.

As outlined above, the only points at which the public can inform the shape of the initial contract is in phases 1 and 2 of the procurement process (primarily phase 2 – public consultation). There are of course channels through which the feedback of passengers influences the delivery of services throughout the lifetime of a contract (some of which are outlined below). However, the process of designing any future contracts must allow for a better reflection of the views of passengers from its foundations.

In the UK, there has been discussion, exploration, and some initial testing of the use of citizen assemblies to help define policies and practices. This follows the well-reported use of citizen assemblies in Ireland, Belgium and elsewhere. In Europe, South America, and at a local level in the UK, participatory budgeting has also increasingly been explored as a means of encouraging greater citizen involvement in decisions around public services and spending [38], [39]. The citizen assembly and participatory budgeting models could offer a framework through which *Passenger-Led-Procurement* could be developed.

What are citizen assemblies and participatory budgeting?

Citizen Assemblies

Citizen assemblies are a democratic model which gives the public a means to directly participate in the decision-making process. Typically, there are three ‘groups’ which make up an assembly: Citizens, witnesses (typically experts in a particular issue), and facilitators (who manage the process). Citizen assemblies meet to hear from witnesses, deliberate and discuss findings and finally develop recommendations. Usually made-up of citizens who are representative of a wider community (or even a country as a whole), they are an effective way of increasing the diversity of voices heard on an issue. As a form of direct democracy, they also bring benefits in terms of accountability. They have been used to develop solutions to complex issues such as abortion and climate change, and in the UK have been used in conjunction with devolution deals and even by the NHS to identify strategic priorities.

Participatory Budgeting

In some respects similar to citizen assemblies, participatory budgeting is a system whereby members of the public are convened to discuss and examine issues. However, rather than making recommendations on specific issues, participatory budgeting is a means by which citizens decide how public money is spent. Porto Alegre in Brazil is cited as the birthplace of the approach, which, beginning in 1989, distributed millions based on the participatory system. It has also sporadically been used in the UK, with local projects selected for investment by panels of citizens. It gives direct control to citizens over public spending, ensuring their priorities take centre stage. The public are also often given a role in the oversight of delivery of any project selected by a participatory budgeting.

Passengers on a rail contract would form an assembly or panel to review the specification and procurement of a new contract. This passenger panel would be informed and consulted at every stage of the procurement and have a significant role in the content included in the award of the contract.

The highly-technical and commercially sensitive nature of parts of the procurement create some challenges. However, through an effectively facilitated, well-engaged passenger-panel, contracting authorities could garner the insights of rail passengers throughout the entirety of the procurement process, without creating any commercial issues.

There are, of course, many methodological and technical questions around the design and make-up of any passenger panel – as there are with the development of citizen assemblies. This paper does not extend to a comprehensive exploration of these issues. However, some of the questions that could be raised, include:

- Whether the panel would be randomly selected or a weighted sampling of passengers to reflect the current make-up of rail users (i.e. commuters as compared to leisure travellers?
- What would be the geographic spread of the participants in the panel? How can you best leverage local insight whilst at the same time generating an understanding of the national picture?
- Who would facilitate the panel?
- What level of transparency would the panel be required to meet? What would it need to publish?
- Would participants be paid, volunteer or receive any kind of incentive for taking part?

Oversight & Transparency

As noted, the primary means by which passengers have oversight of the development of rail services are through the early stages of the procurement process. However, passenger views already both directly and indirectly influence the TOCs.

Rail companies often hold passenger forums, engage with their passengers through surveys and participate in events held by passenger groups such as *Which?* or *Transport Focus*. Through these channels – and through complaints and comments directly to the operator – passengers' voices are heard and considered.

Passengers also have an indirect influence on services through large-scale surveys. Some existing franchise agreements contain clauses which require TOCs to meet performance targets which may include measures of passenger satisfaction. However, any new operating model must elevate the importance of these metrics to ensure the operator creates a governance and delivery structure which aims squarely at delivering what the passenger wants.

The Net Promoter Score – a market research question asking respondents to rate the likelihood that they would recommend a service – is a well-established metric for determining whether organisations are truly customer centric. Operators should be required to achieve and sustain a consistent score using this metric that is independently verified. This will assure the operator will understand that they need to create a leadership approach and organisational competency to do this. How operators do it should be for them to define.

The role of passenger advocacy groups should also be noted as a significant influence on services. Both through lobbying governments and contract authorities, and through direct engagement with operators, passenger advocacy groups have a tangible impact on the design of services and can often compel changes to day-to-day operations.

The model outlined above, of 'passenger panels' could also be extended to cover the life of the contract ensuring there is 'continuous conversation'. This would give passengers a clearer, more consistent way to co-design services with operators. The insights a contract-long passenger panel could bring would help operators and contracting authorities identify issues, innovations and solutions that might not be identifiable in the more large-scale surveys or more ad-hoc engagements with passengers. Furthermore, consideration should be given to how the conversation is widened to ensure than citizens who do not use the railway currently – or who are impacted negatively or positively by the railway - are included.

Requiring and facilitating innovation – an outcomes-based concession model

As already outlined, concession agreements typically have tighter specifications than franchise contracts. In other words, the government – or relevant contracting authority – define the look, feel and operations of a service to a much greater degree.

Concession contracts must avoid, however, being overly prescriptive when defining how things are achieved, instead focusing on what they want to achieve. The great benefit of having industry experts, passengers, and local stakeholders involved in the railways is the innovation and ideas that they bring. Any future model must have the capacity and flexibility to allow for this benefit to be realised.

The co-creation of services should be a key principle underpinning any new rail model. This will mean the operator, passenger, contracting authority and Network Rail, alongside other suppliers and stakeholders, collaborating to create solutions.

The passenger-centred-procurement approach and the focus on satisfaction metrics used to decide the financial penalties and incentives faced by operators should assist with this aim. This will not only ensure the focus of the operator remains consistently on the passenger, it will also focus the energies of organisations on developing innovative solutions to the issues that passengers want to see solved.

For example, if the priorities of passengers' change because of the pandemic, any future model must be able to allow operators to flex to meet those demands. One outcome of the Covid-19 crisis could be the proportional growth in the number of leisure travellers as compared to commuters. This will likely lead to a change in the balance of priorities of the railways' user base. Contracts must allow for operators to change to meet this new balance appropriately.

Creating a national identity and local brand for the railways

Giving the railways an identity

We can be relatively confident that a new passenger rail contracting system based on something more closely resembling a concession model will be recommended by the *Williams Review* and supported by the Department for Transport. We know this due to statements from the Secretary of State for Transport made to a Parliamentary Select Committee [21]. We also know that the *Williams Review* will suggest an "operational guiding mind" to oversee passenger rail. Although the role of this new body is yet to be defined, its introduction and role in strategically planning the railway network and specifying service provision – through the introduction of concession contracts – could create the opportunity for a more unified identify for the railway and potentially transport infrastructure more broadly.

Currently, there is a myriad of brands on British railways. This often means there is a lack of coherence and strategic direction when communicating with passengers and potential passengers. The highly fragmented identity of the railways needs unifying, simplifying and given a clearer means by which it can appeal to citizens.

Although it may not be possible – or beneficial – for there to be one unified rail brand covering the entire network of train services, it may be desirable to create a single overarching identity, with a series of closely associated sub-brands. These sub-brands could use the same fundamental brand 'language', but reflect regional identity especially where there is already a regional transport brand with existing or potential for devolved responsibility – for example, Transport for London. Furthermore, groups of services more aligned to market segments, be it leisure travel or commuting, can be reflected in a sub-brand.

A truly passenger centric approach will see increased integration of both services and brand across many different transport modes. In other words, a system in operation, as well as look and feel that is as consistent as possible from one end to the other of a journey regardless of whether the passenger is on a train, bus or publicly hired bike. With this in mind, a policy should be pursued which seeks to create a whole-transport-system brand (as opposed to an identity that only applies to a specific mode) which should flow through from the passenger's transport objective which may be as much related to other transport services as it is to rail. In other words, within a region, contracting authorities should seek to create a brand that can encompass rail, road, active travel and all manner of other transport solutions. Each of these regional brands should follow a unified brand 'language'.

Intercity travel could be given a 'national' brand which could neatly dovetail with each of the regional sub-brands within each region.

In this respect the experience of British Rail (BR) could offer some insights. Notwithstanding the mixed memories, good and bad, of BR its approach in its later years of operation toward organising around market sectors was very successful and there may be lessons to be learnt regarding the benefits of a coherent national approach to identity and brand. This should include a national brand for inter-city travel, whilst recognising that regional services would develop within a national umbrella but be locally tailored to make sense as part of their region's public transport network.

The UK Government 2012 re-brand is a good example of brand unification. The re-brand saw all Departments brought under a single identity. The key elements of this single *Government Identity System* are the Royal Coat of Arms – which acts as the logo for the majority of Departments, agencies and arms-length bodies – the name of the organisation which is placed below it, and a vertical line of colour which is placed on the left. Each body has its own specific colour. Departments use alternatives logos to the Royal Coat of Arms in a limited number of cases, for example, whether they have been issued with coats of arms, badges or insignia by the College of Arms [40]. This created a single brand 'language' through which citizens perceive and can communicate with the UK Government.

The new 'overarching-body' (the "guiding mind") expected to be created as a result of the *Williams Review* could act as the central brand identity, brand-guardian, and manager of the inter-city brand, with each of the concession contracts given an associated regional sub-brand. This would create a clearer, more cohesive approach to marketing the railway. The sub-brands would allow for variation for each operation to allow for appropriate marketing to a specific audience – for example a greater focus on messaging appropriate to the commuter market in some areas, as compared to the leisure market in others. A more consistent brand would also reflect the greater role taken by government (be it central, local or through this overarching body) in coordinating and specifying services through the concession model.

The sub-brands could emulate Transport for London, or Transport for Wales. Both are brands created and owned by the contracting authorities the Greater London Authority and the Welsh Government[5] respectively, where services are (or have been) delivered in partnership with a TOC and other transport infrastructure providers (bus operators, active travel providers etc.).

The patchwork devolution of policy areas relating to passenger rail mean the guiding mind and any re-brand will either need to be England-only, or require cooperation between the UK, Welsh, and Scottish governments.

A unified brand delivering a more unified service

Under a standard concession model, ticket revenue is collected by the contracting authority, not the TOC. If a similar approach is taken to the new contracting model for passenger rail, the Department for Transport (and other relevant contracting authorities such as devolved governments) as the body responsible for collecting revenue for the majority of the passenger rail system, have a greater opportunity than ever before to coordinate a more unified approach to ticketing across the network. As has been well publicised, there are a vast number of

[5] As already noted, the Welsh Government took over the running of the franchise from the TOC, KeolisAmey, in 2020 as a result of the pandemic and the longer-term financial viability of the contract.

potential rail passenger fares. Around 55 million different fares are estimated to be available on the national rail database at any one time [41]. Many of these ticketing options lead to illogical outcomes, whereby buying multiple tickets along a route is more cost effective than buying a single ticket to the same location.

Passengers are also keen to see change when it comes to fares [42]. However, as noted by Transport for London, “Government has responded to public discontent by increasing regulation and limiting TOCs’ flexibility in setting fares but this has blocked the evolution of the fares structure” [43].

Alongside the role of fare reform in encouraging more environmentally friendly travel (outlined above), there is simply a requirement to deliver a fares and ticketing structure that reflects modern demands. This means simplifying the system as well as ensuring it utilises technology to best effect.

A nation-wide pay as you go (PAYG) system could be introduced for the majority of services. This could utilise both a smart ticketing ‘token system’ – similar to London’s Oyster card – alongside contactless card/smart phone payments. This would also create the opportunity to create a system that would ensure the most cost-efficient fare was always received by the passenger, as well as the potential wide-spread introduction of fare-capping, a key ask of passengers [42]. This approach may not be appropriate for all rail services, such as long-distance routes, where demand fluctuates more heavily and long-term planning by passengers is more common.

Passengers could use multiple operators on their journey and retain a single, capped or cost-efficient fare. In other words, a passenger could travel on multiple rail services, operated by different TOCs, but use the same smart ticketing system. Although this will add a certain level of complexity, TOCs, transport authorities and other stakeholders have already shown this is possible. Again, the most well-known being London’s Oyster Card, which covers the majority of commuter rail routes, including those are not directly contracted by TfL. The overarching-body expected to be proposed by the *Williams Review* could also have a role in coordinating the collection of fares. Alternatively, National Rail, which already has a role in coordinating ticketing structures between TOCs could support the creation of a PAYG system.

Furthermore, as already noted, as the Department for Transport (or another government appointed contracting authority) will be the primary revenue collector for passenger services, rather than the TOCs as is the case under the current franchised model. This should make coordination in relation to fares and ticketing simpler.

CONCLUSION & RECOMMENDATIONS

The pandemic has changed how passengers will use the railway not just now, but long into the future. However, even prior to the Covid-19 crisis, railways were crying out for a re-think. This period of uncertainty and flux is also an opportunity to create a future-proof passenger rail network.

Wholesale change is needed, not tinkering at the edges and defending what was. Driving this change must be an understanding of who uses the railways, why they use this mode of transport, and how they want to see it transformed.

Alongside this, policymakers must better exploit rail's great advantage over other transport modes – it's low-environmental impact. If the UK Government is set to meet its ambition of net zero greenhouse gas emissions by 2050, rail will need to play an ever more central role: Encouraging more people onto the network, whilst also creating a system which incentivises longer-term environmental investments by operators and infrastructure managers.

Finally, any new rail system should create a more unified approach to marketing the railways as well as the services it offers. This means giving British railways a clearer and more consistent identity across the network, alongside embedding a range of services – particularly in relation to fares and ticketing – which make the most of current technology.

There are a whole range of issues this paper does not explore in detail – from the potential for the greater devolution of rail policy, to the better integration of track and train management. That said, the issues identified in this paper are the most pertinent and, often, the most feasible in terms of what can be changed in the short-to-medium term.

As such, this paper makes 11 recommendations, grouped under four headings:

Evolving the passenger rail system

1. Engage before change

The future demand for passenger rail has arguably never been more uncertain since its establishment as a public transport system in Britain. Even as the threat of the pandemic recedes, social distancing in the medium-term and the prospect of significant increases in home-working in the longer-term, mean there is a lack of clarity about who will use trains and for what purpose. Furthermore, TOCs are likely to move directly from the contracts agreed under the emergency of the pandemic straight on to a new contracting model – which will likely be heavily defined by the ***Williams Review*****. The UK Government and other contracting**

authorities must engage with the rail sector now, to ensure there is an understanding of future arrangements and ensure a smooth transition to a new operating model. They also must seek to ensure the sector has confidence in the future sustainability of a new model to encourage the necessary investment and commitment to the British rail network.

2. A warm welcome for concessions

The franchise system was already showing signs of being unfit for the contemporary rail market, even prior to the pandemic. The balance of risks meant that TOCs faced increasing fixed costs, with ticket revenues rising less quickly than expected. Covid-19 had a catastrophic impact, and like many sectors of society, the passenger rail sector required government intervention to ensure its ongoing viability. However, the future uncertainty regarding passenger numbers going forward adds to concerns and disincentivises investment in the sector. **TOCs and other rail stakeholders are likely to welcome the more wide-spread introduction of a contracting model that more closely resembles a concession contracting system. Contracting authorities – the UK, devolved or local government – should therefore pursue a system that reflects this appetite and ensures a more equitable distribution of risk between TOCs, contracting authorities and other stakeholders.**

3. Requiring and facilitating innovation

If the UK Government (and other contracting authorities) adopts a model more closely aligned to concession contracts, it is expected that the contracting authorities will have a greater role in defining the specification of the service. **Any new model must, however, retain the flexibility to meet the changing demands of passengers. Furthermore, it must allow operators the scope to innovate – with a greater focus on outputs, rather than inputs.** For example, if the priorities of passengers' change because of the pandemic, any future model must be able to allow operators to flex to meet those demands. One outcome of the Covid-19 crisis could be the proportional growth in the number of leisure travellers as compared to commuters. This will likely lead to a change in the balance of priorities of the railways' user base. **Contracts must allow for operators to change to meet this new balance appropriately.**

The environmental role of rail

4. Long-term solutions for long-term issues

The technological solutions that will underpin the decarbonisation of the railways currently exist. The realisation of the benefits of investments in zero-emissions infrastructure takes a long time. Current passenger rail contracts rarely allow for these benefits – commercial or otherwise – to be fully realised by the original investor. Any future model must create conditions to encourage greater investment in the assets required for net-zero emissions. **Alongside longer-term contracts than the current franchise agreements, mechanisms which allow for the costs (and benefits) of investments in environmental technology to be passed on to future contract holders should be developed.** Furthermore, although the comparative environmental benefits of rail are clear, they are rarely clearly articulated in franchise contracts. **Future contracts should include a clear requirement for decarbonisation and other environmental targets to be met. These should be linked to payment in the same way as other performance metrics.**

5. Fare reform and multi-modal transport integration in the context of emissions targets

Fare reform has long been an ambition of the rail sector and a desire of passengers. In the context of rail's lesser environmental impact when compared to other transport modes, it is important that price-sensitive travellers are incentivised to use the railways. **It is crucial, therefore, if the rail industry is going to play its part in reducing overall emissions, that fare reform is considered in the context of encouraging more travellers onto the railways.**

Furthermore, one of the greatest barriers to greater take-up of rail services is the issue of the 'first/last mile'. Rail journeys often, therefore, form part of a multi-modal journey – with passengers using cars, buses, or active travel options for their first/last mile. Much like fare reform, better integration between rail and other forms of public transport such as buses to make the journey as easy as possible has long been a focus of the rail sector. **Unlocking the potential of the 'sharing economy' should also be a focus of the future passenger rail network.** Public bicycle share systems, as well as the trials underway for public scooter share systems, should be better exploited and integrated into the passenger rail network. This could include integrating these shared economy solutions into booking and journey planning systems (such as apps) and allowing passenger to book them as part of a rail ticket.

6. A fair fiscal deal for rail

Infrastructure investments will, in the long-term, mean cheaper, quicker, and cleaner rail travel. This will not, however, address the immediate issue that travelling by less environmentally friendly means is often currently more financially attractive. Better representing the environmental impact of travel through taxation, as well as reducing the costs of the railways, should be considered by governments if they are aiming to meet de-carbonisation targets. Fuel duty, for example, has been frozen for a decade, whilst electricity prices and taxes, a key cost for low-carbon rail operators, have significantly increased. **Governments should consider tax solutions that are transport-wide, accounting for their environmental impact.**

Passenger-centred railways

7. Passenger-led procurement

Passengers' primary means to influence the shape of services comes in the very early stages of the procurement process. If railways are truly going to become passenger-focussed, rail users must be intimately involved at every phase of the design of a contract and selection of the operator. **Models of 'citizen assembly' and 'participatory budgeting' could offer a framework through which *Passenger-Led-Procurement* could be developed.** Passengers on a rail contract would form an assembly or 'panel' to review the procurement of a new operator. This passenger panel would be informed and consulted at every stage of the procurement and have a significant role in the awarding of the franchise. **Governments should explore the use of a passenger-led procurement model to appoint operators, based on citizen assemblies and/or participatory budgeting panels.**

8. Oversight and transparency in a future railway model

The Net Promoter Score is a well-established metric for determining whether organisations are truly customer centric. **Train operators should be required to achieve and sustain a consistent score using this metric that is independently verified.** This will ensure the operator will understand that they need to create a leadership approach and organisational competency to do this - how they do it should be for them to decide. **The model of passenger-led procurement should also be explored to cover the life of the contract.** This would give passengers a clearer, more consistent way to co-create services with operators. The insights a contract-long passenger panel could bring would help operators and contracting authorities identify issues, innovations and solutions that might not be identifiable in the more large-scale surveys or more ad-hoc engagements with passengers.

9. Emphasising the role of passengers in performance metrics

Rail passenger contracts have developed to ensure greater consideration of passenger views through the inclusion of targets based on passenger surveys in franchising performance metrics. However, the current approach has not gone far enough. Passenger satisfaction should play a central role in defining the focus of the metrics used to decide the financial penalties and incentives faced by operators. This will not only ensure the focus of the operator remains consistently on the passenger, it will also focus the energies of organisations on developing innovative solutions to the issues that passengers want to see solved.

Giving British railways an identity

10. Creating a national identity, and local sub-brands

The UK Government – in coordination with other contracting authorities – should consider creating a single overarching identity for passenger rail, with a series of closely associated regional sub-brands. This would create a clearer, more cohesive approach to marketing the railway. The sub-brands would permit for variation for each operation to allow for appropriate marketing to a specific audience – for example a greater focus on messaging appropriate to the commuter market in some areas, as compared to the leisure market in others. Intercity travel could be given a 'national' brand which could neatly dovetail with each of the regional sub-brand. **The new 'overarching-body' (the "guiding mind") expected to be created as a result of the *Williams Review* could act as the central brand identity, with each of the concession contracts given an associated sub-brand.**

11. Delivering unified services

Under a standard concession model, ticket revenue is collected by the contracting authority, not the TOC. If a similar approach is taken to the new contracting model for passenger rail, the Department for Transport (and other relevant contracting authorities such as devolved governments) as the body responsible for collecting revenue for the majority of the passenger rail system, have a greater opportunity than ever before to coordinate a more unified approach to ticketing across the network. **A nation-wide pay as you go (PAYG) system could be introduced for the majority of services. This could utilise both a smart ticketing 'token system' – similar to London's Oyster card – alongside contactless card/smart phone payments.** This would also create the opportunity for a system that would ensure the most cost-efficient fare was always received by the passenger, as well as the potential wide-spread introduction of fare-capping, a key ask of passengers. This approach may not be appropriate for all rail services, such as long-distance routes, where demand fluctuates more heavily and long-term planning by passengers is more common.

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