A fork in the tracks: We must act now to attract customers back and avoid a spiral of decline on the railway

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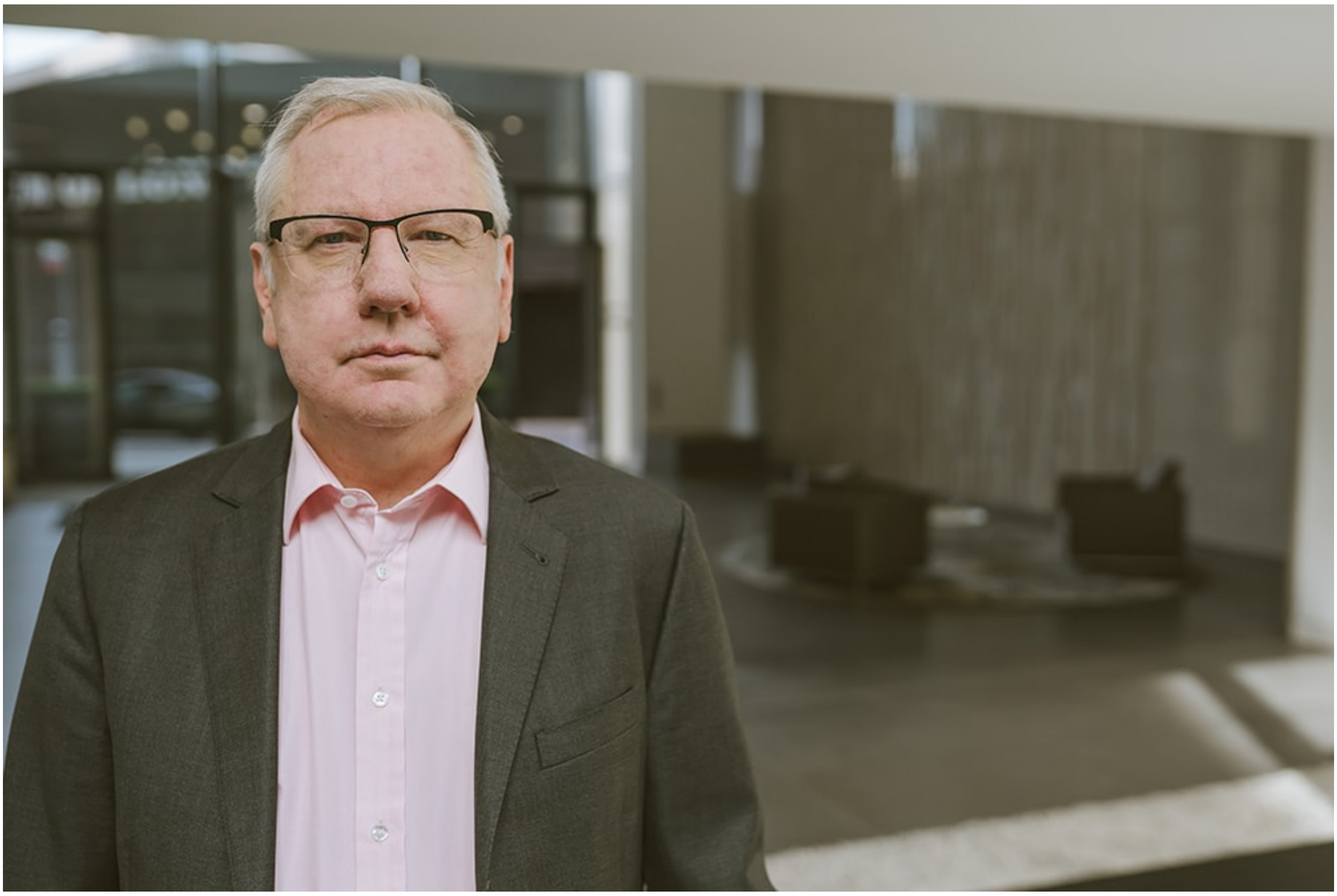

Rail Partners is calling for the new government to act now to better enable operators to attract customers back to rail. Its director of policy John Thomas writes about its new report, Fork in the Tracks: Attracting customers back to the railway

Rail is part of our national fabric, driving our economy in a low carbon way by connecting people to jobs and business to their customers. Its importance in Britain's post-pandemic recovery is clear but with many demands on public finances, rail cannot take more than its fair share of taxpayers' funding.

Even before the pandemic, passengers were changing how they engaged with rail: season ticket sales were declining, there was increased need to reduce costs, boost productivity, and better meet customer expectations. The pandemic and six months of industrial action by rail unions turbo-charged these trends leaving a financial gap that is £2bn higher each year than before the pandemic, with revenues now plateauing at around 80% to 85% of pre-pandemic levels.

To date, strike action has cost the sector and in turn the taxpayer an estimated £320m in lost revenues and the wider economy almost £700m. And, as RMT has called for further strike action in the run up to Christmas and into the new year, this will cost the taxpayer even more.

The financial gap cannot be closed by cost savings alone – in fact, a sole focus on reducing costs risks a spiral of decline, with cuts to services putting passengers off using rail, leading to further cost pressures, and further cuts.

We must look at growing revenue as well as reducing cost. While franchising as a system had run its course, the track record of the private sector across many aspects of the railway cannot be ignored. The expertise, entrepreneurialism and agility of the private sector has played a vital role in transforming Britain's railway finances since the early 1990s, driving more than a doubling in passenger numbers and growing revenue at more than twice the rate of GDP.

Independent analysis conducted for Rail Partners by Oxera shows the size of the prize to be won by again freeing up that entrepreneurialism to attract customers back – a potential £1.6bn in additional revenue that would otherwise be missed over the two years of the current spending review.

That is money that could be used to reduce taxpayer costs and give a better customer experience. This increased revenue would also make a huge contribution to stretched public finances, releasing taxpayers' money to be used on other priorities such as NHS backlogs as a result of the pandemic, as just one example.

So, the railway is at a fork in the tracks – it can take the right track and accelerate recovery by focusing on attracting customers back in greater numbers to help fund a return to growth on the network, or risk further decline.

The current system of contracts that ensured resilience in the pandemic and its aftermath is not sufficient to drive this revenue recovery. At the start of the pandemic and the resulting decline in passenger numbers, the Department for Transport suspended its rail franchise agreements, stepping in to plug the financial gap to ensure services kept running to support key workers.

However, new long-term contracts may be some way off and the current National Rail Contracts contain limited ability or incentive to accelerate revenue growth, with DfT's operators having to seek permission from government to simply introduce new services or deploy marketing campaigns.

In contrast, Merseyrail, and open access operators like Grand Central and Hull Trains, have more commercial freedom to attract customers back to rail and have evidenced faster and greater revenue recovery.

Incentivising DfT's operators to innovate and offering greater flexibility to focus on attracting passengers could be done almost immediately, without legislation. Rail Partners is suggesting a range of measures which create the appropriate freedoms and flexibilities. We are calling on government to take a holistic view of the railway's finances – thinking about cost reduction in the context of the need to regrow passenger numbers. There are mechanisms within the current contracts that would facilitate private sector investment and innovation to accelerate revenue growth for the next financial year and beyond. Operators then need sufficient influence over areas like timetabling, marketing and fares – allowing them to enhance the customer experience, helping to attract them back to rail.

This evolution would also provide the mechanisms for future Passenger Service Contracts that are in keeping with the Government's ambition of creating a spectrum of contracts that are fit for purpose for different markets.

A rejuvenated rail sector means a boost to wider economic activity through improved connectivity. It is also a lower carbon form of transport that helps achieve net-zero goals and improves air quality.

If we get it wrong now, the railway faces more hiatus, a stunted recovery from the pandemic and decline. If we get it right, the railway can return to growth and help the country do the same.

Read the full report here.

By John Thomas