RailBusinessDaily

Sunak’s government has even less time to lose on rail reform

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Yet again, we wake up to a day of change at Westminster. With new Transport Secretary at the helm, Andy Bagnall, chief executive of Rail Partners discusses how Mark Harper and the new Prime Minister need to get a handle on the issues facing the sector, and quickly.

When Liz Truss became Prime Minister in September, I said at the time that given the rumbling war in the Ukraine, rising energy prices impacting the cost of living, and economic pressures perhaps pointing to a recession, rail reform was understandably not likely to be the issue that keeps her up at night.

If anything, with the worsening economic outlook, and growing threats of escalation in Ukraine, that’s even more true for Rishi Sunak.

But despite this, for rail, a number of issues have become more pressing – the need to adapt to travel patterns that are almost certainly permanently altered, the cost pressures as a result of lower passenger numbers, industrial action that is dragging on and slowing rail’s recovery, and not to mention the need for structural reform that pre-dated the pandemic.

Assuming the comments of the outgoing Transport Secretary, Anne-Marie Trevelyan, at the Transport Select Committee hold, we now know that legislation to create Great British Railways (GBR)will be delayed until the next parliamentary session that starts in May 2023. The new Transport Secretary, Mark Harper, must make progress with other key reforms if rail is to play its fullest part in helping the government stabilise the public finances, and support resilience and recovery of the wider economy.

To help rise to these challenges, the incoming Secretary of State should focus on three broad areas.

First, we should use the gap before legislation to get the design of Great British Railways right

With legislation paused, the Secretary of State needs to make progress in other areas where parliamentary time is not required. One aspect of this is redefining what kind of public body we want GBR to be. We have an opportunity to create a lighter touch, more strategic body, with a guiding, not controlling, mind, as envisaged in the 'Plan for Rail'.

If we are serious about delivering better outcomes for customers and taxpayers, we need to bake private sector creativity and expertise into rail reform. Of course, we must engender clearer accountability in the system through the new arms-length body, but that must come with appropriate freedoms for the private sector operators to do what they do best within that framework: chasing revenue, driving out costs and delivering for client authorities and customers alike. A less centralised GBR would also be a better outcome for open-access and freight operating companies.

Just look at what Lumo, the open-access, 100% electric rail operator, has achieved in its first year. Since the introduction of its full timetable in April, Lumo has, for the first time in decades, pushed air travel off the top spot as the most favoured transport mode between Edinburgh and London. Between April and August this year, 57% of journeys between the two capitals were by rail, compared to just 35% in April to August 2019. The results should provide confidence to government that an operator with the right commercial freedoms and incentives can both grow back revenues and put rocket boosters under modal shift.

So, let's treat this gap before legislation not as a hiatus, but as a period to sense check the current trajectory of GBR and the role of the operators to best create renewed success on the railways.

Secondly, we must stabilise the industry's finances by utilising the expertise of private operators

As cost pressures on the public finances get worse not better, we must take vigorous action to stabilise the railway's finances. As we look ahead to the expected fiscal statement on Halloween, the Transport Secretary will likely have some challenging conversations with the Chancellor, Jeremy Hunt, about what the government can continue to afford. Hunt will likely be looking hawkishly at the public finances and see that rail revenue is only at around 85% of pre-pandemic levels, whilst still receiving significant taxpayer support to cover its fixed costs.

To remind ourselves of the state of the railway's finances – on the cost side of the ledger, since the start of the pandemic the Treasury has injected an additional £16bn to plug the gap in the passenger railway finances and keep services running. With the government seeking to bring public finances under control, it is unsustainable for the railway to take more than its fair share. Asking passengers to pay higher fares just as we are trying to attract people back to rail cannot be the answer either.

We need the trade unions to accept that costs must therefore be controlled by reforming the way we do things to increase productivity and efficiency – this is not only necessary in itself but is also key both to improving passenger outcomes and to unlocking savings that will allow operators to offer their staff a pay rise and end the current strike action. Similarly, government needs to prioritise bringing industrial action to an end, which, if allowed to drag on, will have wider implications for the economy and environment as people and business lose trust in rail as a reliable means of transport.

We also need to put revenue risk, which currently resides in Treasury, and cost risk, which is with DfT, back together in one place. We would argue it is counter-productive to the future success of the railways for one part of government to be thinking in isolation about cutting costs and not weighing these cuts against the potential of driving revenues instead.

We must also close the gap on the other side of the ledger by boosting revenue. To do this, independent train operators need the right responsibilities within contracts, and the levers necessary to dispense those responsibilities, to adapt to changing patterns of demand and to focus relentlessly on attracting new and returning customers. An immediate step that could be taken to enable this is to switch on dormant revenue incentives in National Rail Contracts.

We must ensure rail doesn't become a long-term cost that the Treasury is increasingly unwilling to bear. We want a growing freight and passenger railway, but that means being ambitious in terms of targeting growth, addressing the cost challenges and doggedly chasing revenue. Independent train operators have a track record of doing this previously and can do it again if we create the right framework.

Thirdly, we need to lay the structural foundations for the next decades of growth

With the delay in rail legislation, we must move forward with the design of Passenger Service Contracts (PSCs) which need to be constructed with a focus on customer experience at their core. The PSCs must give private operators the agency to make rail an obvious choice for customers over other modes.

We need to create a range of contracts, recognising that one size does not fit all. More tightly specified, concession contracts can be appropriate for commuter markets but should still include revenue incentives. For regional and long-distance rail markets, a degree of revenue risk and sufficient commercial freedoms transferred to operators will create better outcomes.

For the future rail market to be vibrant and competitive there needs to be balanced risk and reward profiles in the new contracts to make rail an attractive proposition for incumbents and new entrants. But, in November, we will be 18 months since the publication of the White Paper and, 12 months since the market engagement day where the DfT sought input into the design of the new contractual model. So, whilst operators can tolerate a temporary pause in legislation, we do need to see swift progress with the design of PSCs to boost confidence in the direction of travel.

We also need to see the government move quickly to set an ambitious growth target for rail freight. If the target we are calling for of trebling freight by 2050 was met through the right supporting policy framework, it would remove 21 million HGV movements from our roads every year, helping to decarbonise supply trains and improve air quality.

If the Secretary of State makes use of this pause in legislation by making progress with other reforms, he still has an opportunity to create a reinvigorated railway, with a robust public-private partnership at its core, which can help the government deliver for customers, taxpayers, and Britain.

Rail Partners and its members stand ready to support him in delivering this shared ambition.