



## Passenger Service Contracts

Delivering on  
the Williams-  
Shapps promise to  
passengers

***Rail Delivery Group***

 National Rail

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# Foreword



**If we get this right, we can harness the benefits the private sector can bring in responding flexibly to passenger needs, boosting innovation on the rail network and encouraging more journeys.**



**Andy Bagnall, Director General,  
Rail Delivery Group**

It is hard to overstate the significance of this moment for Britain's railway. For several years, there had been widespread recognition of the need for generational reform, and the Williams-Shapps Plan for Rail white paper now provides a framework through which that reform can be delivered.

The industry had itself been vocal in calling for change, and several of the key components of the white paper reflect what it had identified as priorities: a new public body (Great British Railways) to coordinate and simplify the industry; a new regulatory regime; and a new contractual model to replace franchising.

That contractual model is critical. With the publication of the Prior Information Notice on 13 October and its announcement of the first phase of market engagement to develop the new Passenger Service Contracts, the starting gun has been well and truly fired.

The industry has long argued that there needed to be a spectrum of contracts to reflect the many and varied markets the railway serves. The white paper reflects much of this thinking, proposing concession-style contracts in commuter markets while recognising that not only do long-distance operators need to be afforded greater commercial freedom but that some contracts will need to include mixed incentives to reflect the different risks and commercial opportunities available.

It is absolutely critical we now get this right. If we can, then we can harness the benefits the private sector can bring, complementing and enhancing the role the public sector can play in setting clear direction.

This paper details how the commitments within the white paper can be achieved through the right PSC design, with operators delivering within a framework set by Great British Railways, and leveraging their commercial expertise to drive customer satisfaction, cost efficiencies and revenue recovery.

In doing so, the private sector can support Great British Railways in its role to deliver a modern, efficient, and sustainable railway that, over the next generation and beyond, meets the highest possible aspirations for customers, taxpayers, communities, and the nation.

# Introduction

## The private sector's track record in running train operations shows it is an essential partner to delivering the goals of the white paper

The Williams-Shapps white paper rightly states that our country succeeds when the public and private sectors work effectively together, and that our railway must therefore combine the best of the public and private sectors in the future.<sup>1</sup> This ambition is reflected in the Prior Information Notice, which invites the market to be an essential partner in the delivery of passenger services.<sup>2</sup>

The model it proposes is one which seeks to use what it correctly identifies as the private sector's strengths – innovation, an unrelenting focus on quality, outstanding customer service, operational expertise, and contract management – to deliver strategic objectives set and overseen by the public sector.<sup>3</sup> The prize is an efficient, modern and innovative railway that focuses above all on providing the customer with a high-quality service at the right price. That can only be delivered with the private sector working collaboratively and in alignment with the public sector, bringing its ability to deliver the change that is needed more quickly than the public sector could do alone.

Over the last quarter-century the innovation and commercial mindset of the private sector in a complex, safety-first industry helped drive a doubling in passenger numbers, which in turn grew revenues at more than twice the rate of GDP and turned a £2 billion annual operating loss into an annual profit. This freed up government to focus the funding it had available on investing to grow the railway, and enabling and encouraging continued private sector investment that is essential to supplement investment from taxpayers.

## The white paper proposals can bring the railway together to deliver great outcomes for customers and taxpayers – but only with the right contractual model and accountabilities

The white paper recognises it is essential that the new model keeps the best of the private sector and what it can do – in particular, its ability to innovate and challenge itself to keep improving the service to customers – but that this should be within a system that is aligned and focused on coordinated delivery of the Government's objectives for rail.<sup>4</sup>

The right framework that creates the right market for the industry can not only succeed in delivering the white paper's vision but also allow rail to play its fullest part in Britain's recovery. This is vitally important given the collapse in revenues from over £10 billion per year caused by the pandemic while the industry's costs, at around £20 billion, have remained largely unchanged. While the lifting of societal restrictions has led to a recovery in annual revenues to around £6.9 billion, unless we can simultaneously accelerate revenue growth and reduce costs, the railway will be financially unsustainable.

The white paper is right to stress the importance of getting the maximum possible value from the private sector's involvement in the railway. With the right levers and incentives in place, and sufficient flexibility to be able to respond quickly and innovatively when opportunities present themselves, it can bring its entrepreneurial flair, supporting Great British Railways (GBR) in driving efficiency and providing the affordable, high-quality service that will bring passengers back to rail.

<sup>1</sup> Chapter 6 – Plan for Rail: “The government wants to ensure that rail combines the best of the public and the private sectors in future.” p76

<sup>2</sup> <https://www.gov.uk/government/publications/passenger-service-contracts-market-engagement-preview>

<sup>3</sup> Ibid “...our new model for the railways will take the very best of the private sector – innovation, an unrelenting focus on quality, outstanding customer service – and harness it under the single guiding mind of the public sector.” p76

<sup>4</sup> Foreword – The Plan for Rail: “Private sector innovation has helped deliver the spectacular growth the railways have seen in the last quarter-century; it is essential that we keep the best of this and encourage more...” p7



Passenger Service Contracts (PSCs) will be one of the most important aspects of reform. Their introduction presents a once-in-a-generation opportunity to reset both the way in which the public and private sectors collaborate on the railways and how the government effectively procures private sector expertise to support delivery. Not only will PSCs be the critical and foundational building blocks to achieve the goals of the white paper, they will also be the element of the system that, on a daily basis, passengers will see and experience. Getting them right is crucial.

Creating a vibrant and thriving market focused on how to deliver not only a great customer experience but also value for money for taxpayers is essential, and government's role in designing PSCs is vitally important in creating that market and promoting greater competition. Such a market would allow the private sector to make fair returns commensurate with the risks it is willing to bear and its success in delivery, as is the case in any contractual agreements between the public and private sectors, whether these are in IT, security, construction or any other number of areas. All successful markets are based on creating a sensible return for a sensible level of risk.

The lessons to be learnt from the failures of the rail franchising system in its later years are not that the private sector needs to be more tightly controlled, but that it needs to operate within contracts that maximise its strengths: its ability to innovate throughout the life of the contract, its entrepreneurial mindset, and its commercial and delivery expertise.

Rail franchising failed because contracts became over-specified, centralised, imposing strictures from on high. The more removed decision-making is from the customers, the poorer the outcomes. The closer, the better. Even within a concession model, PSCs must allow some flexibility, and not contain such detailed specifications that they effectively place operators in a straitjacket. In an industry of such scale, constantly having to look inwards for decisions or approvals is guaranteed to slow the pace at which we can deliver what customers want.

Instead, PSCs should promote greater collaboration with the infrastructure manager through aligned targets and incentives. They should support GBR to create a customer-focused and commercial culture and provide the conditions to develop a shared purpose, encouraging the many different organisations involved in delivery of rail services to work together with co-operation and trust.

**Given the size of the industry cost base and operator revenue potential, the potential benefits of unleashing the private sector's commercial acumen to achieve this are huge.**

Since December 2020, independent owning groups have sought to show government how they can lead on significantly reducing the rail industry cost base and accelerating revenue growth with the right contractual framework in place.

There are many examples of where train operators have used their commercial knowledge of their markets, together with the development of partnerships with stakeholders, to deliver marketing campaigns and pricing initiatives that have delivered revenues of six times and more of the cost of those initiatives. Equally, there are many other examples where train operators have delivered capital investment schemes, for example at stations, far more efficiently than Network Rail.

Train operator innovations which delivered just 1% extra cost efficiency and 1% extra revenue would deliver approximately an extra £300 million per annum, the majority of which over time would be retained by GBR / government for additional investment, reduced taxpayer support, or some combination of the two. If these small percentages, which are conservative estimates, were retained across a 10-year period, billions could be saved.





Put simply, if the private sector's involvement in rail is reduced to just a transactional contractor, which severely blunts their commercial expertise, then government could expect to have to pay significantly more to fund and sustain the existing size of the railway. That means GBR must set the outcomes it wants to achieve and facilitate train operators deciding how to deliver those outcomes. To enable this, this paper details what train operators would need to have, including:

- A key role in the development of timetables, national and local marketing campaigns, retailing solutions, and the fares framework.
- Responsibility for all elements of train service delivery and a customer-facing, commercial and operational role at stations.
- The levers to chase every opportunity for revenue growth and to reduce the industry cost base.

*The details underpinning these roles are covered in the tables under section 2.*

This is not at odds with the white paper proposal for the base contracts to be concessions (with greater commercial freedom for long-distance operators). The client should be focussed on the outcomes it seeks and not specify requirements to an unnecessary degree, thereby limiting private sector innovation.

If together we can get the shape of PSCs right, with responsibilities to deliver for the customer and taxpayer clearly and unambiguously embedded into those future contracts, we can achieve our shared purpose: not only a better service for customers, but a more cost-efficient industry with increased revenues, taking the pressure off the taxpayer contribution.

**This paper outlines how the right PSCs can help to deliver the white paper outcomes, as well as what the principles should be that guide the drafting of those PSCs. It sets out an appropriate split of responsibilities between GBR and train operators given the obligations set out for each in the white paper, and how best to incentivise the right outcomes. Ultimately this paper provides a proposal that meets the objectives of the white paper to deliver a better railway for customers.**

# Section 1: The principles that should guide PSCs

## PSCs present an opportunity to harness existing commercial capability and local knowledge for the benefit of customers and taxpayers

In order to deliver the white paper outcomes and support GBR in its role as a guiding mind, PSCs should follow five key principles to ensure that they support the government and GBR's mission to create a more joined-up, customer focused and collaborative railway. The way PSCs are designed for specific markets, and the implications that this has on the collaboration between different players in the industry, and the way that they harness the commercial mindset of the private sector, will be vital.

### 1 The concession model should only be a foundational starting point for contracts, with a spectrum of contract profiles to reflect the markets served.

The white paper leans heavily on the use of concession contracts in the delivery of passenger services, which can yield meaningful results, as demonstrated in the context of London Overground. However, the same market conditions are not uniformly present across the whole GB rail network.<sup>5</sup>

While the concession model should be the foundation for PSCs where the market and geography make it appropriate (such as commuter markets) there needs to be flexibility to develop contractual variations to best meet the markets served – as noted in the white paper.<sup>6</sup>

As the white paper recognises, there should be a spectrum of contracts with different degrees of specification and flexibility for operators, depending on the objectives of the contract.<sup>7</sup> This will ensure that the service provided to customers is tailored to their needs and is not one-size-fits-all.

Some contracts will need to combine commuter and long-distance services and will need to contain mixed incentives to reflect the different risks and commercial opportunities available within that geography.<sup>8</sup> This will ensure that contracts reflect the needs of different localities and markets, respond effectively to changing passenger needs, and can meaningfully compete with other modes of transport.

### 2. Operators must have the levers and flexibilities they need to deliver the goals of the white paper.

PSCs must provide the flexibility to enable train operators to fulfil their obligations set out in the white paper to meet demanding targets for punctuality, reliability, customer satisfaction, customer information, and revenue growth.<sup>9</sup> As the white paper notes, contracts must also create the room for innovation and the delivery of a great customer experience and a lower cost railway.<sup>10</sup>

<sup>5</sup> Commitment 24 – Plan for Rail: “Passenger Service Contracts will be different across the network and will not take a one-size-fits-all approach, including on contract length.” p58

<sup>6</sup> Ibid p58

<sup>7</sup> Ibid p58

<sup>8</sup> Commitment 24 – Plan for Rail: “Some contracts will be a mix of both commuter and long-distance services and will need to include mixed incentives to reflect the different risks and commercial opportunities available within that geography.” p58

<sup>9</sup> Commitment 22 – Plan for Rail: “Contracts will require operators to meet demanding standards for key passenger priorities such as punctuality, reliability, passenger satisfaction, capacity, staff availability and helpfulness, customer information, vandalism repair, passenger satisfaction, revenue protection and cleanliness.” p55

<sup>10</sup> Ibid: “Revenue incentives will be built into contracts to grow passenger numbers, foster a culture of innovation and introduce efficiencies that deliver real benefits for passengers.” p55

In all contracts we believe that GBR should set the base level requirements (which will be different for different contracts) which then incentivise the private sector to bring their innovation and commercial expertise to exceed those base level requirements, improve the customer experience and increase customer satisfaction further, and improve the long-term financial sustainability of the railway through greater cost efficiency and stronger revenue growth – all in keeping with the white paper.<sup>11</sup>

All this points to the significance of getting the balance right between the role of GBR and the role of train operators. The industry called for an independent arm's length body to act as the guiding mind for the railway and GBR's role in bringing the whole industry together, setting consistent standards, aligning targets and incentives, and taking a whole system P&L approach to the railway, will be crucial.

However, we should be careful not to confuse that role with over-centralisation, blunting the role of private sector train operators through over-specified contracts, limiting the opportunities for innovation, and slowing the pace of change.

### 3. Clear performance targets should establish fair rewards for outperformance and fair consequences for underperformance.

Clear performance targets should be set with fair rewards for outperformance, with equally fair consequences for underperformance. This would mean that operators are wholly focused, through their PSCs, to meet and exceed the goals of GBR, as well as the ambition of the white paper, delivering operational excellence.<sup>12</sup> In some markets the white paper is clear that the PSC holders will be exposed to changing customer behaviour through revenue risk sharing arrangements.<sup>13</sup>

### 4. Strong competition for the market should be encouraged, with a simplified, cost effective bidding process for outcome-focussed contract requirements.

To fully harness the benefits of private sector participation in the delivery of passenger services a simple and cost-effective bidding process needs to be in place for all future PSCs opportunities. The bidding process should be calibrated to give the market clarity on the nature of services (i.e. quality versus cost), as well as providing the opportunity for the private sector to innovate by responding to outcome-focussed contract requirements.

### 5. Create a trusted partnership between GBR as an informed client and PSC holders as delivery agents.

Finally, PSCs should establish a strong collaborative and trusted partnership between GBR as an informed client, making key strategic system-wide decisions, and PSC holders, who are given the levers to focus on delivery. This is how to ensure that PSCs enable a 'can do' culture, with operators looking outwards to customers and not inwards to GBR. These are the crucial foundations to ensure the right working relationship and culture is developed for future GBR and operator success; a partnership that is built on trust and one that builds on the strong collaboration we have seen with the infrastructure provider during the pandemic.

It will also be important for there to be some form of segregation between GBR's contract management and operational functions in order to ensure there is accountability for infrastructure management and that operator-GBR relationships are collaborative and not wholly asymmetrical.

**Guided by the principles set out above, the following section details how we believe competencies should be delivered by operators within a framework set by GBR.**

<sup>11</sup> Commitment 25 – The Plan for Rail: "As passenger numbers recover, contracts will be flexible and include the possibility for operators to act more commercially on some services, when this is the most value for money option and it is financially sustainable for the operator to take on these responsibilities" p58

<sup>12</sup> Commitment 22 – The Plan for Rail: "Tough measures and targets will be built into each contract. Operators will be incentivised to co-operate to improve performance across the network as a whole" p55

<sup>13</sup> Commitment 25 – The Plan for Rail: "operators will have greater commercial freedom on some parts of the network, with revenue sharing arrangements where appropriate" p58



# Section 2: The appropriate split of responsibilities between GBR and train operators

**Ensuring that train operators have the right levers through PSCs to discharge their obligations will be key to delivering the goals of the white paper**

In keeping with the principles set out in the previous section, RDG, with train operator owning groups, have considered the levers that train operators would need across a range of key areas impacting on the customer experience where the white paper also sets out key roles for GBR. These are set out in some detail over the following pages, and cover:



**1 Developing the timetable**

**2 Delivering train operations**

**3 Delivering stations asset management and operations**

**4 Setting fares**

**5 Marketing to customers**

**6 Retailing to customers**

**7 Providing customer information**

**8 Enabling our people to deliver**

## Developing the timetable

### Overview

There are effectively three phases to developing the timetable – development, production and implementation. PSCs need to be designed to reflect the different roles of GBR, its regions and train operators in those three phases.

Development is the overall design and specification of the timetable in accordance with government objectives – this would be led by GBR with input from operators. Production is the detailed design and specification – largely covered today within the Network Code Part D process – and would be led by operators and GBR regions. While implementation is the practical application of the detailed timetable (which is covered in more detail in table 2 – ‘Delivering the train service’) and would be led by operators.

Operators will be held accountable for meeting demanding targets on punctuality, reliability, and in some cases driving revenue growth, all of which are critically dependent on a robust and customer-focused timetable. This means it is essential for operators to play active or leading roles in all three phases of the timetable specification – which are detailed below.

The role of GBR	The role of the operator
<p>GBR would have overall responsibility for the design and specification of the national timetable, which would involve meeting government policy objectives and stakeholder requirements; addressing the trade-offs necessary to deliver the system; and ensuring the national timetable is robust.</p> <p>GBR would delegate the production of the detailed timetable to GBR regions and operators, while retaining an oversight role to ensure that the production phase remains consistent with the national design and specification.</p> <p>GBR would oversee the performance of operators in the implementation phase, holding each to account for their delivery against agreed metrics on punctuality and reliability.</p>	<p>Operators, under PSCs, would play a crucial role in the development phase, leading on resource planning (e.g. fleets and crew), ensuring resource efficiency (e.g. avoiding broken resource turnarounds), delivery costs, deliverability risk assessments (including performance outcomes), and where revenue growth incentives (or revenue risk transfers in some PSCs) exist, advising on revenue generation, passenger, and market requirements.</p> <p>Operators would work with GBR regions to develop the detailed timetable to ensure it took account of local factors such as revenue growth opportunities, performance constraints and specific needs (e.g. school trains)</p> <p>Operators would lead the practical implementation of the detailed timetable (see table 2 – ‘Delivering the train service’).</p>
Benefits to customers	Benefits to taxpayers/society/environment
<p>A timetable developed with early collaboration of train operators would ensure their extensive understanding of their market is leveraged, to deliver a product which meets customer demands at high levels of punctuality.</p> <p>The involvement of regional transport bodies and operators in collaboration with GBR regions in the timetabling process would improve local outcomes.</p> <p>Having a single point of accountability (GBR) for the robustness of the national timetable, with strong operator input, would reduce the risk of a timetable that cannot be delivered and the disruption that would be caused.</p>	<p>An optimised train plan and timetable, guided by operators, would accelerate the return of passengers to the network following the pandemic, helping to make the railway’s costs sustainable and boosting local economies.</p> <p>A timetable developed with strong operator input would lead to them being able to produce an optimal train plan that reduces service duplication and would reduce industry costs.</p> <p>A demand-led approach to timetabling and capacity utilisation would support the Government’s commitment to improving connectivity, promote decarbonisation, and drive revenue growth.</p>

## Delivering train operations

### Overview

With GBR responsible for the overall design and specification of the national timetable, and GBR regions and train operators responsible for its detailed design and specification, operators would take the lead in its practical implementation. Early operator involvement is crucial if they are going to be held to account within PSCs for delivering capacity to meet demand with high standards of punctuality, reliability, passenger satisfaction and have responsibility for revenue growth.

For operators to take the lead in the practical implementation of a customer-focused timetable, they would need to retain responsibility for the essential components of a train plan (e.g. staff resourcing and fleet management). This would ensure that the train service is not only deliverable but cost-efficient, delivers the high standards customers expect from operators within PSCs, can respond quickly to risks and opportunities, and drives revenue growth.

### The role of GBR

GBR would have overall responsibility for the design and specification of the national timetable, and would use PSCs to set targets for operators in areas such as customer satisfaction, punctuality, and reliability.

GBR would then incentivise private sector operators through PSCs to deliver these targets efficiently in collaboration with GBR regions.

GBR would also oversee delivery of train operations, holding operators to account for their performance against the targets set out in PSCs.

### The role of the operator

Operators would take the lead on the resourcing, management, and delivery of the train service. This would include:

- Developing a train plan that is responsive to customer needs and sufficiently flexible to continue meeting those needs as they evolve;
- Ensuring that the fleet needed to deliver that plan is available when and where it is needed; maintained as necessary; and that the correct units are used in an efficient manner to meet passenger demand and increase capacity;
- Cleaning and preparing individual units for service so that customers can have the highest standards of hygiene and comfort possible;
- Deploying drivers and other resources so that the right staff with the right training are in the right locations to deliver a punctual, reliable and customer-focused service; and
- Managing and delivering revenue protection, security systems and emergency management.

### Benefits to customers

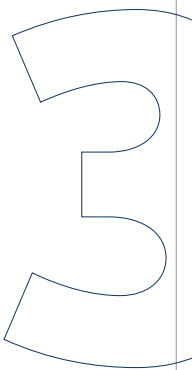
GBR can specify consistent requirements but then the operator would be incentivised to deliver the highest possible standards at a local level based on the demands of local stakeholders, and the operator's strong understanding of their customers and markets.

The train service would be able to continually evolve to meet the changing requirements of customers.

### Benefits to taxpayers/society/environment

With tough targets, combined with the right revenue growth and cost efficiency incentives, and the necessary levers available, operators would have the controls to drive a cost-efficient railway while providing a quality of service that attracts customers to the railway and delivers a return for the taxpayer.

Delivering an optimal train plan that meets customer demand and places fleets and staff in the right places would not only encourage modal shift, but would minimise the carbon footprint of the railway.



## Delivering stations asset management and operations

### Overview

GBR would set strategic objectives, KPIs and standards for stations; defining a national approach which sought to meet wider policy objectives. The national-level objectives, standards, station asset management and operations should then be delivered, in collaboration with GBR station management teams, by operators – who have the local knowledge to manage and operate stations as an asset while understanding the customers and communities they serve.<sup>14</sup>

Customers benefit when operators have the flexibility to make decisions at a local level which reflect customer expectations and priorities. This model works well under the ‘Full Repairing and Insuring Lease’ (FRI), which places operators as the asset managers. Operators would be incentivised through PSCs to deliver station management efficiently in collaboration with GBR regions and to work together to deliver a strategic asset management plan that is consistent with customer and community expectations but within the wider goals set by GBR. Whether it is upgrading station seats or car park management, the strategic asset management plan would showcase how operators would improve the station offering to reduce costs and drive local growth and revenues.

Given that operators will be held to account for delivering targets on passenger satisfaction, staff availability, customer information, vandalism repair, revenue protection and cleanliness – a ‘Full Repairing and Insuring Lease’ type approach would give operators all the necessary levers to deliver these accountabilities and ensure high levels of customer service at stations.

The role of GBR	The role of the operator
<p>GBR station teams would set long-term strategic objectives for stations related to customer outcomes or wider policy priorities (such as carbon emissions reduction).</p> <p>GBR would then contract out station management to operators through PSCs and incentivise operators to bring an innovative approach to achieve those strategic objectives and policy priorities in partnership with GBR regions.</p> <p>GBR regions in partnership with train operators would identify development opportunities in and around stations. With any benefits shared by the parties taking the risk.</p>	<p>Operators would be contracted to do all asset management at stations – from car park management to repairing seating.</p> <p>Operators would deliver initiatives – such as the roll-out of LED lighting and water fountains at more stations – in line with priorities set by GBR and as a part of the operators asset management plan.</p> <p>Operators would remain responsible for delivering station operations and customer services – including train dispatch and staffing.</p> <p>Operators would be held accountable by GBR for operational and customer issues at stations, as well as engagement with local communities.</p>
Benefits to customers	Benefits to taxpayers/society/environment
<p>GBR would specify consistent customer requirements with the operator incentivised to deliver customer-led improvements at a local level, informed by user feedback.</p> <p>Operator localised management teams would attract and retain customers and deliver local benefits.</p>	<p>With tough targets on operators, combined with the right revenue growth and cost efficiency incentives, they would deliver asset management at stations more efficiently.</p> <p>An FRI-type approach would allow the private sector to harness third party finance to leverage innovation to improve the feel, appearance and experience of the station estate.</p>

<sup>14</sup> Commitment 34 – Plan for Rail: ‘customer service at stations will be modernised’ p68



## Setting fares

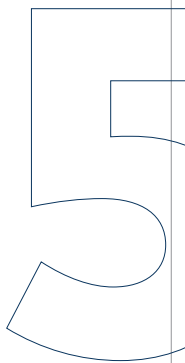
### Overview

Government will continue to set funding for the network, as well as broad policy requirements such as subsidising fares to allow for social access or improving network benefits. Within these parameters, GBR would be responsible for setting the conditions and rules of the fares system as a whole – managing the interavailable walk-up fare. It would also set the conditions of travel and product terms & conditions, including railcards.

GBR regions would develop local / regional fares priorities that would have considerable flexibility within the national-level conditions and rules. The GBR regions would then work with PSC holders, whose contracts would provide them with varying degrees of pricing autonomy. For example, concessionaires should have the ability to adjust operator-specific fares (excluding interavailable walk-up fares) in collaboration with GBR regions, to attract passengers, maximise usage and capacity, and grow revenue. Those operating long-distance services would have a greater degree of pricing autonomy over fare promotions, while remaining within the national conditions and rules, adjusting fares independently where this could help to manage demand or maximise yields.

These levers are crucial given that operators will be held to account for delivering high standards of passenger satisfaction and, in some instances, revenue targets. Without some control of fares revenue growth, the recovery of the industry's finances in the wake of the pandemic, will be slower.

The role of GBR	The role of the operator
<p>Within the funding and broad policy requirements set by government, GBR would at a national level:</p> <ul style="list-style-type: none"> <li>Set out the overall fares requirements at a devolved level to maintain sustainable funding of the network;</li> <li>Set the conditions of travel and product terms &amp; conditions;</li> <li>Set and maintain national inter-available walk-up fares;</li> <li>Specify broad conditions of and rules for any additional fares that operators could offer; and</li> <li>Be responsible for the mechanics of discount schemes and railcards to ensure a coherent customer proposition.</li> </ul> <p>GBR regions would work with operators to develop their own priorities within the national conditions and rules to achieve those priorities</p>	<p>Operators, within PSCs, would have varying degrees of pricing autonomy within the conditions and rules set by GBR and the priorities set by its regions.</p> <p>For concessions, operators would determine adjustments to fares which would meet either regional / local objectives or support accelerated revenue growth – having the ability to flex operator-specific fares that are naturally weighted to the interavailable walk-up fare.</p> <p>Long-distance operators would have greater flexibility to adjust fares themselves within the conditions and rules set by GBR to manage demand and maximise yields but without needing GBR permission in each case – providing freedom over fare promotions.</p>
Benefits to customers	Benefits to taxpayers/society/environment
<p>Clear national accountability for fares would sit with GBR and could be easily understood by customers.</p> <p>There would be a coherent national proposition, but with some fares designed at a local / regional level which would be informed by customer demand and designed to meet customer needs.</p> <p>Customers would still be offered a truly competitive fare price on long-distance services.</p>	<p>Decisions on fares at both national and regional level would be made with a view to maintaining sustainable funding of the network over the long-term, driving efficiencies for taxpayers.</p> <p>Operators could use their local knowledge to accelerate revenue growth post-pandemic – with control of operator-specific local fares in most instances.</p> <p>Regional priorities could be implemented within clear national conditions and rules.</p>



## Marketing to customers

### Overview

GBR would take a lead on national marketing initiatives and set the overall sector strategy for marketing. Similar to the COVID recovery campaign<sup>15</sup>, GBR would work in collaboration with operators to develop national campaigns that are both deliverable and truly revenue generative. The sector strategy defined by GBR would also provide guidelines for operators to deliver local campaigns and initiatives within PSCs—defining marketing and branding guidelines to create the appearance of a single national approach.

Operators, who would have tough targets to deliver related to customer satisfaction and capacity, incentives to grow revenue and in some cases revenue risk, would be responsible for designing and delivering marketing initiatives in keeping with GBR guidelines and parameters. Given that operators, as noted in the tables above, would have influence over elements of the product (e.g. timetable and operator-specific fares), they would be best placed to ensure propositions are targeted through effective advertisement mediums and to the benefit of local communities and commercial partners.

#### The role of GBR

GBR, with input from operators, would undertake national marketing initiatives and set the overall sector strategy.

GBR's sector strategy would set standards – such as branding guidelines – within which operators could deliver local campaigns under a 'white label'.

Where appropriate, GBR would secure economies of scale through media buying on the whole industry's behalf.

GBR would work in partnership with operators to develop sufficient flexibility within PSCs that operators would be able to maximise revenue growth in local markets.

#### The role of the operator

Operators would be responsible for designing and delivering local marketing in keeping with GBR's sector strategy, including branding guidelines.

Operators would work with GBR regions to develop regional variations on national marketing initiatives. Operators would use their understanding of the markets they serve to develop partnership marketing initiatives which respond to customer demand and would be revenue generative.

Operators would lead the design of the 'product' (e.g. timetable input and operator specific fares) to ensure effective marketing campaigns.

#### Benefits to customers

A clear national brand and identity would help give confidence that the railway was working in partnership to deliver for customers.

Within that national identity, 'white label' products would continue to be developed to best meet the needs of customers, communities or markets.

#### Benefits to taxpayers/society/environment

Operators driving highly targeted marketing campaigns or through commercial partnerships, would encourage a faster return of passengers to the network and increased revenue from fares, reducing taxpayer dependency.

Operators working with local stakeholders would ensure that marketing campaigns not only return on investment but support local economies and communities.

Greater financial sustainability for rail in the long-term through a simplified brand and retained commercial capability.

<sup>15</sup> In August 2021 the rail industry launched their first major national marketing campaign since the Covid-19 pandemic began to encourage people back to trains. The campaign was developed by the Rail Delivery Group in collaboration with operators and aims to drive rail recovery and to help kickstart businesses getting their customers back. For more information please see: <https://media.raildeliverygroup.com/news/train-companies-launch-campaign-to-get-leisure-travellers-back-on-track>

## Retailing to customers

### Overview

GBR would have responsibility for a single national digital retailing platform, ensuring that the customer offer is both seamless and simple – supporting ticketing and retailing systems across the network. GBR would also deliver and maintain settlement assets such as barcode ticketing, pay-as-you-go infrastructure, and central back-office systems to provide retailing solutions across the network. Further, GBR would be responsible for delivering national retailing products, similar to RDG today, such as national rail cards.

Operators – accountable for demanding standards on customer satisfaction and driving revenue growth – would provide input at a national level into retailing propositions, systems and infrastructure. PSCs should give operators strong input into the design, change and support of nationally delivered services and standards whether this be ITSO (Integrated Transport Smartcard Organisation) smart cards, new pay-as-you-go products or existing services.

At a more local level, given that third party retailers will still be present, PSCs should give operators the freedom to continue running and managing ticket retailing at stations, and the ability to offer some bespoke products under a GBR ‘white label’ brand.

#### The role of GBR

GBR would be responsible for a single retailing proposition – delivering a single website for ticketing and digital retailing – creating accountability and ownership of the retail model.

GBR would maintain and own relevant fulfilment assets such as central back-office systems.

GBR, in collaboration with operators, would explore new ways to pay through contactless pay-as-you-go for commuters and in cities, as well as digital tickets for regional, long-distance and frequent journeys.

#### The role of the operator

Operators would provide input into the retailing proposition and, to varying degrees within PSCs, be responsible for delivery of that proposition in their market so their local knowledge and understanding of that market can be exploited to the fullest possible extent.

Operators would have scope, under a GBR white label, to trial specific retailing propositions such as smart cards, to drive revenue growth and customer satisfaction.

Operators would have responsibility for local delivery and management of retailing – particularly at stations.

#### Benefits to customers

Customers would experience a clear and simplified retail offer – but would still have access to offers relevant to their needs.

Increased digital solutions to meet customers changing expectations and lifestyle choices, reflecting operator and GBR knowledge.

Improved ‘turn up and go’ experience and multi-modal ticketing options, particularly at local level.

#### Benefits to taxpayers/society/environment

A consistent retail offer would help attract passengers to the railway, delivering returns for taxpayer and lowering carbon emissions.

Operators having meaningful input into the design of new retailing systems and infrastructure, would ensure their local knowledge drives the right investment decisions by GBR.

## Providing customer information

### Overview

GBR would be responsible for delivering and managing a consistent and clear information proposition to passengers – referred to as a ‘single source of the truth’ in the white paper. GBR would determine the national standards and schemes for the provision of customer information, providing information systems that are available to all operators to input into and guided by passenger needs. GBR would continue to encourage innovation from operators and suppliers.

Operators – accountable for passenger satisfaction and customer information – would be responsible for inputting information into GBR’s centralised real-time information system – covering things like expected delay, seat availability, onboard services, facilities available, and so on. This would ensure that customer information is delivered in a fashion that is clear and timely. Critically, operators would also take the lead for staff at the station and on the train, where the dissemination of information is especially important, particularly during periods of disruption or service change.

Through PSCs, operators would be given scope to alter standards for information provision and suggestions for flexibility and additions. PSCs would also support and reward operators that innovate local information systems, in keeping with GBR standards, that can be scaled across the network.

### The role of GBR

GBR would be responsible for managing a centralised customer information ‘open data’ system and setting standards for customer information provision across the network, including the availability of customer critical facilities e.g. lifts.

GBR would provide a live feed to all the downstream systems currently dependent on Darwin Customer Information System such as website/app, station departure boards and staff information systems

GBR regions would work in partnership with operators to deliver local customer information provision and provide room for innovations that can be spread across the network.

### The role of the operator

Operators, within PSCs, would provide real-time data into a centralised information aggregation system.

Operators would work in partnership with GBR to define the standards for customer information provision and could make suggestions for local flexibility and additions.

Operators, within PSCs, would be responsible for local customer information provision and retain autonomy of operator-specific customer data systems.

Operators would manage staff at the station and on the train, ensuring effective and proactive customer communication and service.

Operators would have the scope within PSCs to innovate and trial new local customer information so their local knowledge and understanding of that market can be exploited to the fullest possible extent.

### Benefits to customers

Easy access to relevant, accurate and personalised information before, during and after a journey from network wide sources, especially during disruption.

Under GBR standards, but guided by local operators, customers would get the sense of a ‘single source of the truth’ but one which would not be overly centralised and distant.

By working with innovative partners, operators can deliver new information systems such as expected service crowding and accessibility maps to enhance the customer experience.

### Benefits to taxpayers/society/environment

Providing operators the ability to innovate customer information systems, in keeping with GBR standards, would deliver modernisation in a more agile, cost effective and easily replicable way across the network.

Enhancing the customer experience through better information – particularly during disruption – would encourage modal shift which in turn would deliver environmental benefits.



## Enabling our people to deliver

### Overview

Government would retain responsibility for the legal framework in which the industry operates. GBR, in partnership with operators and other organisations from within the industry, would be responsible for developing industry-wide strategies with clear objectives in relation to the industry's people. These would be consistent with other industry-wide strategies contained within the WISP (Whole Industry Strategic Plan).

GBR would then incentivise operators through PSCs to use their commercial capability to deliver programmes that implemented these strategies and delivered both a better service for customers and long-term value for taxpayers. These programmes would be designed so as to implement the national people strategies as well as wider government objectives, and so as to support operators to deliver in those areas in which the white paper is clear they will be held to account for delivery.

#### The role of GBR

GBR would develop a shared view of objectives for the modernisation and transformation of the industry, including the implementation of technological innovation, providing a clear vision of a future in which increased productivity and flexibility improve long-term job security.

GBR would coordinate an industry-wide assessment of future staffing requirements based on automating repetitive tasks, simplifying roles and acquiring the skills the industry will need in coming decades.

GBR would be responsible for developing industry-wide strategies in relation to such issues as diversity & inclusion; leadership and management capability; and skills.

GBR would use the development of PSCs to create a consistent framework that supports change through contractual mechanisms and cross-industry collaborative working.

#### The role of the operator

Operators would retain responsibility for all the standard elements of the employer-employee relationship (e.g. pay, pensions, recruitment, training, negotiation) for all the staff necessary to deliver their PSC obligations.

Operators would also engage fully with GBR in the development of strategies which relate to people and workforce issues.

Within the consistent strategic framework it has developed, GBR should incentivise operators through PSCs to deliver change within their own businesses in such areas as:

- Investment in automation technologies.
- Collaboration on industry initiatives.
- Recruitment and retention of new entrants from more diverse backgrounds.
- Support for an overall improvement in cross-industry leadership and upskilling of managers.
- Use of standardised industry training for drivers.

#### Benefits to customers

A modernised workforce would be shaped around customers' needs, and the way in which they use rail.

Customers would see a workforce in rail that represented themselves and their communities.

Increased resilience of the service would contribute to improved punctuality.

#### Benefits to taxpayers/society/environment

A more reliable service would increase patronage and bring all the benefits that come from increased rail use.

Greater efficiencies would help to reduce overall industry costs, enabling increased investment in improving the service and/or reducing the amount of government funding needed by the railway.

The proposals set out briefly in the tables above can form the basis of an ongoing dialogue with a view to developing a collaborative partnership between GBR as the client and operators as their delivery partners, supporting the new body to achieve the outcomes set out in the white paper, particularly:



A modern passenger experience



A retail revolution



A new way of working with the private sector



Economic recovery and financially sustainable railways



A skilled, innovative workforce

With clear roles and responsibilities established by GBR, and operators given the right levers to action those responsibilities, the next section considers how targets and incentives can deliver these goals at pace.



# Section 3: The importance of getting the incentives right in PSCs

## GBR would set the level of ambition within the structure of PSCs, encouraging train operators to help achieve financial sustainability across the system and deliver faster growth

The proposals set out in the previous section would enhance the customer experience and deliver a financially sustainable railway, while helping to support economic growth, connectivity and the achievement of environmental targets. However, PSCs should still be structured in a way that encourages train operators to use their commercial and delivery expertise to support GBR in exceeding revenue growth and cost efficiency targets as the white paper envisages.

Enhancing the customer experience will attract more people to use the railway but ensuring that PSCs harness the full commercial expertise of owning groups and their train operators will be key to helping GBR achieve financial sustainability and revenue growth above the baseline.

Providing the right targets and incentives in PSCs to unleash the commercial and delivery expertise of train operators would accelerate the recovery of the railway's finances. This is crucial given revenues are expected to be significantly below pre-covid levels for some time, and the stated aim of the white paper to reduce the industry cost base by £1.5 billion per year. Private sector train operators, through PSCs, can help GBR address issues around affordability through cost reduction and revenue generation. Rail operators in Britain have demonstrated their ability to grow passenger numbers and revenues more than any other major European railway.

PSCs need to provide operators with appropriate returns for risks they take on. There should be certainty at bid stage regarding how operators would be rewarded for investment, initiatives and innovation. Reward levels would also need to reflect additional risk transfers, any significant additional contractual outputs, new KPIs and/or improved performance requirements on an operator. In addition, PSCs should include arrangements that promote operators to attract external investment in the railway for new technologies.

The white paper states that PSCs will be competitively let, which is welcomed by the industry.<sup>16</sup> Significant benefits were realised through the rail franchising process by competing 'for the market' including cost efficiencies and innovation. A competitive process, with outcome-focussed tender requirements for PSCs, will improve the overall cost base, with the private sector driving cost savings at the bid stage, overall delivering better value for the taxpayer. Supported by a simplified and cost-effective bid process designed in genuine partnership with the industry, the contracts letting timeline should be staggered to maximise market participation.

Owning groups understand that there will be differences in the scale of opportunities in different markets and for different train operators and that there will be differences in the risk and reward profiles in contracts as a result, as envisaged in the white paper.<sup>17</sup>

PSCs should generally be between seven and ten years in length depending on what is to be achieved during their contract periods, as well as the nature of the risk and reward profile – with extension and reset options built in from commencement. Longer contracts may be appropriate if the operator is taking on less risk, or where a trusted partner is needed by the client to deliver a significant change programme.

As noted in the introduction, the industry cost base (around £20 billion) and operator revenue potential (over £10 billion pre-pandemic) mean the benefits of exceeding expectations are huge. If train operator innovations delivered just 1% extra cost efficiency and 1% extra revenue, an extra £300 million per annum could be delivered – over time most of which would be retained by GBR/government for additional investment and/or reduced taxpayer support. In short, the private sector's role in rail cannot be reduced to just a transactional contractor, which would stifle commercial expertise, and likely lead to government providing billions in additional funding over the next 10 years if it wished to sustain the existing size of the railway.

<sup>16</sup> Commitment 27 – Plan for Rail: "Competition for Passenger Service Contracts will be greater than for franchises and Great British Railways will aim to compete all contracts." p59

<sup>17</sup> Passenger Service Contracts toolkit – Plan for Rail: "Incentives will be scalable and used in different ways across different contracts." p56





## Conclusion

### **Together, we can deliver a railway that meets the objectives of the white paper**

Customers want a high-performing railway and taxpayers need a more cost-efficient railway with growing revenues. The white paper provides a clear route to achieving this, with GBR at the centre, aligning and integrating the many organisations involved in delivery so they have the same shared purpose in everything they do.

PSCs will be a key aspect of this alignment and integration, but they also present an opportunity to harness the existing commercial capability and local knowledge of train operators. Customers will not only benefit from a service for which there is an organisation at the centre to make the decisions that affect the railway as a whole but also a service that reflects their needs, as well as those of their communities.

Taxpayers will benefit from GBR developing clear strategic objectives which can then be implemented smoothly and cost-efficiently by the whole system, and from the increased revenues that will come from retaining the commercial capability that currently resides within train operators.

As the market engagement process begins, the development of PSCs is crucial to getting the balance of responsibilities right across the rail sector. The white paper is clear that operators will rightly be held to account for delivery of demanding targets, but this will only work if they have the levers they need to deliver and the incentives in place to focus them on delivery, and if PSCs are introduced into a reformed cultural and regulatory environment that maximises customer and taxpayer benefits.

Operators' responsibilities need to be within clear structures developed and overseen by GBR to provide a coordinated approach to delivery, but one which also recognises the need to reflect the different needs of customers in different markets or geographies. This balance is crucial to our future success.



## ***Rail Delivery Group***

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