Campaign for
Better Transport

The future of rail

December 2019

Contents

1. Introduction

What are Britain's railways for and how can they be managed in a way that delivers the best outcomes for the country?

Britain's rail network spans almost 10,000 miles. It is intensively used, attracting 1.75 billion journeys in 2018/19[1] – a number that has more than doubled since the early 1990s. Almost two-thirds of Britons report having used a train in the last year[2] with revenue from ticket sales standing at £10.3 billion.[3]

Although this growth is encouraging, rail depends on sizeable public subsidy: Network Rail currently receives around £5 billion a year.[4] Furthermore, passengers remain unhappy with many aspects of how the railways are run. Less than half of rail passengers regard their ticket as value for money,[5] and the botched timetable reform of 2018 and mishandled franchise competitions have fuelled widespread discontent with how the railways are managed.[6]

The timetable chaos of 2018 added to existing concerns about fares, reliability, punctuality and overcrowding. The current franchise model has struggled to address these concerns, and has led to the railway becoming increasingly complex and distant from the consumer. The loss of accountability has contributed to consumers' loss of trust.

In fostering change, there is much talk about moving passengers to the heart of decision making.[7] To get the best out of the railway, we must not only ensure that passengers are central to decisions about services, but also reshape the network to maximise economic, social and environmental outcomes so that wider communities benefit. Such an objective is not simple to achieve. It requires negotiation and trade-offs between the interests of passengers, operators, the public sector and wider society.

This report sets out the approaches and structures needed to achieve this objective and get the railways on track for a positive future. It builds on the evidence base for reforms developed by Campaign for Better Transport and Teneo, a global advisory firm, published in April 2019[8] and evidence submitted to the William's Rail Review.

Britain's rail network spans almost
10,000 miles

In 2018/19 there were
1.75 billion
journeys made

In the last year, revenue from ticket sales was
£10.3 billion

Who does what?

Department for Transport (DfT):

Through DfT, the Westminster Government is responsible for the strategy and funding of railways using the High Level Output Specification and the Statement of Funds Available. In Scotland, almost all powers over rail have been transferred to the Scottish government. The Welsh Government has franchising powers.

Sub-national and regional bodies:

Bodies such as Transport for London and Merseytravel have franchising powers for their areas, with others such as the West Midlands Rail Executive and Transport for the North also playing a growing part in contracting services.

Office for Rail and Road (ORR):

ORR's role is to protect the interests of rail users, regulating safety, value and performance. It regulates railway infrastructure, holding Network Rail to account, and oversees licensing and charges for train operators wanting to use the rail network. It is accountable to parliament.

Network Rail:

Network Rail is a public body overseeing the operation and maintenance of railway infrastructure, including tracks, bridges, signals and the largest stations. The System Operator sits within Network Rail and is responsible for planning changes to the railway, coordinating capacity to make best use of the network.

Train Operating Companies:

Operators run the train services, either bidding for franchises that allow them to run services on specific parts of the network; through 'open access' arrangements regulated by ORR; or delivering services on behalf of sub-national and sub-regional bodies through contracting arrangements.

Rail Delivery Group (RDG):

RDG is the representative organisation for bodies operating elements of the railway. All train operating companies and Network Rail are members of RDG. It also provides some core services, including National Rail Enquiries, accreditation for operating on the railway and industry data. RDG mediates access to the market and sector on services such as the sale of tickets, and coordinates initiatives on behalf of the industry.

Rail Standards and Safety Board (RSSB):

RSSB is a non-statutory body providing oversight and training on technical standards.

Transport Focus:

Transport Focus carries out research on passenger experience that is used to manage and regulate the railway. It is an independent watchdog representing rail passengers' interests in England (outside London). It is an executive non-departmental public body, sponsored by DfT and funded by taxpayers.

Rail Ombudsman:

The Rail Ombudsman is an independent, not-for-profit organisation that handles unresolved passenger complaints about providers in the rail industry. It is a non-statutory body that is contracted by the rail industry to perform this role.

2. The public's view

As part of the research underpinning Campaign for Better Transport's submissions to the Williams Review, we commissioned research[9] to consider the passenger and non-passenger perspective further.

Most survey and consumer research has asked passengers for their views on operational issues and neglected their perspective on the role of the railway. We considered three areas in our research: who uses the railways; what are the public's biggest concerns about current performance; and what do they see as rail's primary role in the future.

Our findings raise important questions that we have considered when developing the recommendations in this report.

Commuting by rail

Commuting is viewed as the rail network's most important function by 22 per cent of respondents. This is highest in London (29 per cent) and the North East (28 per cent), and lowest in the East Midlands and East of England (both 19 per cent). This partly reflects the weaker extent of the network in some parts of the country.

Our research shows that railways are widely used by the public, with 71 per cent of respondents saying they use trains. Across the country, seven per cent of people reported using rail for commuting. This number, however, conceals major variations. One in five Londoners (20 per cent) say they commute by rail (a number which excludes use of London Underground). This compares with just one per cent of employees in North East England; two per cent in Yorkshire and The Humber, East Midlands and the South West; three per cent in Wales and the North West; and four per cent in the West Midlands. While London's size, employment market, density of population and extent of rail network gives rail in London an unassailable advantage over other regions, this finding suggests rail's potential in meeting commuter needs has not been reached in most areas of the country.

There is a gender difference in rail commuting. Currently, nine per cent of men report using rail to commute compared with only five per cent of women. In part, this is likely to reflect over-representation of men in roles where rail commuting may be common (for example, financial services).

Similarly, there are differences in rail commuting based on number of hours worked. Overall, 14 per cent of full-time workers reported commuting by rail compared with just five per cent of part-time workers. While this may relate to the nature of many part-time roles, such as people working shorter hour and/or closer to home, our research has found the railway's failure to offer tickets suitable for part-time and flexible workers as a recurrent issue. This is an issue which has been exacerbated in recent times by increases in flexible working, with employees regularly working from home.

Rail for leisure journeys

While commuting dominates journey numbers and passenger kilometres, over half of respondents say they use the railways primarily for leisure journeys – nearly eight times as many as rely on them for commuting.

This finding suggests that the doubling of passenger journeys seen over the last two decades should be interpreted as a broadening of rail's relevance. Yet media reporting, and industry engagement with the media, has focused primarily on the growing numbers of commuters, particularly in London and the wider South East. As a result, the narrative tends to concentrate on the impact of government fares policy on this group.

Our research findings have clearly shown that building on rail's relevance to the leisure market is just as important as focusing on the needs of frequent commuters.
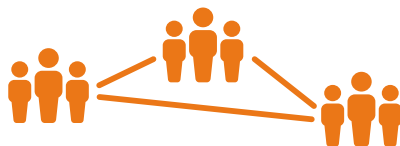
Social and economic factors

There is a large socio-economic split in who uses the railways. While only 22 per cent of middle and upper socio-economic groups (ABC1s) say they never use rail, a much higher number – 37 per cent – of people in lower socio-economic groups (C2DEs) say the same. This is likely to reflect two factors:

- The relevance of rail's traditional offer to lower socio-economic groups, given its focus on medium and longer distance journeys.

- The perceived and actual costs of travelling by rail and how it acts as a barrier to lower income groups.

Generational differences

Age was found to play an important factor in how people use the railway. While propensity to travel by rail stays reasonably consistent within age brackets from 18 to 44-year-olds (11–13 per cent), it then drops markedly for older age groups; only two per cent of over 55s said they commuted by rail.

Propensity to use rail for leisure travel, though, does not change significantly with age, and older age groups have adopted the habit of rail travel for leisure, whilst younger age groups adopt it's use for commuting as well as leisure travel.

These trends suggest significant long-term growth in rail commuting can be achieved by retaining those who currently travel by rail through their working life and ensuring that those who are beginning their careers find rail services that are affordable and relevant to their needs.

66% of 16–24 year olds report using a train in the last 12 months compared with just **25%** of over 75s

Despite signs that younger generations are delaying learning to drive, or not doing so at all, but rail's position as an alternative to private transport, and its to growth in certain markets is not a given. Rail's importance as an alternative to the car is more strongly felt in older groups, with 49 per cent of over 45s holding this opinion compared with 39 per cent of 18 to 24-year-olds. This may reflect a blurring between concepts of public and private transport among younger people. The growth of Uber and other transport products suggests a generational shift where the link between car use and car ownership is broken and young people are more flexible in their choice of transport.

Young people are also more likely to identify the environmental benefits of rail than older groups. Reducing carbon emissions was ranked as an important role for rail, albeit one only selected by nine per cent of respondents overall. However, this number is higher among younger groups with 14 per cent of 25 to 34-year-olds pointing to reduced carbon emissions as rail's most important function.

Ticket prices

There continues to be a significant issue with value for money. Over two-thirds (67 per cent) ranked ticket prices as their biggest concern about the railways. This sentiment is held in largest numbers by 18 to 34-year-olds, where 75 per cent of people feel ticket prices are the largest problem.

There is good reason, however, to believe that negative feelings about ticket prices can be partly negated. In recent years ScotRail's regulated fares, which are set by the Scottish Government, have risen more slowly than those in England and Wales set by Westminster. So while concern about fares is reasonably evenly felt across the country, Scotland is a partial exception with concern notably lower at 58 per cent.

In the last 10 years, the cost of rail fares has increased by **47% ▲**

In the same period, motoring costs have increased by **32% ▲**

In the same period, average wages have increased by **24% ▲**

Disruption and overcrowding

Further serious public concerns about the railways are 'disruption, delays and punctuality' (identified as a concern by 49 per cent of respondents) and overcrowding (45 per cent).

These concerns vary widely by region: 56 per cent of London respondents and 57 per cent in Yorkshire and The Humber regard this as an important issue, down to 37 per cent in the North East and 38 per cent in the West Midlands.

Of other concerns, 'frequency of services' scores highest (23 per cent). This is strongest in London where 29 per cent are concerned about frequency compared with just 11 per cent in the North East.

55% of rail journeys are made in the a.m. and p.m. peaks

Network extent

The sparsity of the network in some parts of the country is also a concern in specific regions. The ability to physically get to a station is a significant concern in the East Midlands (23 per cent), South West (22 per cent) and West Midlands (21 per cent). The existence of network deserts also damages the utility of the network overall.

Efforts to expand the network through new lines and stations are likely to be particularly beneficial in poorly served areas, but the industry has been very slow in responding to demand for a larger network. Despite widespread desire to see new and reopened lines and stations, and the success of network extension projects that have taken place, the process by which such projects are considered is cumbersome, expensive and overly reliant on local authorities.

Future improvements

Two of the key elements of the rail industry's attempts to improve passenger satisfaction – ease of buying a ticket and access to on-board Wi-Fi – do not feature as major concerns for passengers.

This, together with the concerns we found in our research, suggests two things. First, passengers rightly expect to be sold the correct and best-value ticket for their journey every time they travel. That this does not currently happen consistently across the railway is rightly a focus for change in ticketing policy.

Second, the promise of notions such as 'Mobility as a Service' where multimodal journeys can be planned in real time and undertaken seamlessly is still some way distant in most people's minds. More pressing concerns continue to be around the affordability and basic quality of rail services.

This is not to say that ticketing reform and Wi-Fi provision should be given lower importance by the industry. The adoption and expansion is central to rail's place in the modern transport network and its ability to provide an alternative to the private car. This is reflected in London's experience. As the part of the country with the widest adoption of smart ticketing and most integrated transport services, the capital also has easily the lowest level of concern about buying a ticket (6 per cent of passengers, compared with 18 per cent in the North East). This suggests that if handled in a sensitive manner a move to smart ticketing will be regarded as a benefit by passengers.

3. Nature of the issues with the railway

Britain's railway faces several fundamental issues that must be resolved if it is to maximise what it delivers for the country as a whole. Following our research and analysis, including that undertaken with Teneo, we have divided these issues into five categories: passengers, operations, structures, financial and social.

Passengers

The system does not serve the needs of current and potential passengers.

- Lack of competition on many routes means that traditional market mechanisms for improving service quality and price are not available, resulting in poorer quality.

- Fares can be expensive and their structure overly complex, which is a major contributor to a perceived low value for money.

- Failure to integrate with other local transport modes reduces rail's usefulness to many people, whose access to a rail station is hindered or costlier as a result.

- Compared to other industries, rail has been slow to respond to, and harness the opportunities of, technological developments that can be used to improve services.

Operations

The physical nature of the network and its management present challenges to safe and reliable operations.

- The railways are based on an ageing asset base that is costly to maintain and difficult to replace without major disruption. Attracting investment to such an industry can also be challenging.

- Parts of the network are at capacity at peak times, leading to overcrowding.

- Industrial relations issues give rise to regular problems.

- The railway should be justly proud of its status as the safest in the world, but this can tip over into excessive and inflexible regulation.
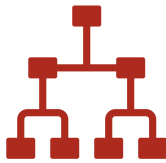
Structures

The industry's structure and culture can make achieving many of the desired outcomes difficult.

- Franchising agreements are inflexible, making it difficult to respond to opportunities or threats.
- The franchise model is also highly prescriptive and risk averse, often stifling innovation and treating all markets as if they were the same.
- Being process-led and not outcome- and passenger-led is at the heart of these issues.

Financial

The industry faces challenges in attracting and securing sufficient finance and funding for rail to reach its potential.

- Rigid fares structures are not always aligned with customer needs and risks adapting them so they would work for passengers will change revenue projections.
- Franchise lengths are too short to justify major investment.
- The current balance between taxpayer and fare payer is not wholly accepted and has a deleterious affect on growing income and higher fares discourage use of the railway.

Social

The rail industry can be poor at intuiting what the country collectively needs from the network.

- Rail does not advocate for its full social, economic and environmental benefits. Consequently, they are not calculated or considered in policy decisions.
- The sector's inward-looking nature means many stakeholders (such as local authorities and house builders) are scarcely engaged with it except on individual schemes.
- Franchises are structured to maximise revenue from the highest-use routes. This leaves smaller population centres excluded and untapped.
- Rail has a poor reputation among non-users. Perceptions that it is unreliable, overcrowded and overpriced have become endemic and are a material barrier to expanding regular users.

Rail must address these problems if the network is to deliver an efficiently run network that contributes effectively to meeting the needs of the nation.

Two of the core drivers behind these issues are:

No coherent strategy aligned to outcomes

The structure of the industry means there is no common plan or voice for the railways. Operators, Network Rail, ORR and DfT all have a role in setting the strategic direction of the sector but are rarely, if ever, united behind shared objectives. This has a detrimental impact on clarity of decision making and meeting the needs of passengers and other customers. The current approach is not outcome driven, and minimal consideration is given to ensuring the railways deliver social, environmental and economic benefits for both passengers and the wider economy.
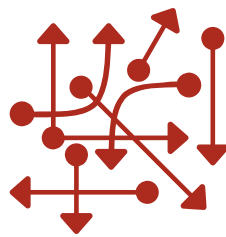
Lack of accountability and effectiveness

The current franchising system is unwieldy, unaccountable, unimaginative and ineffective. Even before the timetable chaos of 2018, rail was struggling to achieve acceptable levels of reliability and punctuality. Fares structures and payment methods are overly complicated, outdated and out of step with modern employment and travel patterns. At busy times, many trains are badly overcrowded and outside of the country's main cities rail remains poorly integrated with other transport modes.

The current franchise model has also struggled to create the right mechanism to support investment. Assets such as stations are undervalued and, in some cases, underused. Public accountability is lacking as the processes of franchise development and monitoring remaining highly centralised and largely inaccessible. Also, as the complexity and financial value of franchises has increased, so the number of businesses able and willing to bid has reduced and the imperative to win has grown. One outcome of this has been bids predicated on overly ambitious revenue projections. This has contributed to the collapse of a franchise agreement and a loss of trust in the railways.

These challenges act as material barriers to improvements and achieving the desired outcomes from the railway, and they also affect how the railway is likely to change in future. For the railway to deliver in future, the sector will need to make difficult trade-offs to tackle these issues. Abstract prioritisation, though, is not desirable: setting meaningful high-level objectives for the railways will be essential in providing a structure for judging trade-offs. To inform decision making, the Government must give equal importance to the achievement of economic, social and environmental ends.

4. What is the railway for?

It has been clear for many years that passengers should be the central concern of the railway and the focus of the industry. There are also, though, broader social outcomes that the railway is here to deliver and support.

There are three categories of outcome – economic, social and environmental[10] – that the rail network should be achieving if it is to maximise the benefit it brings to passengers, businesses and communities.

It is essential that the high-level objectives adopted by the Government must focus on maximising the benefit to society that railways are able to provide. Doing so in a balanced way requires that this be defined in terms of the economic, social and environmental benefits they bring. We recommend the following high-level objectives:

Social:
An inclusive and accessible rail network benefits users and transforms communities

- Rail is available and accessible to as broad a section of the population as possible.
- Rail has a diversified user base.
- Rail is optimally balanced between regions and caters to local requirements.

Economic:
The rail network supports economic growth

- Rail serves travel-to-work requirements for the optimal number of people.
- Rail supports housing development, increasing the catchment of cities.
- Rail provides access to leisure activities for the optimal number of people.
- Rail offers a productive and supportive environment for work and leisure travel.

Environmental:
The rail network contributes to a cleaner, more environmentally sustainable Britain

- Rail ensures that the transport sector reduces its carbon emissions in line with legally binding targets.
- Rail supports better air quality by minimising Britain's exposure to pollutants.

In our analysis, we have identified an aspiration and key outputs for each of these desired outcomes which can be found on pages 15 to 18. Our research into why these outcomes are not being met is summarised on the next page.

Our detailed research examined the outcomes the railway needs to deliver, and the potential for reshaping the network to better achieve those outcomes. Rail's performance against social, economic and environmental objectives is currently weak, and with the current trends likely to weaken further.

Economic

Rail has been very successful in growing its share of the lucrative travel-to-work market, but:

- It is predominately used by higher income groups, with journeys centred on commuter travel in the South East.

- Only 44 per cent of the population is within easy walking distance of a station and relatively few new developments are within 20 minutess of the rail network.

- Opportunities to serve the leisure sector (currently dominated by car travel) are being missed.

- Although rail use is growing, the industry's response to changing working habits has been slow.

- Poor Wi-Fi connectivity and overcrowding reduce rail users' ability to remain productive while travelling – where rail should have an advantage over other modes of transport.

Social

Communities that have good rail access are better places to live than those that do not, but:

- The railway disproportionately serves younger, wealthier commuters with far lower use from other parts of the population.

- Rail fares continue to grow faster than disposable income, pricing people out of the market and contributing to 'transport poverty'.

- The rail network has been slow to adjust to demographic shifts and changing trip patterns.

- There are major variations in accessibility, service quality, usage and social benefit between regions and operators.

- While growth in passenger numbers has been strong, it has also been very uneven due to a one-size fares policy and investments focused on the South East.

Environmental

Rail is a green form of transport, but its environmental advantages may be disappearing:

- Rail releases materially less carbon emissions per passenger kilometre than cars, taxis and aviation and increased penetration of rail travel has supported a reduction in carbon emissions, but the cancellation of electrification schemes has caused environmental advances to stagnate.

- The adoption of electric vehicles means rail's relative greenness is being eroded.

- Rail's performance on air pollutants is weaker than its progress on reducing carbon emissions and, when compared to road technology, reducing pollutants has been slow.

Economic:
The rail network supports economic growth

Rail serves travel-to-work requirements for the optimal number of people

Aspiration:
Rail has the appropriate share of the travel-to-work market across all major employment centres to allow people to access available jobs, and commuting by rail is affordable, reliable and offers acceptable journey times.

Key outputs:
- Rail links commuters with their place of business to facilitate economic output.

Rail supports housing development, increasing the catchment of cities

Aspiration:
All major housing developments have good access to the rail network, providing regular and reliable services to the relevant local employment centres.

Key outputs:
- Rail supports land-use planning by increasing the catchment of cities, supporting new housing developments and expanding the travel-to-work areas.

There are
971 million
business and commuting journeys by rail each year

Rail provides access to leisure activities for the optimal number of people

Aspiration:
Rail services provide a safe, convenient and affordable means of transport to and from town and city centres, with service levels appropriately aligned to demand and when people wish to travel, to help support economic vibrancy across the country.

Key outputs:
- Rail provides accessible and affordable links to the leisure services of towns and city centres.
- The network reflects the needs of a 24/7 economy with a greater leisure and service focus.

Rail offers a productive and supportive environment for work and leisure travel

Aspiration:
The rail industry minimises the economic cost of time spent travelling and allows all passengers to be as productive as possible on the move.

Key outputs:
- The rail network minimises the 'dead cost' of travel.

Social:
An inclusive and accessible rail network benefits users and transforms communities

Rail is available and accessible to as broad a section of the population as possible

Aspiration:
Rail has a consistent share of trips made by each income quintile, once normalisation adjustments have been made for the different types of trip people currently make.

Key outputs:
- Rail is an affordable mode of transportation for as many people across Great Britain as possible.

Rail has a diversified user base

Aspiration:
Rail is a relevant mode of travel for all types of journey that people make and has a share of journeys across customers of all age groups that is representative of the communities it is serving.

Key outputs:
- The rail network offers a service that is used by a broad cross-section of the population and works across all different types of journey.
- The railway is integrated with other transport modes to offer users an efficient door-to-door service.

Rail is optimally balanced between regions and caters to local requirements

Aspiration:
Rail provides a comparable service quality across each region with the social and economic return on investment broadly equitable – where the returns are different because the network is of a different size or extent, the degree of funding reflects this.

Key outputs:
- The rail network meets the different social needs of different parts of Great Britain.
- Rail provides a strong return on investment across all regions.

44% of the population lives within a 20-minute walk of the nearest railway stations

Environmental:
The rail network contributes to a cleaner, more environmentally sustainable Britain

Rail ensures that the transport sector reduces its carbon emissions in line with legally binding targets

Aspiration:
The total carbon footprint of transport in the UK is minimised, and the rail industry play a leading role in achieving environmental efficiency.

Key outputs:
- Rail is an environmentally efficient way to serve passenger journey demand both now and in the future.
- Rail minimises carbon emissions of the freight industry, both directly and by alleviating congestion.

Rail supports better air quality by minimising Britain's exposure to pollutants

Aspiration:
The rail network drives the change towards a cleaner Britain, improving air quality in cities and reducing air pollution including nitrogen oxides, particulate matter and carbon monoxide emissions.
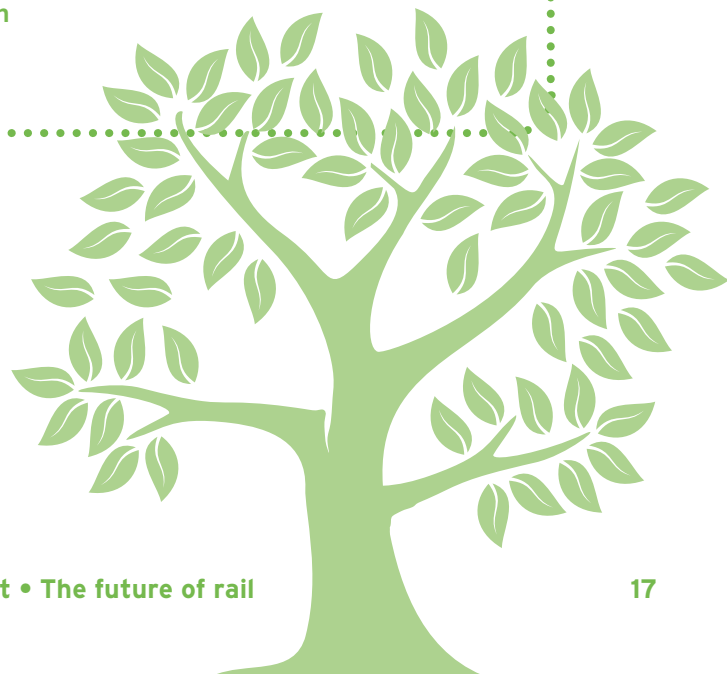
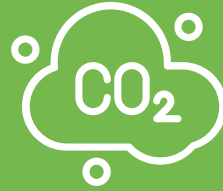**Key outputs:**
- Rail limits the amount of air pollutants released.

5x more carbon
is generated by flying between London and Edinburgh than traveling by train

Case study: Contributing to carbon reduction

The Committee on Climate Change (CCC) has recently set out how the UK can achieve net zero carbon emissions by 2050.[11]

In achieving this vital objective, transport is one of the most challenging sectors. The latest figures show that since 2010 overall UK domestic greenhouse gas emissions have fallen by 23 per cent. Emissions from transport, however, have increased by one per cent and the sector is now established as the UK's largest generator of greenhouse gases.[12]

An immediate and on-going test of the effectiveness of any new arrangements for the railway will be to tackle the task of decarbonisation. Rail's role in addressing this problem is twofold. Firstly, it must decarbonise existing operations. Progress is being made in this area, with measures emerging that could allow rail to meet the Government's challenge to decarbonise the passenger rail by 2040.[13]

Secondly, rail must increase its share of journeys. While the decarbonisation of road transport is seen by the CCC as being of primary importance in meeting carbon targets, rail's contribution in cutting emissions could also be significant. Coupled with low carbon traction, increasing rail's percentage of journeys in key markets would support reduced carbon emissions. Ways to do this include:

- replacing journeys made by domestic aviation – as outcomes from investment in the West Coast Mainline show,[14] modal shift from air to rail is not just a side effect of increasing rail's journey numbers, but a mainstream contributor to lower emissions in its own right

- increasing the sector's share of medium to long commutes with inter-urban connectivity

By 2040, the UK's passenger rail network should be

zero emission
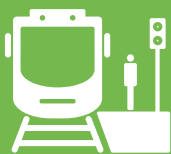
5. Reshaping the system

Following our analysis we looked at broad issues related to competition, regulation, management, structure and financing, and what is required so the railway is able to deliver against the outcomes laid out in this report.

Underpinning our recommendations are six key principles:

- competition at the right place in the system

- devolution of responsibility to regional and local government

- local development and provision of services

- integration with other forms of transport

- passenger centred

- affordable to use.

This has led us to a package of key reforms for the industry, outlined here.

Role of competition and future contractual approaches

- The current approach to franchising on the railway is ineffective in making best use of the network or promoting innovation that benefits passengers. Meanwhile, public discussion of competition's role has been polarised and simplistic.

- A stated objective of Government rail policy is to increase taxpayer benefit from the industry's public investment. Despite the 2013 Brown Review, too often this is interpreted within the scoring of franchise competitions as maximising revenue returns while leaving only marginal advantage to bidders for 'quality' elements such as adaptation to local circumstances and alignment with and contribution to wider public policy objectives.

- In place of the overly complex input-based approach currently employed, a much more flexible outcome-based specification should be adopted. A detailed review of franchise numbers and boundaries is also long overdue.

- The outcome of the Williams Review should set the terms for an assessment of franchises, taking into account the need to reduce risks associated with a small number of very large franchises and to tailor agreements to particular local circumstances or objectives.

There are five models that should be considered to satisfy the different needs of passengers and communities across the network:

- **A competitive intercity model –** based on creating smaller units to compete for customers on intercity routes by applying for packages of slots and operating rights. This would combine best practice from airline and utility models with the specific operating requirements of the railway. It would capture the benefits of competition identified by the Competition and Markets Authority in a way which would not compromise capacity or customer service on the rail network.

- **An urban transport model –** developed for cities outside London, designed to ensure the private sector operator is incentivised to promote integrated transport, modal shift and economic growth as well as retaining a traditional commercial focus on costs and revenue. This could provide a new model for integrated transport in the North East, for example.

- **A regional transport concession –** a model offering vertical integration across rail and horizontal integration for managing (and potentially delivering) different modes of travel, scoped to deliver the best possible service within a pre-defined budget envelope.

- **A project management operation –** specifically designed to steward agreements through periods of significant change. Such a model would place the emphasis of programme management in the hands of specialist operators, who would then procure train services as part of an integrated package to deliver change in a timely and cost-effective way.

- **A design-build-operate (DBO) contract –** capturing the benefits that integrated DBO contracts have seen in other markets to expedite the development of new infrastructure from delivery to initial operation. This model could be applied to major schemes such as East West Railway or to reopening local branch lines as feeders to the main network.

Further information on these models can be found in our 2017 report *Ensuring a Sustainable Rail Industry.*[15]

bettertransport.org.uk

Devolution and localism

A structure is needed that delivers the benefits of a nationally integrated network with more influence and control from local areas, allowing rail to mesh with and respond to local objectives and needs.

Research carried out by Campaign for Better Transport[16] showed that creating London Overground and Merseyrail as locally managed concessions significantly improved performance, including punctuality, reliability and passenger satisfaction. It also showed that investing in improved stations and having trains with generally good staff relations resulted in better revenue protection, station management and accessibility – leading to greatly increased passenger journey numbers.

Local contract management has enabled services to exceed the standards of comparable city or inner suburban services through shared objectives between the authority and operator. This structure facilitates greater responsiveness to problems than with nationally managed contracts. The research also indicates that local authorities may be more able than central government to bring investment to local rail networks, especially to stations.

The direction should be set toward greater devolution to city regions in managing their local rail services. City authorities and sub-regional transport bodies are better placed to oversee services that integrate with wider local transport.

The costs of bidding for a franchise is estimated to be between

£5 and £10 million

Structuring the railway to deliver

The way the rail sector is structured is not suited to getting the best out of such an important asset. Existing structures do not lend themselves to maximising the outcomes society requires of the railways. Part of the reason for this is fragmentation, with elements of oversight and direction split across a government department, a regulator, an industry membership body, a not-for-profit company and several commercial operators. Currently, DfT specifies service-level requirements in detail and requests bids from potential operators. This is no longer fit for purpose and an alternative model is required.

The new model needs to ensure that it has ensured the following roles are accounted for: national policy and strategic direction; regulatory oversight; access to the market; infrastructure management; network operation; cross-industry services; train operation; station operation / front-of-house retail and leasing; and ticket retail.

We propose a new structure for the industry. The effectiveness of the new system design should be measured in terms of its response to the most pressing issues affecting rail.

We have identified three categories of priorities that should be the focus of the policy objectives the Government sets for the new system.

1. Network contribution

Economic

- Meeting city catchment and travel-to-work needs
- Integrating into plans for housing and other development

Social

- Increasing accessibility of the rail network
- Diversifying the user base

Environmental

- Setting objectives for carbon reductions
- Tackling air pollution

2. Rail use and management

- Performance
- Value for money
- Enables the journeys people want to make
- Accessible and simple to use
- Meets the needs of rail freight
- Safety and security

3. Affordability

- Affordability to users – balancing taxpayers and farepayers in a way that recognises some ticket prices are unaffordable to some and that wider benefits of investing in rail are not being recognised
- Productivity and efficiency
- Commercial sustainability
- Capture of opportunities – for example, considering network beneficiaries to ensure that land value uplift from proximity to rail is captured and recycled

Role of each part of the system

National government

When replacing the existing structure, national government should be clear that investing in rail is not simply a subsidy for delivering public transport. Instead, its role should be twofold.

- **Setting policy objectives:**
  This should set out the economic, social and environmental role of the railway and the appropriate balance between taxpayer and fare payer to fund the railway.

- **Long-term investment:**
  Through the Control Period model, national government should continue to set the funding envelope for the railways. There should, however, be a move away from direct government influence over service levels with operators given the opportunity to take a more creative approach to fares while significantly improving cost control.
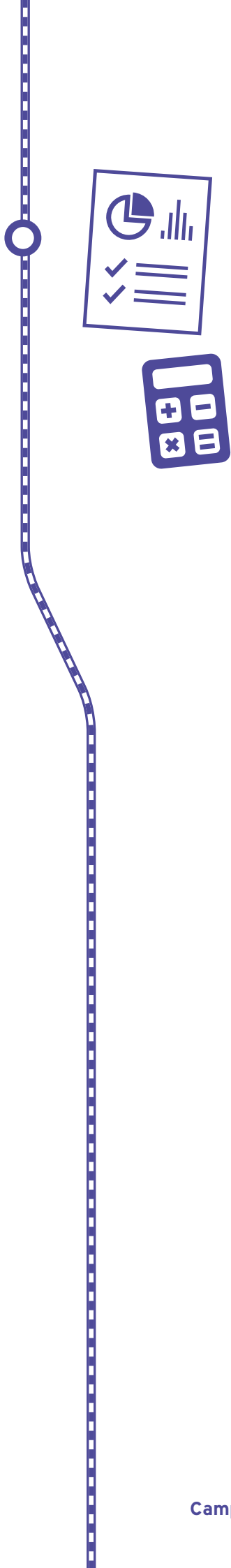
Arm's-length public body

Currently, DfT specifies service-level requirements in detail and then requests bids from potential operators. We recommend an alternative model be developed.

A publicly funded national body working at arm's length from central government should be established to manage all aspects of rail planning, drawing in some of the responsibilities currently held by the DfT, ORR, RDG and RSSB.

We anticipate that the relationship between the new arm's-length body and the Government will be similar to that between the Department for the Environment, Food and Rural Affairs and the Environment Agency. In the case of the Environment Agency, the Secretary of State is responsible for overall policy, the agency's objectives and approval of its budget. Meanwhile, the agency retains control of regulation and charging regimes, while the interests of consumers falls within the remit of a separate regulator, OFWAT.

We recommend the new arm's-length body should be tasked with delivering system planning through:

- contributing actively to the delivery of specified policy objectives: these should be set by DfT but should span social, economic and environmental ends, for example, the decarbonisation of transport in line with national government policy, including through modal shift
- managing use of the network through a variety of models including concessions and operating rights
- overseeing delivery against national policy and network integrity with the city regions and sub-national bodies
- setting conditions to ensure improved integration of the rail network with other national transport networks.

In planning the development of the network, the arm's-length body should work with local and regional partners to address shortcomings in existing understanding, including:

- seeking and responding to views of non-rail users
- identifying opportunities to encourage modal shift
- integrating opportunities for major network enhancements such as targeted reopenings
- improving integration with other modes (physical and virtual).

The new arm's-length body will require the skills and influence to actively engage in the range of subjects relating to the operation of the network.
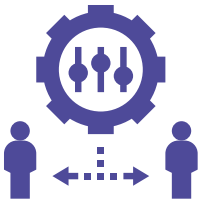
Devolved Bodies

Devolved bodies should be responsible for setting local priorities, letting and overseeing concessions, letting other commercial contracts and integration with wider local transport.

An arm's-length body will lead national planning of an integrated national network, with local services the responsibility of local and regional structures including city authorities and sub-regional transport bodies. Management of regional routes should be devolved wherever appropriate and responsible public bodies exist. Devolved authorities given this responsibility need to be given the required funds to spend on rail and be willing to work with a range of new stakeholders despite the increased complexity. Management and specification of regional networks and day-to-day management should rest with devolved bodies in line with their own needs.

Regulator

The new regulator should be responsible for economic regulation including consumer protection and competition.

The Civil Aviation Authority, responsible for regulating consumer protection, industry standards and safety, commercial licensing and providing data and statistics, is a model for the regulator role.

As part of its regulatory role, the new regulator should set licence conditions including the right to operate on the railway and other minimum standards to be applied across the railway.

Licence conditions need to be more responsive to the interests of existing and potential passengers. Common themes that need to be addressed in the conditions should include:

- ensuring affordability of services
- removing complexity and inflexibility from fares and ticketing.

Such themes are well established and are reflected in many current franchise prospectuses. Current licence conditions draw heavily on Transport Focus research, which is often not designed for the purpose. For example, the National Rail Passenger Survey offers only a partial picture of consumer needs by including a snapshot view from existing passengers. The regulator should take responsibility for new research to underpin licence conditions and regulation of the system.

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Train operators

Operators should be contracted to provide train services on the network on behalf of the national arm's-length body, regional bodies or local bodies. They may also manage stations as part of these contracts. Train operators may retail rail tickets, but this should not be a requirement. It would be better left to regional transport bodies or third-party retailers in a more competitive ticket retail market.

Commercial services

Commercial providers have a role either as third-party providers or contracted by another body to provide front of house station management, ticket retailing, or information provision. Third-party providers should be given free access to the market to provide information and retail tickets directly to passengers. They could also be contracted to provide services on behalf of regional bodies or other parts of the system. Industry bodies and train operating companies should not have a role in controlling access to the third-party market.

Network manager

In managing investment decisions, there are a wide range of trade-offs that need to be made. For example, delivering peak capacity to enable travel-to-work while also supporting intercity markets. To maintain network resilience, Network Rail should continue to oversee most infrastructure management and upgrades. Local stakeholders, though, have the best knowledge of rail's regional requirements and should play a larger role in defining the regional network. In these specific local circumstances, devolving aspects of network management to regional organisations could inject flexibility while better balancing regional and national needs.

Future funding and financing

The railways should continue to be funded primarily from farebox income and public investment. Nevertheless, additional tools for understanding and capturing the benefits that rail brings should be established.

In theory the current model encourages strong public oversight and prioritises passenger interests. Developing and enhancing the network, however, can be hindered when current models place too little value on the full economic, social and environmental benefits that rail can (or could) deliver. The new arm's-length body should be proactive in redressing this. Building on the methodological work being undertaken by the RSSB, and in line with HM Treasury reporting methods, the body should develop models that capture the full financial benefit of rail. Such work should become a formal part of the new arm's-length body's reporting role, helping make the case for future public investment.

There are also other opportunities where rail can reasonably seek additional revenues from its activities. The new arm's-length body should be charged with ensuring such benefits from rail investment are captured for the public purse. Using methods such as land value capture (direct and indirect), the body should work with Network Rail and other bodies, such as combined and city authorities and sub-national transport bodies, to raise revenue from development that benefits from proximity to rail services. This can best be achieved through devolved regional models, through which planning and investment in rail can be integrated with wider decision making and investment, for example, land-use planning. One way would be to recycle the revenue raised through tools such as the Community Infrastructure Levy, with income being invested in sustainable transport including (but not limited to) the rail network.

Operators of stations should put greater onus on station front-of-house retail that benefits the local community and provides a revenue stream from leasing retail units.

6. Fares and ticketing

Currently, too many people feel they get poor value for money from their rail ticket. Numerous factors have combined to kindle this widely shared notion.

- National government fares policy aims to raise the price of the most popular fares above inflation set by the Consumer Price Index.
- Anomalies such as split ticketing where only those who know how to work the ticketing system can guarantee the cheapest price.
- Ticketing machines that do not automatically present travellers with the best-value fare.
- Non-standardised compensation arrangements which add complexity to getting compensation when something goes wrong with a journey.
- A failure to introduce long-promised reforms across the network such as part-time season tickets, single-leg ticketing, and a 'pay the difference' option for time-restricted tickets.

These factors and others combine to make a complete overhaul of the fares system urgent and long overdue. An overhaul should not be guided by the needs of industry bodies, but by ensuring the best interests of the travelling public are met, including those who do not currently find rail services relevant.

Research has consistently shown public dissatisfaction with current fares levels to be the biggest area of concern among rail users. Our research has shown that 67 per cent of people ranked ticket prices as their biggest concern about the railways. Among younger people (18 to 34-year-olds), three-quarters felt this way.[17]

Similarly, of the 25 operators covered by Transport Focus's most recent National Rail Passenger Survey[18] (published January 2019), overall journey satisfaction was 79 per cent but only four operators attracted over 60 per cent satisfaction for fares. Of these four, two are long-distance operators (London North Eastern Railway and Virgin), one is a locally managed concession able to set its own fares policy (Merseyrail) and one is an open-access operator (Grand Central).

Across London and the South East, only

44%

of rail users are satisfied with the value for money of their ticket

Across London and South East, where most rail commuter journeys are made, satisfaction was even lower at only 44 per cent. As well as being unpopular, the policy of raising regulated ticket prices above inflation has created genuine financial hardship and, by making peak time rail travel unaffordable to some, has become a barrier to accessing employment and making other essential journeys.

Fares anomalies such as split ticketing mean those buying the same ticket for the same journey at the same time can end up paying different prices. Ticketing remains unnecessarily complex. Inflexibility in season tickets has left those who do not need to travel every day being faced with buying either a full-time ticket they will not use fully and cannot transfer, or expensive individual 'anytime' tickets that give no discount for frequent or regular travel.

There is a lack of consistency between operators in when peak and off-peak tickets are valid. This makes the system unnecessarily difficult to navigate and confusing for some non-regular users. In many parts of the country, rail and other public transport fails to offer or effectively promote integrated ticketing. In concert with unaligned timetabling, this adds to journey times and makes rail uncompetitive with other modes and more difficult to use.

The problems persist despite widespread and long-held dissatisfaction among passengers. Reform is a prerequisite to making best use of the railways, justifying the public investment it receives and re-establishing public support for rail.

To achieve this aim of making best use of the railways, the following measures should be adopted by the Government.

67%
**of people ranked ticket prices
as their biggest concern
about the railways**

Better value

- The regulation of peak fares by Government is an important tool in making sure that travelling to work by rail is affordable to all. As currently applied, however, the policy has the opposite effect and makes rail unaffordable. Alongside other measures aimed at reducing overcrowding, Government should permanently end its policy of above-inflation fares increases and cap future increases at inflation measured by the Consumer Price Index as a first action. There should be a reassessment of all fares to recalibrate how they are set in future and to what level.

Fairer

- Single-leg ticketing, in which outward and return journeys costs the same, should be introduced across the network. As well as removing the anomaly this move would allow more passengers to benefit from lower price off-peak travel and discourage unnecessary peak period travel.

- Widespread rollout of account-based ticketing, combined with single-leg ticketing, would allow capped season ticket fares to be introduced for the growing number of people who use rail to get to work but do not travel every day. Discounted carnets of paper tickets should be available across the network while smart ticket infrastructure is introduced.

- It should be a requirement to make clear how many advance tickets are available for each journey. Where they remain available, these tickets should be available up to a few minutes before the train's departure.

- Passengers should be able to pay the difference between what they have paid already for an Advance ticket and the appropriate new ticket if they miss their train or need to change their plans.

Simpler

- Common definitions of peak and off-peak should be adopted across the network.

- All new and existing ticketing retailers and train information providers should be able to access all data without restriction. There should be open data across the railway and no anti-competitive restriction on third-party retailers.

- All ticketing data should be relevant and up to date. All new rail agreements should permit station ticket offices and machines to sell all ticket types and require that information on cheapest tickets for all journeys at any time is easily available.

- Options including multimodal fares and zonal ticketing should be made available beyond cities as part of a move towards devolved and better integrated transport planning. Passenger transport executives in the main cities outside London should consider introducing new fares structures with tickets valid across operators.

7. Summary of recommendations

Britain's railways need to change to ensure a clear national policy and the means to implement it. The current structures and franchising system are unwieldy, unaccountable, unimaginative and ineffective, providing weak alignment with society's needs.

Overhauling national rail policy

In rethinking how the railways are run and what they exist to do, national government should be clear what it is trying to achieve. Public investment in rail is not simply a subsidy for the delivery of public transport. Rather, the Government should see its role as twofold.

- **Setting high-level policy objectives:** This should set out the role of the railway and the appropriate balance between taxpayer and fare payer to fund the railway and ensure devolution and localisation do not fracture the overall network in either journeys or ticketing.

- **Providing long-term investment:** Through the Control Period model, national government should continue to set the funding envelope and high-level objectives for the railways. There should, however, be a move away from direct government influence over service levels with operators given the opportunity to take a more creative approach to fares while significantly improving cost control.

Further devolution

Management of regional routes should be devolved to city authorities and similar bodies to ensure their operation meshes both with local policy objectives and other public transport including in ticketing.

Major fares reform

Fares should be overhauled to allow speedier implementation of part-time season tickets, pay as you go travel, single-leg ticketing, a single national railcard, multimodal fares, zonal ticketing and other initiatives. Peak-time fares should continue to be regulated by government but with a reformed formula that keeps price rises to a minimum and replaces the Retail Price Index with the Consumer Price Index as the basis of calculations.

New sources of funding

While the railways should continue to be paid for primarily from farebox income and public investment, other opportunities exist such as land value capture and the Community Infrastructure Levy to raise revenue from development. To support this, the new arm's-length body should develop models that capture the full financial benefit of rail.

Establishment of a new industry structure

Rail structures should be reformed significantly. Key to this will be a new publicly funded arm's-length body established to manage all aspects of rail planning, drawing in responsibilities currently held by DfT, ORR, RDG and RSSB. The body should be charged with delivering national policy, managing the overall use of the network including overseeing local rail operations, the day-to-day management of which is undertaken by city regions.

A new regulator should have responsibility for economic regulation including safety, track access charges, consumer protection and competition. Some existing bodies should cease to exist in their current form.

Replacement of franchising

Franchising should no longer be the basis of rail services on the UK's railway network. Instead, new models should be brought forward allowing competitive intercity services based on slow auctioning, concessions for commuter areas, integrated urban transport contracts that incentivise modal shift, and specialist agreements for areas seeing significant change and investment.

A key responsibility for the new arm's-length body will be to oversee the specification of contracts using a flexible approach suited to local circumstances and with broadly drawn objectives across social, economic and environmental ends.

These changes are necessary if Britain is to get the best out of its railway in ways that meet the needs of passengers and maximise the benefit to communities, the environment and the economy.

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**Campaign for Better Transport's vision
is for all communities to have access
to high quality, sustainable transport
that meets their needs, improves quality
of life and protects the environment.**