



Built Environment Committee

Corrected oral evidence: Williams-Shapps Plan for Rail: fare reform

Wednesday 15 September 2021

3 pm

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Members present: Baroness Neville-Rolfe (The Chair); Lord Berkeley; Lord Best; Lord Carrington of Fulham; Baroness Cohen of Pimlico; Lord Grocott; Lord Haselhurst; Lord Moylan; Lord Stunell; Baroness Thornhill.

Evidence Session No. 3

Heard in Public

Questions 19 - 47

Witnesses

[I](#): Chris Heaton-Harris MP, Minister of State, Department for Transport.

[II](#): Keith Williams, Chair, Williams Rail Review.

Examination of witness

Chris Heaton-Harris MP.

Q19 **The Chair:** Welcome to the House of Lords Built Environment Committee's public evidence session on our short inquiry into rail fare reform. This inquiry will focus on the Government's proposals for fare reforms and how the new system will benefit consumers. We will also explore topics such as flexible tickets, smart ticketing and the impact of Covid. We are extremely grateful to you, Minister, for attending this morning. We will follow up the session with a letter to the Government setting out our recommendations later in the autumn.

Our session is being broadcast on parliamentlive.tv. A full transcript is also being taken and will be made available to you to make any corrections after the session. Perhaps everybody could keep their questions and their responses brief as we have a lot to cover this afternoon and we have a second session from 4 pm with Keith Williams, chair of the Williams Rail Review. Thank you.

Minister, what reforms are you planning to introduce to simplify rail fares and ticketing? Particularly important, perhaps, how will these reforms encourage passengers back on to the railways after Covid?

Chris Heaton-Harris MP: That is the broadest possible opening question you could have asked. Thank you very much indeed for the invitation to the committee and for showing interest in this area.

It is genuinely important to the Government and to the British economy that we do get people back on our railways. I am sure members of this committee would have seen last week that the Rail Delivery Group issued some statistics showing that, for commuting purposes in the morning, we are only back to about one-third of revenue—I think it was at that time. Leisure numbers have come back very strongly, but obviously the revenue that the railway generates has always been in the peak. That is interesting.

I inherited, and this Government inherited, a very interesting—let us put it that way—mix of ticketing and unbelievable, interesting fares up and down the system, and we do want to simplify them. One of the key findings of *The Williams-Shapps Plan for Rail* and one of the first things we want to set about is to simplify fares and ticketing so people do understand and do feel that they are getting the right fare for their journey. I would like to think that was the case normally, but I think everyone on this committee would have tried, on different occasions in different ways, to find the appropriate fare and maybe taken a little time to get to it. We want to take that confusion away.

Covid has brought other things to the table that probably would not have happened as quickly because people have strayed away from wanting anything paper and passing paper around between individuals. While we still obviously do paper ticketing because we have quite old-fashioned machines that will take some time to replace up and down the network,

lots of people want to go to smart digital ticketing as quickly as they possibly can, and we want to be able to do that, too.

The very simple answer to your question is that the top two of our top 10 reforms in *The Williams-Shapps Plan for Rail* are that we want to give passengers a modern passenger experience, and we also want a retail revolution. That is to bring fares and ticketing into the 21st century, prepare it for the future and prepare it for this post-pandemic world where people can travel fairly and easily with the right fare.

How we do it is a bit more complicated. As I mentioned, we have quite expensive but, in some places, out-of-date machinery across our network. We obviously want to go to pay-as-you-go. My party's manifesto at the last election talked about increasing the number of stations where pay-as-you-go is an option by 200 in the south-east. To be quite honest, I would love to go further than that within this Parliament, but it does take quite a lot of money to replace these systems. While I am ambitious, I am realistic as to what we can do and the timetable we can achieve it in, but we are very ambitious in this area and I think the passenger market now will dictate that we need to go faster.

Q20 The Chair: Minister, with your ambitious spectacles on, what is the timeline for implementing at least some of these reforms?

Chris Heaton-Harris MP: When we launched *The Williams-Shapps Plan for Rail*, we launched flexible season tickets at the same time because that was something we were able to do. Great British Railways is not a thing at this point in time. It will take some time to establish. We hope to have it up and running by the end of this Parliament at the latest. It needs to form itself and establish properly and it will be the main driver of this. In the meantime, I am hoping that in the rail recovery piece from the pandemic we will be able to introduce lots of interesting fare and ticketing initiatives to test the market. No one knows how many people will start travelling again by train and how they will do it. It is difficult to determine what the market looks like at this point in time.

The Chair: But you can help to adjust the way consumers view things in this new world. That is encouraging to hear.

Chris Heaton-Harris MP: Yes, absolutely.

Q21 Lord Grocott: Ticketing is obviously hugely important as far as the customer is concerned, but it is important as far as the industry is concerned because it wants its income. I just wondered what the Government's position is on this macro side of things. What has been the balance, pre-pandemic, between the taxpayer and the farepayer? What have been the figures as far as the Government's contribution to revenues has been concerned? Secondly, how do you see that being affected by changes in ticketing? In any event, do you have any view in your own mind—or do the Government—about what the balance should be?

Chris Heaton-Harris MP: The taxpayer has subsidised the railway over the course of the pandemic to nearly £12 billion at this point in time. I will write to you with the exact figures because I do not want to pick them out of the air, but let us say that before that it was half/half. In some train operating companies' areas, for example, up in the northern train operating company area, 70% of journeys, I believe, were subsidised in pre-pandemic times. Currently, I think you are looking at every single one.

As to where the Government would like to get to, we are investing massively still in railways. We see it as a tool for levelling up, a tool for decarbonisation and for achieving many of our manifesto goals, so we want to encourage people back to the railways. We know that we have to have an appropriate fare level that will bring people back and then keep them. I keep saying to the industry—and it is fairly logical when you think about it—that this is an industry where people have always walked up, previously. It has never had to fight for its market against pretty much anything else. This is the first time where it has to win a market back. It has to improve on all sorts of factors: reliability, cleanliness, this fares and ticketing piece, and becoming part of the community where the stations are.

I know you are interviewing Mr Williams after me, but in Mr Williams' review and in researching for it, when I have spoken to Mr Williams, people do love railways. There is enticement to come back, but it needs a proper product that allows people to. We have never had to compete as an industry against the TV screen, Zoom and Teams before. While there might have been outliers thinking, "There are autonomous vehicles coming down the line—we might have to compete against those in a local market", what has happened in the course of the last 18 months has been pretty seismic and we do have to make a much better offer to win our markets back.

Lord Grocott: It was pretty tough when the buses came along, was it not?

Chris Heaton-Harris MP: That was a while back, though.

Lord Grocott: It was a while back, yes. Thank you.

Q22 **The Chair:** Are you getting consumer skills into the industry? Clearly, the sorts of things you are talking about, reliability and so on—I would add comfort—are very important to winning customers, as the airlines do.

Chris Heaton-Harris MP: Yes is the very simple answer to that. The industry is not the world's most diverse industry, or was not before the pandemic, but that is improving. I love the people who are immersed in the history of the railways and can tell you the statistics of what every level crossing is called by number and name and whose farm it crosses—they are truly wonderful—but a modern industry needs outside influence as well.

One of the outcomes from the pandemic is that other sectors have had their own issues and rail has truly benefited from a number of people coming across from the aviation industry, an industry that has been in the past much more passenger-orientated. I met recently with the new station manager for Victoria and the new station manager for Liverpool Street, who both came from aviation, and you can see and feel that customer service is imprinted in their DNA. They want to serve. That spreads very quickly.

I truly am yet to meet a member of staff on the railways who does not understand that the railways need passengers to return and wants to help in that. I would like to think members of the committee, when they have travelled, have maybe noticed an improvement in customer service already, but it is something that we really are trying to improve upon, including for those with accessibility issues. We have a new "Passenger Assistance" app and the "purple pound", as it is called, is very important to us, too.

The Chair: Thank you. I will bring in Lord Haselhurst, who is a well-known commuter, and then Lady Thornhill.

Q23 **Lord Haselhurst:** I had the temerity to suggest in a previous meeting of the committee that perhaps, in order to encourage people back to the railway, the question of "rail miles" might be considered, akin to air miles. That actually made it to page 11 of a national newspaper and was greeted quite warmly by one of our expert witnesses on that day. How would you think about that?

Chris Heaton-Harris MP: Yes, we have to move with the times. I am going to Leeds to play cricket tomorrow, all being well, for the Lords and Commons cricket team, and when I purchased my ticket directly through LNER I believe I got 1.5% or 2% back into my LNER online account. I think your idea has been taken up.

Lord Haselhurst: Thank you for that. It just seemed to me that it would popularise the railway, plus the fact that in some parts of the country new trains are coming in, which may also give assurance to people.

Chris Heaton-Harris MP: LNER is an operator of last resort. It is arm's length to the Government. We are able to pilot different things in a quicker fashion on operators of last resort.

Q24 **Baroness Thornhill:** You have already touched very much on the question that I was going to ask, Minister, so I will perhaps pin you down a bit more. It is about the delivery of the new methods of payment. We know we have pay-to-go, smart ticketing and paper. What do you see as the balance between those three? Are they always going to be present? Are some more geared to certain journeys? You have mentioned money as being the primary reason for them not to happen. How do each of them pan out in terms of money? Are there any other barriers to the implementation of them and will we always have all three? I just want to understand those things working side by side and possible barriers to that.

Chris Heaton-Harris MP: There is a lot of work going on in market research in this area at this point in time because the mix of people wanting to pay cash for a ticket, people wanting to use a machine, people wanting to book online before they go, and people wanting to use a third party to book online before they go and have a ticket on their phone has changed dramatically in the course of the last 18 months. Cash sales on the railway in lockdown diminished to almost nothing. However, there will always be a group of people who will want to use cash and we will ensure that there is always a way that they can.

The direction of travel definitely seems to be smart and digital. People want to do things on their phone and they do not want to carry extra pieces of paper around with them. That means you need the technology to read barcodes and QR codes up and down the country.

I was very privileged to travel to Dubai just before the first lockdown to go to a rail expo, and a British SME was offering a product—there will be all sorts of debate about this product in the United Kingdom—which is essentially a facial recognition product. When you just walk up and down the platform it recognises your face, charges your account, takes your temperature and a whole host of other things at the same time. You can almost go as far as you want to go in smart and digital, but I think the basic premise is that we would very much like to have an industry where you can use smart and digital everywhere on the network.

Baroness Thornhill: Do you mind me asking what happened to the cutting of the funding for the contactless technology for the north in January?

Chris Heaton-Harris MP: That was not cutting of the funding for the north in January; that was, I believe, a small sum of funding cut for Transport for the North's administrative budget. I will happily write back to the committee on this, but I do believe they also had a decent chunk of money that they were able to roll over, money they had not spent. It was not in the product area, as it were.

Q25 **Lord Carrington of Fulham:** As we understand it, the intention is to have one website with Great British Rail where you will buy your tickets. In other words, you are doing away with the plethora of local operators having their own websites and buying directly. You mentioned that you have a frequent flyer or a frequent roller service on one of the lines. That, presumably, would all be in one website done by Great British Rail. There are also the websites of the third-party retailers who do an innovative and quite competitive service to keep the operators, at the moment, up to the mark. How do you see that working in the future? Do you see it all just being one great amorphous website run by Great British Rail, or do you see there being competition somewhere in terms of pricing and selling tickets?

Chris Heaton-Harris MP: It is a question that has been asked quite a bit, and certainly there will be a Great British Railways website where you can purchase your tickets. All of you realise that I am a Conservative so I

would like to encourage these third-party private operators to do as much as they possibly can.

Up until the pandemic, data was very much protected by the individual train operating companies and their owning groups. Bumps in the market started to appear and centrally we were not able to access that data. We had no right to. In the gradual moves from the emergency measures agreements—the ERMAs—to the new national rail contracts, we have been able to find access to that data and we intend to allow that to be open as much as we can. We expect there to be a plethora of new people coming in in this tech area to offer all sorts of different products and to join things up. GBR will be arm's length from government, but it will probably have all the problems that a big, government-led body, arm's length or otherwise, tends to have. It might just be a bit slow on the uptake. We expect there to be, as I say, a plethora of existing and new providers in this area, using that data in different ways.

You would have been able to see elements of this because during the time of the pandemic—this is not on fares and ticketing but on something related—people have become much more conscious about social distancing on public transport. We wanted to see if there was something that already existed out there, a company or whatever, that could offer some indication as to how busy a service would be. There is a company—I believe it is called Zipabout—which sits behind the National Rail online services and it provides that element of data so that people can have an idea as to how busy their train will be and, in the future, how busy individual carriages could be and so on.

Lord Carrington of Fulham: Will that be reflected in the price? What happens at the moment is that, if an operator sees that there is an opportunity to try to stop people using a very crowded railway and to move their journey to a later time, for instance, during the day, they can do that through pricing. Will they be able to do that under the Great British Rail unified system?

Chris Heaton-Harris MP: Yes, I would like to think so, but we are at very early stages. In thought terms, yes.

Q26 **The Chair:** Can I ask a question about robustness? Having tried to buy a forward ticket to Manchester recently, I could not get through on any of these various sites, including the core one. I eventually had to go to the Parliament ticket office. Is that just a one-off, or is there is a robustness issue in some of this electronic ticketing that is of concern and that is being tackled or might need to be tackled?

Chris Heaton-Harris MP: The current provision is very robust. I am afraid I must apologise to you that we were not able to sell you a ticket at the appropriate time. I hope you did not get delayed and have to pay for a more expensive ticket.

Once, I think, we had a decent blackout in my time as Rail Minister where that data that would have worked behind the scenes to provide the

appropriate ticket for you did fail or break down for a short period of time, but I have not heard too much since. In my experience, that is where the third-party operators have been able to provide extra service.

Q27 **Baroness Cohen of Pimlico:** Minister, it is slightly tangential to what we are talking about, but as somebody who always travels first class and pays for a first class ticket on the commuter lines, I notice that there are no inspectors. Nobody knows which class you come in—indeed, I suspect some of my fellow passengers. You are probably missing a bit of revenue there. Is this something that matters? I cannot see how you pick it up electronically, but perhaps I am missing a trick. Is it worth putting a few more inspectors on?

Chris Heaton-Harris MP: Making sure people pay for their journeys appropriately is very important to us. It has to be said that throughout the course of the pandemic, right up until the last stage—whatever it was, 19 July—we gave guidance out to the operators that to aid with social distancing, they should declassify first class so people were able to spread throughout the whole of the train. That has changed. Equally, there were some occasions—in a way, not often enough—where you did get a busier train and we asked train operating companies to allow their staff to use their common sense as to whether they felt comfortable when walking through trains doing revenue protection. That has changed and we are now in a different place, revenue protection is back and you will see a lot more of it. It is well worth buying your first class ticket.

Baroness Cohen of Pimlico: I always do.

Q28 **Lord Berkeley:** Part of the baggage of history that came out in your report was, of course, this issue of many return tickets being just 10 pence more expensive than the singles. There is the other thing that has been identified in the last few years, which is that if I want to go—like I do sometimes—from Plymouth to Manchester, if I buy separate legs with different operators I get it much cheaper. We also have family tickets, groups and other things, and, of course, reductions with the time of day. With contactless, which certainly I support, all that will get quite complicated unless you simplify it. It has been simplified on the continent in many places, even with different operators. A series of prices for one leg, rather than having a return that is 10 pence more, would probably make life a lot simpler. Do you have any thoughts on that?

Chris Heaton-Harris MP: Yes, we do want to simplify ticket structures and, in fact, on LNER, just before the pandemic struck, we were piloting single-leg ticketing. We have a handful of weeks' data before the pandemic came and now the market is a very different market, but we do want to simplify ticketing. It is too confusing—that complexity around ticketing that you described. I still cannot quite work out in my own mind how I can buy, from a third-party operator, a split ticket—and sit in the same seat—that is less than I am offered elsewhere for exactly the same journey. The customer needs to be treated in a proper, 21st-century fashion with sensible, transparent pricing. I suppose there is a question

then as to how much revenue you might forfeit by going down that route, which is a question—

Lord Berkeley: I was going to say you will have winners and losers, will you not?

Chris Heaton-Harris MP: You will, but we do have our range of protected fares that we want to continue to protect. It is slightly more complicated than it seems, but the direction of travel of policy is to go down this route.

Q29 **Lord Best:** My question is about the open access operators like Hull Trains and Grand Central, and now we are getting Lumo. I travel on this line to York regularly. How will they function alongside Great British Rail in terms of setting fares?

Chris Heaton-Harris MP: They are independent of Great British Railways in fares, ticketing and what service they offer. In the White Paper you will have seen that we want to maintain and maybe even grow the market of open access operators. I really do like them because they are distinct from the other train operating companies and give us a benchmark as to what can be offered. Equally, because they were not a franchise based on the rail Act or anything like that, they were unable to access subsidy from the Government throughout the pandemic. Grand Central and Hull Trains both mothballed their services for long periods of time.

They are at the cutting edge of the market. They have quite a lot of revenue risk attached to them, but they are demonstrating that you can have different methods of ticketing and service levels that work in different rail markets. Lumo is the latest example and I really do wish it all the best in what it does. Provision is there for them in the White Paper. We very much hope they will be part of our system for a long time to come.

Lord Best: That will save Parliament a bit on the fares that we claim, yes.

Lord Grocott: There have not been that many of them, have there? Isn't one of the real problems getting pathways or routes? How is that affected by these reforms?

Chris Heaton-Harris MP: Absolutely, access and pathways are very difficult for them to get. Currently, we are obviously running fewer services than we did pre-pandemic and we are trying to make sure that they run reliably so the train service that people turn up to get on to is on time, resilient, clean and comfortable—all the things you would expect. It has opened a number of pathways up, potentially, for the future. There is quite a detailed process involving the Office of Rail and Road, which regulates access in this way. There are plenty of opportunities. It is making sure that those opportunities work for these companies, which take on the complete risk of that business and, as I know you know, trains are very expensive items. Carriages are unbelievably expensive.

Engines are unbelievably expensive. You really do have to be assured that you have a market available to you. Yes, we can make the appropriate provision to make sure that there is space.

Q30 Lord Stunell: Obviously, timetabling is an issue. Could you tell us about the timetabling of the switch to CPI for fares calculations?

Chris Heaton-Harris MP: I cannot tell you too much. I think I should just say that I am involved in quite detailed discussions with my Treasury colleagues on that.

Lord Stunell: That is helpful. If you need another piece of ammunition, certainly the Royal Statistical Society wrote to us to say that the use of the RPI in setting railway fares appears unprincipled in view of the Government's general preference for CPI.

Chris Heaton-Harris MP: I think that in 10 years' time RPI disappears as a method of calculation of inflation. At some point, and I would rather it be in the near future, we want to make that shift.

Lord Stunell: When will passengers get to know what fare levels will be set in January?

Chris Heaton-Harris MP: Normally, passengers would have a very good idea now, but I honestly could not tell you what the state of the market and demand by passengers for services will look like next month, let alone in a year's time. As I mentioned right at the beginning of this hearing, we want to be able to win a decent chunk of our market back and we need to have appropriate products. The fares piece here, as in the cost of the fare, we need to make at an appropriate level. It might just be a little while yet before we know what revenue we can get and how much we think we can charge people for appropriate journeys.

Lord Stunell: It would clearly be better for passengers if they were having a CPI increase rather than an RPI increase, particularly in the current year.

Chris Heaton-Harris MP: Yes, but I think there are other ways that we can stimulate the market by price that would help us. That might mean something different to CPI.

The Chair: That is exciting. Does the evidence show that when you put the price of tickets up, it has a big effect? How quickly does it jump back?

Chris Heaton-Harris MP: I believe there are a few former Transport Ministers around the table here, but what has happened in the past is that you have a huge number of annual season ticket sales immediately before a fare increase. That market has completely changed, which is why we offer flexible season tickets. The stat I gave you from the Rail Delivery Group at the beginning of the session showed the very small number of people using commuter services for commuting purposes at this point in time. In the last couple of years there has not been that statistic—well, I am sure there has been a statistic but there has not

been that process of announcing a fare rise and having loads of people buy annual season tickets immediately before it.

I am absolutely sure that any change in price will change behaviour, which goes back to Lord Stunell's point about when we announce price increases. Anybody who tells you what they truly believe the market for passengers will look like in six months' time is having a guess.

I think we have a fairly good idea that construction workers form a new, early morning commuter hour that is very early. Then currently there is this gap where very few people do commute on the peak services, and then gradually, over the rest of the day, when off-peak kicks in, you get larger numbers. Will that continue to be the case in a month's time or six months' time? I honestly could not tell you. Therefore, how you plan for products to stimulate a market that is in flux is a very difficult thing.

Q31 Lord Berkeley: Minister, going back to my earlier question about the different types of fare, you will be aware that if you want to get a standard single from London to Oxford or London to Cambridge, it is quite expensive. Maybe it is 60 miles. Where I live in Cornwall, Penzance to Plymouth is dirt cheap. It is about the same distance. That can only be a historical result of, shall we say, ability to pay, and the same applies up in the north, I would suggest. How will that be brought in? If everybody is paying the same rate per mile, wherever it is, you will get more passengers around London, probably, and many fewer in the regions. Are there any criteria that you are thinking of adopting, or will you stick with the present?

Chris Heaton-Harris MP: There was a time a long time ago where fares were calculated mainly on so much money per mile. I do not think you would go back to that. A whole host of factors have contributed to the changes. When franchises have been bid for, new rolling stock has been included in that. That has been factored into prices and I would like to think we are benefiting massively from a huge influx of new rolling stock up and down the country at this point in time. It certainly helps.

I also have the responsibility for accessibility in the department and I am very keen for people with accessibility issues to be able to travel as independently as you and I might be able to. New rolling stock helps with that but, as I mentioned, these are very expensive things so that has to be factored in. Then there is the Network Rail cost for how much infrastructure you might require.

There are different factors on each of the different lines that have led to this different level of pricing. I do not think we will go back to per-mile pricing.

Lord Berkeley: That is fine. I am glad to hear it because it could be disastrous in some places and such a bonanza elsewhere you could not get on the train. A certain amount of flexibility sounds sensible.

Chris Heaton-Harris MP: Yes. Essentially, the costs I have described are all sunk costs. Now we are looking to service the passenger properly,

as the passenger would have expected. In stimulating a market, Northern has just had an offer where it had a million fares for £1, or 50 pence if you are a child. Each train operating company has its own offer going on. Under Great British Railways, you would bring that in and you would be able to have national offers of a similar type, I hope, in the future. Each train operating company and each region is remarkably different.

Q32 **Lord Haselhurst:** Minister, it seems you are thinking very much outside the box.

Chris Heaton-Harris MP: Do not tell the Government that, especially not on reshuffle day. That is a terrible thing to say, Lord Haselhurst.

Lord Haselhurst: You appeared, in your evidence, to give us some encouragement. Instead of just thinking of CPI and RPI, why not give commuters a holiday, however temporary, as a gesture? Time and again when I was a parliamentary representative I would get the bitter complaint, about this time of year, that we are paying more and getting a worse service. It might be a very demonstrative way of saying that, in fact, this is a new era that is coming, thank you for your patience and now the better times will roll.

Chris Heaton-Harris MP: I am sure my Treasury colleagues have heard your bid for a huge amount of extra subsidy.

Q33 **The Chair:** Can I ask a question about the single-leg pricing, which you have already discussed? I would just like to check how necessary that is to the digital ambition that you have for the railway.

Chris Heaton-Harris MP: It is not necessary, but it has long been a challenge of Ministers in my chair. Across Europe, there is single-leg pricing and it is simpler to understand. We do definitely need to go to a simpler pricing mechanism and we wanted to trial single-leg pricing, but there are many different ways you can standardise and simplify pricing. It is a popular method across rail networks across Europe.

The Chair: Thank you for that clarification.

Q34 **Lord Grocott:** We all understand everything that has happened in terms of rail travel during the pandemic but, whenever you get a situation where railways become less economic and are not getting the revenue in, those of us of a certain age start getting alarmed along the Beeching lines. Let us put it in two ways. What assurance, if any, can you give that when some accountant looks at the income from various parts of the network when this pandemic is over, there will not be rail route closures? On the other side of the coin, in terms of the Government's very welcome—at least in my view—initiatives as far as reopening lines is concerned, where does that stand in the present climate?

Chris Heaton-Harris MP: My party was elected on a manifesto of restoring your railways and reopening some of the Beeching lines. I would say it is possibly the most popular policy of this Government, and I consider myself lucky and privileged to be the Minister who is responsible for it because it has demonstrated in no uncertain terms how

communities, various stakeholders, local areas and regions can come together to bid for a restoration. We will be restoring your railways and I genuinely am quite convinced that we will not be closing rail lines.

The challenges for rail in the past, if you are looking purely at revenue, tended to be when you get to the end of the line away from a city. Now, that is almost the busiest part of a post-pandemic railway, especially as you head towards the coast. As I say, everything is up in the air, but it just demonstrates to me that you need the whole piece. In a Government committed to levelling up and decarbonisation, you need to offer people a proper alternative to using their car, even if it is an electric vehicle. I am very confident that we will see a good number of railways projects come to the fore, be open and have passengers travelling up and down them, even in the course of the next three or four years.

Q35 Lord Carrington of Fulham: A number of us in this room, me certainly, are old enough to remember the British Railways and indeed to go back to when British Railways was being created in the early 1950s, when the old individual rail companies were being merged into this great monolith of British Railways. We remember the very poor service and the lack of innovation that British Railways had right the way through until privatisation. How will you stop Great British Railways going the same way?

British Railways started off with all sorts of very good intentions in the late 1940s and through the 1950s. It became a disaster because, if you do not have the competition and you do not have the people for it to measure itself against, it becomes complacent, it just goes for bigger and bigger government subsidies and the whole thing goes back to where it was 30 years ago.

Chris Heaton-Harris MP: It is truly an excellent question. The very simple answer to it is that this is not a plan for nationalisation; this is a plan for simplifying things, simplification. Privatisation has brought huge benefits to the railway—lots of money in, lots of new ways of doing things, doubled passenger numbers in a relatively short period of time, wonderful things—and we do not want to lose any of that. In fact, we want to encourage more.

We think, and the policy is, that this simplification will allow us to, for example, let new passenger service contracts where we will pay for outcomes. Private companies will bid in to run those services for us and they might want to offer different types of encouragement, like Lord Haselhurst was suggesting, or different types of services, maybe benchmarking themselves against open access operators, whatever it might be. I know it will be a very exciting market with lots of players in because already there have been approaches to the department as to when the first passenger service contracts will be going out the door and new entrants into the market are appearing. We want to make sure that the outcome for the passenger is beneficial. It is that passenger service contract, how it is let. The competition for that will be all important in that determination.

Lord Carrington of Fulham: If the operator is only responsible for the costs and Great British Railways is responsible for the income, how do you make that link so that the operator does not just always say, "I will provide you with a better service if you give me more money"?

Chris Heaton-Harris MP: Essentially, I would imagine that in the passenger service contracts, which are yet to be designed so this is in theory—well, I know the industry is coming to us and saying, "We are comfortable having a level of risk if there is a level of reward". We need, centrally, to have a policy that determines how keen we are to have that.

The whole point of this, the point of *The Williams-Shapps Plan for Rail* and the point of Keith Williams's review in the first place, was to respond to essentially a broken system, which everyone saw for themselves back in May 2018 when infrastructure was not delivered, overambitious timetables bid for in franchises did not work, carriages were inadequate, workforce issues percolated up all over the place and the perfect storm was created up and down the country. It is a once-in-a-generation change and I am very keen that we learn the lessons from the past and get this future piece right, but, as I say, we are a long way from letting our first passenger services contract and we will stimulate the market beforehand to make sure we have the most competition we can possibly get.

Q36 **Lord Berkeley:** Minister, following on from your very helpful answer to Lord Grocott on what you might call branch lines, I got involved in several of what I call "chuff-chuff lines", because they are volunteer-run, in Cornwall and Devon. They are enthusiastic. Sometimes they cover their costs, sometimes they do not, but that is something else.

There are many of us who think it would be rather nice if they could actually run a public service starting before 10 am—in other words, for people to use to go to work, to go to college or to go shopping—and going until, say, 8 pm. The volunteers say, "Yes, but that will stop us playing chuff-chuff and stuffing the engine with coal". Great Western is very helpful on this, but there seems to be a problem of how you share the risk and the costs to allow some of these volunteers to carry on with what they want to do, but also to be able to provide a decent service. Your department has been incredibly helpful but in the next round, if there was a little bit more flexibility looking at value for money and everything, it would probably help encourage the volunteers to do what they like doing without stopping a decent service from getting people to work or college, which is very important.

Chris Heaton-Harris MP: I completely understand the point. There is part of me that wants to encourage your steam enthusiasts to provide a better service for commuters, but there is equally part of me that thinks maybe in a decarbonised era the passenger services that I would like to run should be run in a slightly different way. I am not saying "a more professional way" because I have been on some of the services provided and they are superb. I have the Lamport railway, which runs for a whole mile and a half, in my constituency only a little way away from my home.

It is quite amazing, what they do. I think they stimulate the next generation of people who want to work on the railways as well. They are wonderful people who do these things, but there is a standard that we need to provide all the time and I do not want to impose that standard on people who are running wonderful heritage railways.

Lord Berkeley: That is fine, except that if they will not do a decent service you could probably have two different types of train on the same line or something. I am sorry, I am hogging it.

Chris Heaton-Harris MP: I will leave that to the—

The Chair: I think that is for another day.

Chris Heaton-Harris MP: There are also safety elements.

Lord Berkeley: Indeed, yes.

Q37 **Baroness Thornhill:** Very briefly, Lord Carrington having brought up the bad old days of British Rail, I once worked at Preston station, where I got in trouble for not getting the requisite number of slices out of a tomato as per the diagram that was in front of me. It is interesting that, politically, the renationalisation of the railways was deemed to be a very popular public policy. I just wondered how you are squaring that, or are you hoping the proof of the pudding will be in the eating? The Williams review did talk about improving industrial relations. How is that going?

Chris Heaton-Harris MP: On the first piece, I think the new passenger service contracts will demonstrate that there is a very big private market out there. I see more services and more things being run by the private sector in our rail market in the future. I think it will be vibrant and Great British Railways can help stimulate.

I am slightly thrown by your tomato thing because, as a former wholesale greengrocer, I would like to think you got the exactly appropriate number of slices out of each tomato, but the catering offer is one area where you can look now and you can see the difference, up and down the country, with small independent cafés coming to our railways and stations because they know communities want to go there, too. It is more important than you probably realised when you were slicing that tomato to that diagram.

Moving on to workforce reform and the unions, please do not tell anyone because it is reshuffle day, but I am a Conservative Minister who talks to the general secretaries of the unions where I can because I believe we need to have a sensible dialogue about the industry as we move forward, and I believe that they want a strong future for the industry, too. We will always have areas where we completely disagree, but I would like to think—in fact I know—their hearts are in the same place as mine, wanting to assure a really strong, positive future for our railways going forward. We are going in the right direction and we might be on different tracks but dialogue helps there.

The Chair: Minister, I have to say on catering and cafés, one of the

advantages of Covid has been the way that where you can site these things has opened up, and seems to have opened up permanently. On our high streets and in our railway stations it has been absolutely terrific.

Q38 Lord Moylan: I am now beginning to understand that there were structural issues behind the British Rail sandwich, that it was designed to be that way, in fact, with a diagram.

Minister, returning to fares and ticketing, we heard evidence from Shashi Verma, who has been responsible for the transformation of fares and ticketing at TfL for the last 10 years, that if you want to establish a modern and coherent system of ticketing, then you need first to have a picture, know what your vision is for what that coherent system looks like, and then—because there are winners and losers and because technology has to be introduced—be willing to introduce it in steps over a period of time.

I was very struck by that and I was going to ask if you agreed with it but also, if you did agree with it, do you have such a vision or does the department have such a vision, or is this something you are expecting GBR to supply when it is up and running, the picture of what this coherent system looks like? If you do have it, could we see it, please?

Chris Heaton-Harris MP: I very much hope that the vision is spelt out in—probably the best place to look is the introduction of the Great British Railways White Paper because I really do feel that the vision is spelt out for the railways there. Yes, I do agree with the evidence you took. I do believe you need to have not just an idea but a plan to get to that point as well. The plan, I believe, will be for Great British Railways to design, but we have demonstrated in the introduction at the very least—there are a whole host of pages and normally I can remember the ones so I can point you to them, but I cannot off the top of my head at this point in time—in that White Paper exactly the vision that you ask for.

The Chair: Thank you very much indeed, Minister. You have been extremely open and helpful with our questions. We look forward to hearing from you on one or two things, notably, I think, on the split between the taxpayer and the consumer in recent times. Thank you, and good luck in the cricket.

Chris Heaton-Harris MP: Thank you.

The Chair: I am a huge cricket fan and, as we have seen you today, I will be cheering the Commons on.

Chris Heaton-Harris MP: The Lords and Commons team does need all the luck it can get.

Lord Berkeley: We could wish the Minister good luck in the reshuffle.

The Chair: Indeed. We also wish you good luck in the reshuffle.

Chris Heaton-Harris MP: I do not know what that means exactly.

The Chair: We like to have you as the Rail Minister.

Chris Heaton-Harris MP: Thank you very much.

Examination of witness

Keith Williams.

Q39 **The Chair:** Thank you so much for joining us, and thank you for listening in to the last session. I will not repeat the purpose of our inquiry but we very much look forward to hearing from you, having seen your very interesting report.

I will start with the first question. I think it would be good if, in your words, you could describe what reforms you recommended to simplify rail fares and ticketing and why, and in particular, how, the reforms might encourage passengers back on to the railways. We are coming at this very much from a consumer point of view.

Keith Williams: As a little bit of background, I started the review in May 2018. I have to say that, initially, most people tried to steer me away from fares and ticketing on the basis, as I found out fairly early, that there are 66 million fares today and obviously a system that had not really changed over the years. There was a health warning that this might not be the place to start a review.

In the first six months of the review I spoke to passengers. Most people at the beginning were interested in what the structure of the new railway system was going to be, because it had already been agreed that franchising was coming to an end and it was a root-and-branch review. I approached it from entirely the other end of the spectrum, which is, "What do the customers actually want from rail?"

A couple of things were pretty clear. Trust in rail had been in decline since 2014. It had reached a peak in 2014 and had been in steady decline. If you look at the reasons for that, in part it was down to performance but in part it was, in my opinion, that rail had not really kept up with what consumers were seeing elsewhere. I took the view that fares and ticketing, if anything, were going to be central to the review because if you want to continue ridership in rail you need consumers and you need consumers who have trust in the product that they are buying. That is my life in business. It became central to the review.

Interestingly enough, if you then look at the current situation, one of the things that had been a problem in fares reform—there are many—is that when you have a system where the revenue risk is outwith 14 or 16 companies, it is very difficult to do a fair reform across the system. With the end of franchising—and, ironically, to some degree Covid has accelerated the process—today government have the revenue risk. If you are going to reform fares and ticketing, there is probably no better time

to do it than now because the Government are on risk and they have more ability to change things than anyone else.

There is an enormous opportunity today. That is probably a window of opportunity that if we do not take there will be lots of people who will see it as a failure. In my opinion, if you get the fares right and you get the trust in the railway right, people will want to travel on rail. If you do not, they have alternate forms of travel and will go to those. It is as simple as that.

The Chair: Did the Covid pandemic change your recommendations?

Keith Williams: No. If I go through the reviewing process, the review started in September 2018 and it was brought about by the timetabling fiasco, the lack of trust in rail and what was happening generally in franchising. Those were the three initial prompts for the review. I was asked to do a root-and-branch and I was asked to do it in 12 months. True to that, we were pretty ready, actually, with recommendations by the autumn and winter of 2019, going into 2020.

Then, of course, the pandemic hit. I do not think we lost focus in that period but what I would say is that the Treasury became more interested, having seen what was happening to rail; the Minister talked about the subsidy going into rail. I would say that the Treasury wanted to cast a closer eye, which was fine by me. I thought it was absolutely the right thing to do because in the short to medium term, Covid does change a number of things. It was only fair to have scrutiny as to whether the review still held in a post-pandemic world. I am pleased to say that at the end of the day virtually nothing changed from the recommendations at the end of 2019 through to the issue in May 2021.

The Chair: That is interesting. Obviously, you have a very distinguished career in retail in John Lewis and British Airways, much-loved brands. What did you learn from that and what did you bring to the recommendations from that career in consumer goods?

Keith Williams: It goes back to a lot of the questions that you were asking the Minister. I am an accountant as well by background so most people think I am focused on costs, but one of the things I learned as a CEO is that you have to stimulate demand as well as costs. That is particularly true of rail, of course, because every marginal passenger is a contribution to the bottom line. A lot of people have looked, quite rightly, at the cost of rail, and we can cover that if you wish, but equally you have to stimulate the revenue because it is the revenue that will reduce the subsidy in rail over time. To do that, you need customer trust. At the end of the day, customers will buy a product that they trust.

Evidence of that in rail would be Transport for London. I was on the board of Transport for London for a number of years and, as Lord Moylan knows, one of the successes of Transport for London was to build a system where people actually trust the product. They are quite happy to use contactless because they know they will get the best fare.

You were asking earlier about split ticketing and that is a prime example of, if you like, the railway winning at the cost of the consumer. You can do that for so long but what I would put forward is that in a world where there is more transparency because of the internet and mobile, if you actually look at split ticketing, Trainline, one of the retailers, developed its own split ticketing part of its app to give the consumer the best fare. If you roll up and buy a ticket you might well not get the best fare, but if you go online you would get it. To me, that is not a sustainable long-term position to hold in a world where price transparency is much clearer than it ever has been.

That is not to say, of course, that all fares are the same. When you buy an airline ticket there is a fair chance that the person next to you will have a different fare from yours but it is accepted by people because it is transparent in the way in which it operates.

To sum it up on fares and ticketing, to my mind, railways need to be brought into the 21st century. To the Minister's point, that will not be easy when you are dealing with 66 million fares with lots of anomalies. I do not underestimate the size of the task but you will never have a better opportunity than to do it now.

Q40 Lord Grocott: What are your thoughts on single-leg ticketing and whether Great British Railways should adopt it? It seems to be pretty common in other countries in the world.

Keith Williams: My analogy for this one—I come from the airline world—would be Saturday night stopovers. I do not know if any of you remember Saturday night stopovers. That was a product that was designed to ensure that the business traveller did not get a cheaper business ticket. If you were an ordinary passenger and you bought a ticket Thursday through to Monday, you would get a cheaper ticket than the business passenger because they tended not to want to stay at weekends. That was a major product, in my early days, in the market. It disappeared because when the low-cost carriers came in, they brought in price transparency and single-leg pricing.

You cannot really beat the market at the end of the day because price transparency gives people the transparency of knowing what they are buying. It might be different for different routes and so on. It was a point made to the Minister; I do not see per-mile pricing because that is not how the system works. It does not work like that in airlines and it does not work like that in rail. I do not see that, but what I do see is that the industry will have to adapt over time to what price transparency gives.

Lord Grocott: This is perhaps a slightly broader question. Isn't the dilemma at the heart of so much of this that everyone wants simplicity—that is almost a given—but everyone wants as well the possibility of getting the cheapest possible fare, and that may well involve all sorts of modifications of the simplicity argument in order to spread the load of the railway and everything else? In a sense that is just an endless debate, is it not? I cannot see a conclusion to that.

Keith Williams: Can I describe it slightly differently? We tend to look at the lost revenue. Everyone says, "Oh, if we go to single-leg pricing or remove split ticketing that will be a loss of revenue". I have never seen that work long term in business because, ultimately, transparency works in the interests of the consumer, builds consumer confidence and builds the revenue line. That might have worked in a pre-internet era. To my mind it will not work long term in rail, and you will never have a better opportunity, as I say, than to start to make those changes now.

The big debate, of course, is winners and losers. That needs to be handled through the system but that should not deter you from having the goal, and that goal, to be honest—we talk about revenue—is also built around cost. The inefficiency in the rail system today, through the multiple ways that people buy tickets, creates about a 70 pence to 75 pence charge per ticket for running the different systems by which people buy those tickets. In the airline world, e-ticketing is virtually nothing. There is no real cost to it. The consumer today is paying for that complexity through their ticket price.

Baroness Cohen of Pimlico: I did not quite get an answer out of the Minister. Independent rail retailers told the committee in written evidence that while independent rail retailers take 5% for commission and they take only 3% for the corporate market, the low season ticket margin means that they sell these tickets mostly at a loss. As a result, independent retailers have not been offering the new flexi season tickets. First, is this true? Secondly, if true, has this not rather destroyed the point? We ought to either let them raise the commission or—not charge nothing.

Keith Williams: I do not know if it is true but let me illustrate the commission. We will come back to Transport for London as a different example in a minute.

At the moment, if you keep all the ticket offices open and you pay Trainline a commission—about 28% of the tickets are sold through Trainline, as an example—you have a double cost because you are paying for everything to be kept open in the ticket offices and you are paying the commission. All you are doing is increasing your cost base. That does not seem to me to be a sensible game to play as consumers move more online because all that will happen is you are increasing your costs all the time. The cost of having the ticket office open is your fixed cost and now you are creating a marginal cost every time you sell a ticket online that you could have sold in the ticket office. Unless the online really grows the market, you are increasing your cost base every time.

Baroness Cohen of Pimlico: I was wondering, therefore, whether open access, which has been perceived as an important point, was actually worth having.

Keith Williams: That is a great question. When I came to the review I was very open-minded on how the railways should be run. I go back to talking to consumers, and someone raised the question to the Minister,

“What did consumers want?” The single largest thing that consumers wanted out of the railway was it to run as a network, which may appear obvious but it was an important finding. It was not about themselves, it was about running this as a network for the country as a whole. That was the single largest finding that individuals want.

If you look at open access, open access is where it is open to the market to bid for routes. The difficulty if you go fully open access—arguably the airlines are open access and you can look at British Airways as an example. We were given open access on privatisation and if you wonder why we reduced the number of routes to Scotland, it is because the first thing you do is to cut out the non-profitable pieces of your network. In rail, look at it a different way: it is run in the public interest, it is run for the economy; therefore, the network and the integration are critical to the running of the railway. I do think open access has a role to play but if you go completely open access, the hidden danger in that is that over time you will reduce the integration of the network.

Baroness Cohen of Pimlico: Not just in the context of open access for people selling tickets but open access for people running trains, in my book it could also be known as cherry-picking.

Keith Williams: Yes. One of the questions raised was about subsidy. If you want to go to open access across the network and let the market play the whole system, open access might be the way to go but I doubt that you would get the best out of the system in the public interest.

Baroness Cohen of Pimlico: You think that open access will stay to quite limited experiments like we have now?

Keith Williams: Yes. Hull Trains is a great example. I saw Hull Trains and Hull Trains is doing something that, if you like, no one else wanted to do. There is nothing against that. If they can build something that Great British Railways cannot build and it is in the public interest, yes, that should be a role for open access. In the review it was not central to the proposition.

To the narrower point on access, the question was asked about Great British Railways running its own website and application. I think that was a thing to do because it can operate potentially more cheaply than the commissions that you are talking about today. That should not be at the expense of other retailers being able to come in and use that platform.

The Chair: We will suspend briefly while everybody votes and we will turn off the broadcast.

The Committee suspended for a Division in the House.

The Chair: After that little break, I would like to turn to Lord Moylan to ask the next question, please.

Q41 **Lord Moylan:** For the sake of transparency, I should say that Mr Williams and I served together on the board of Transport for London for a

number of years.

What interests me is the transfer of fares risk, which your report recommends and the Government have taken up, away from the train operating companies and on to the department's shoulders. I know that it never wholly escaped fares risk, even under the current system, but that transfer will be quite a shock in some ways, I think, for the Department for Transport and the Treasury to manage. Unlike TfL, which has a similar system, when TfL accepts the fares risk, it is an organisation that has been accepting fares risk for 150 years, one way or another, it is in the blood, but it is not natural to civil servants.

When I raised this with Baroness Vere and asked a question about this, she said that the remedy for this would be the Great British Railways five-year plan. Do you worry also that somehow we will face difficulties as the department comes to the cultural shock and the financial shock of managing this? Do you agree with the Minister that the five-year plan is the remedy that will make this all smooth and work nicely?

Keith Williams: It is a very good question to ask. I will cover fares risk where we are or where we were heading and then look at fares risk going forward.

What was clear even before the pandemic was that franchising was coming to an end. I called that in February 2019, very early on in the debate on the review. I called it because what I saw at the time was that a number of the franchisees were not going to be able to fulfil their franchise. By default a lot of them were going to come back to the DfT. I thought it was fair to do that.

Looking at the model of rail, we talk about passenger service contracts. The whole idea of a passenger service contract is to ensure that we get the quality of service that the public require. Why there was a change from where we had been is that the franchisees told me that their franchises were tending to be seven- or nine-year events. What they would say to me quite openly is, "I had a contract for seven/nine years. In the early phase I would invest, then I would go to maturity, and then towards the end of the franchise I didn't know if I was going to win so why would I continue to invest?" It became a boom/bust cycle to some degree.

The passenger service contract is designed to ensure a quality of service to the consumer for a longer period. The classic example would be London Overground today, which I went to see. London Overground is essentially a contract for services with the revenue risk being held by Transport for London. That to me is a base model. A lot of questions were asked about innovation. There is nothing to stop building on top of that some mechanisms by which if the operator can grow the revenue in the interests of the passenger, and that might be ancillaries, it might be whatever it is, you would not take advantage of that on top of the passenger service contract; in other words, you would have a plain vanilla contract for the operation of the service, but if somebody can

bring an additional benefit, why would you not build that into the contract to have some flexibility there?

To the point on how to achieve that within the structure, one of the single largest issues in the review is what I call the culture change that is necessary to make this happen. That is one of the challenges that we all need to address. It is starting to be addressed at the moment. What I saw in rail is that the people in the industry are passionate about the industry, but that is largely about the industry as it has existed, which is why we have not really made the move into what I call the 21st century. Undoubtedly, to my mind, we will have to bring in different skills from different groups of people to make this work. Great British Railways needs to be an amalgam of people who are there today—as the Minister said, the people know the railway today superbly well—but we need to bring in other skills as well to grow into what I would call a modern, 21st century railway. I do not underestimate the size of the task in that, and that is one of the single largest challenges.

Lord Moylan: That is extremely helpful and I am glad you recognised the need for cultural change.

Coming back to this question of cultural change in the department and in the Treasury, being simplistic about it, what worries me is that one year they get a huge bill they had not expected because there has been a drop-off in demand, and of course the demand in rail is very closely related to the economic cycle. If there are lots of jobs and people are booming, then the railways are full. They tend to lose revenue when people are staying at home because they are not working or whatever. They get hit and their reaction to that is to say, “We have to recover that somehow, so we will cut investment and we will cut things next year”. You get quite perverse incentives set up and this is why the five-year plan might be the answer, but you may have a comment on that. That is the concern I am coming at, Keith.

Keith Williams: I share the concern and I think that there are two answers in this. One is that for the first time there will be a 30-year plan.

Lord Moylan: Indeed, there is a 30-year plan made up of five-year plans, yes.

Keith Williams: Yes, which there was not previously. You need a long-term plan to work to, particularly around decarbonisation and everything else. Rolling stock lasts 30 years, so unless you start to plan out the 30-year process today, you will not get to what government wants by 2040 or 2050. That needs to start to happen, as an example.

To your question, I think that this will be played out quite quickly. When we get to the spending review, as an example, we have talked about fares and ticketing reform. What I can see in the review is that for a relatively small investment you will get return. That return will come up in two elements. It will come up in cost reduction and increase in revenue. If you look at the payback on it, it is a great payback project

but it requires probably £300 million investment to get that return over two or three years. It is a great payback project, but you have to have the will to invest in that today because the returns will come in the five years but they will not come on day one. That is the challenge that we need to look out for, that we are willing to make that investment.

Lord Moylan: You are guiding us to say that we should be looking at the spending review and seeing if it has that money in it as a touchstone of how this might work out? No £300 million, no Great British Railways, all going nowhere?

Keith Williams: The worst thing that can happen, to my mind, is we form Great British Railways as a brand and it is a brand and it is only a brand, because it will soon lose its glamour if that is the case. You have to see real change.

The Chair: Lady Thornhill, we cut you off in mid-air.

Q42 **Baroness Thornhill:** Quite rightly, yes. It was on a similar line. If ultimately, and I hope we are all agreed on this, we want modal shift, very much so, not just getting back to pre-level, how do you price that public interest cost into all this—which is akin to what you were saying there—to work out what is subsidy and what is subsidy worth having? In that sense, it was coming on from what Baroness Cohen was saying.

Keith Williams: When I approached the review, we put out six papers fairly early on. On the question that was raised to the Minister, in transport rail attracts the single largest subsidy today per passenger. If you look at the value to the economy, not only for passengers but for freight, it is huge. Your trade-off is: are you willing to subsidise something that creates economic value? We wrote a whole paper on that fairly early on to demonstrate the value to the economy. Yes, there are opportunities to reduce the costs of rail. We have discussed fares, and I think that there is a real opportunity to increase the revenue line, but this will probably still require over the medium term some subsidy. That subsidy, to my mind, is the benefit to the economy.

I go back to where I started. The single largest thing that passengers wanted was an integrated railway across the country. That is what people want and are willing to pay for, I think. To some degree it is subsidised by the taxpayer, but it is a subsidy worth paying because it is ultimately a greener mode, it takes congestion off the roads, it benefits freight, and so on.

Baroness Thornhill: Have you put a price tag on that?

Keith Williams: That is what the 30-year review will look at. May 2019, we produced a series of papers for discussion and one of them went into the benefits of rail.

The Chair: Did it look forward? Clearly, we are looking a long way ahead. If you are going to put in subsidy on a continuous basis, and you are the Treasury, you need to have some idea of how much that is going to be.

Otherwise you will get stop/start like the road programme, which is no doubt your concern. Did your work look at that and then put that alongside this cost-benefit, which sounds very useful, that you did?

Keith Williams: No, it was just a background paper to look at what the benefits of rail to the economy are. It was not a forward projection. Over the years, until 2014 as the Minister described, the railways had been growing very quickly. The issue around the franchise in reality was there was an assumption that that growth would continue and it did not, which is why the franchisees had financial difficulty. That was in part, as I say, down to customers choosing to use other modes and moving away from rail. The growth had started to decline. One of the things in the review is how we rebuild that trust and that growth.

Lord Stunell: Is that paper in the public domain?

Keith Williams: Yes, it is. There are six papers from May 2019 that look at things such as benefiting the economy. It looks at other systems around the world and what we learned from them. The review went through a process of, first, talking to people, producing six papers on topics, and asking for a second round of feedback on those papers before we came to the final review at the end of 2019. It was an exhaustive process.

The Chair: We will circulate a link to those.

Keith Williams: It is on the government website.

Q43 **Lord Carrington of Fulham:** Coming back to this cost versus revenue coming in, I am struggling a bit with understanding how that will work between the operators and Great British Railways and the Treasury. One of the problems that any railway will have is, for instance, the problem with the railway line to Oxford, which has heavy competition from buses, which are very cheap compared with even the cheapest fare you can get on the railway going to Oxford.

If you are going to set the fares for that as Great British Railways, you are going to be setting that fare to compete with the buses, presumably, because it is in everybody's greater good to get people off buses back on to railways. You will do that only if you can get the prices comparable.

The operator, which has control over the costs and control over the quality standards under a contract with Great British Railways, will not have any control over the setting of price, but it will be dictated as to its margin by the prices fixed by the Treasury or Great British Railways. Consequently, it will always be increasing its margin by reducing its costs, which essentially will be reducing the quality of the experience for the passengers, which then takes it circularly around and pushes people back on to buses, which are for ever increasing the quality of the experience of travelling on the bus. I do not see how you are going to break out of that vicious circle, where the fundamental costs of running a railway are always greater than the cost of running a bus.

Keith Williams: There are a few things. The passenger service contract is not in final form, but the way I would envisage a passenger service contract is that the operator is rewarded primarily on the quality of its service. That has to be the primary role of the operator. What has happened on London Overground—just using this as an example—is that passenger trust has increased and the revenue has increased over time. It is only one example but it is a successful example of how it links together. An operator operates an efficient, reliable—I will come back to reliability later—service and the consumers want to consume it and the revenue increases.

Lord Carrington of Fulham: Because of the way that London Overground operates, it does not have a direct competitor. You could not get on a bus going from north London to south London without changing buses several times, whereas you can get on the Overground and do that journey in one go. There is a convenience factor there, which does not apply on the London-Birmingham route, it does not apply on the London-Oxford route, and so on. I just have a difficulty in understanding how the economics of this work.

Keith Williams: People do pay for convenience as well. I do go from London to Oxford and I tend to use the train; it may be a poor example. It is convenient for me.

Lord Carrington of Fulham: The rail fares from London to Oxford have come down—there are two lines—because of the competition. The last time I went to Oxford by public transport I thought I would certainly go on the bus, which leaves from the top of my road so it is more convenient than the train. I found that the price was £15, and I could go each way to Oxford for £4.50 going up on Chiltern and coming back on—so I am not sure it is—

Keith Williams: One of the things we have not discussed is around—I do not make the case that heavy rail is the answer to everything. I went to Manchester and one of the things that became clear to me is that for certain parts of Manchester the tram is probably the better answer than heavy rail.

One of the things emphasised in the review is the role that local communities need to play in looking at the best answer. Although we are talking about Great British Railways as if it is a central behemoth, I am not trying to create that at all. There are two things within that. One is to have regional operations. Do not assume that they will be a replication of the regional services that exist today because I do not think they will be. Equally, you need a larger role for cities, mayoralities and so on in providing the best answer within their community. That is an important thing in the review that is sometimes overlooked. It is trying to bring local input into the best answer for that community.

The Chair: I am very glad you mentioned that because I was going to ask you whether you envisage an Oyster card-style solution in somewhere such as Manchester or Nottingham or somewhere where

there are trams, buses and a rail option.

Keith Williams: The interesting thing is that contactless is going to £100. You imagine what that can do to rail, how far you can travel using contactless. The world is changing and rail needs to keep up with those developments.

To answer your question directly: yes, I think that you do need to replicate. Going back to centralisation, the issue for me in part around the operating companies is that if you are not careful you get 16 solutions to the same problem. It is better developing one solution and allowing other people to use it than it is developing 16 different solutions, I suggest.

The Chair: I was going to bring in Lord Best on some of these technology issues.

Q44 **Lord Best:** Contactless will require quite a lot of cash to implement this. I was going to say that it will be a big ticket item, but I thought I had better not. Do we have any feel for the practicalities of this? Incredibly expensive? A long way away? Or is this a reality? I am a great fan in London and it would be wonderful if I could go to York and do the same.

Keith Williams: They are already looking at the business case. I think that people will be surprised when the business case is put forward. For an investment of £300 million or £400 million the return is quite quick just because of the duplication of costs that has existed in the system to date.

Lord Best: There is reality around the corner.

Keith Williams: There is reality around the corner that you will see.

Lord Best: Easily done, excellent.

The Chair: Does Rishi Sunak agree with that? If this is in the innovation plan it sounds quite—

Keith Williams: This is about the spending review. There is a real opportunity for relatively small investment to make good returns. Our railway is not efficient in its costs, I would submit.

The Chair: Excellent. Are there any other questions? I had one final one.

Q45 **Baroness Cohen of Pimlico:** This is one about costs. One of the most enjoyable bits of your review was where we discovered that we had 400 people spending every day arguing with each other about whose fault it was that the train was late. Have we stopped doing that and, if so, what kind of money did we save?

Keith Williams: I will give you a better example. The best example I came across is a bird in an overhead electric wire and the argument as to whether that was the fault of the operator or Network Rail. That was a legal case that was fought as to whose fault it was.

Baroness Cohen of Pimlico: If I might be allowed an observation, the second you involve lawyers, as you will have to with the new contracts, you are in trouble.

Keith Williams: No comment. A good example is what the Minister was talking about. If you went to Euston or Victoria, each of the operators had their own desks. If you had a customer issue you had duplication of desks, triplication, and so on. That has now been resolved by having a single focus for the passenger, and it reduces cost.

Baroness Cohen of Pimlico: It would be a sound argument for the Treasury: "Look what we already saved".

Keith Williams: These are beginnings but it goes back to culture. You need the culture of making those changes to bring something about in the interests of the passenger and reduce costs at the same time.

Lord Grocott: Of course, at the much-maligned British Rail those kinds of disputes could not arise. It was all part of the same organisation. I am sure others have experienced this. I have seen one of these control centres—it is a few years ago now—where all the train operating companies were there and Network Rail was there, proudly telling me, "Look, they are all in one room and they can all resolve their differences". I just said, "We used to have a system, it was called British Rail", and the lawyers are making a lot of money out of it.

Keith Williams: To be clear, I was never advocating going back to British Rail and cutting tomatoes or whatever. The feedback from the passenger is, "Give me an integrated railway" and if you look at the timetabling fiasco in May 2018, nobody was in charge. It went right up to the Secretary of State. If you are the furthest away from the problem, it is less likely to be solved.

The May timetabling fiasco was brought about primarily because there was no integration in the system. Great British Railways is designed to create an operating guiding mind for the system to get it to work as a system. That is not only in the interests of the passenger, it actually does reduce cost, because if you have efficiency you tend to operate at reduced cost. To me that was one of the single largest issues coming into the review. It was a perfect meeting point: here is a cost-reduction opportunity and this is what the passenger wants.

Q46 **Lord Stunell:** I wanted to follow through on the £300 million saving from contactless. I was supposing that it is like one-man-operated trains, that it is basically staff reductions of ticket offices and the like. I wondered if you could connect that up to what the Minister had to say, in a very positive vein, about discussions with the unions on having a strong industry, and so on.

Keith Williams: It is a good question. It is similar to what I have seen at BA; it is similar to what I have seen elsewhere. The key issue here is what I call flexibility of the labour force. What we have a picture of is potentially a growing railway, which is great for jobs, but the quid pro

quo for that is that you have to be flexible in the way in which you work going forward.

My classic example, just to give you a corollary, is at BA we introduced self-service ticket machines in 1998, where you could go and print your own ticket in a machine. The interesting thing that I found out—because I was just joining BA at the time—is that because of the union agreement we ended up manning the self-service ticket machines with the same people who had been behind the desks. We had to negotiate out of that. Then, of course, what happened by 2008 is that the mobile phone had come along, so all these self-service machines that we had put in, suddenly the passenger did not need the machine because they could just use their mobile phone.

It is a classic example of how technology changes the world and the workforce needs to come along with that change. That is a challenge for rail. That is why when we talk about culture change: it is not only culture change at the top, we have to work on culture change at the bottom as well.

The other thing in rail is that the diversity in rail is not there today. It is 80% to 90% male. We need to work at things like that over time. There is a chapter at the end that is devoted to skills and creating greater diversity in the culture of rail. That will be another challenge that we have to work to.

Q47 The Chair: The thing I wanted to pick up was from when we were talking about the single-leg ticketing. You talked about winners and losers but you were very discreet, you did not even speculate on what kinds of winners and losers there would be. Is there anything you could say about that direction of travel? I also wanted to offer you an opportunity. If there was anything the Minister said that you thought should be added to—you sat through his session, obviously—which we have not questioned you on, we would be delighted to hear.

Keith Williams: I cannot be specific on winners and losers but I can make a general observation. If we constantly look at this through the lens of winners and losers, we run the risk of not making change.

The Chair: Yes, fear of what the losers say.

Keith Williams: I think this has got us to the 66 million fares that we have today. I go back to what I deliberately said. There is no better opportunity to start the change happening than we have today. The revenue risk is with government. This is the golden opportunity to start to make change. If we do not make the change, in all honesty we will look back in 20 or 30 years and think—we are already 10 to 15 years behind the rest, not only in transport but in the way in which consumers consume. We have to catch up. This is the opportunity that we have and we have to start somewhere. If we always look to the difficulty, we will never make the change that we want to happen.

Going back to self-service machines, I remember everyone telling me, "But, Keith, the consumer will lose the contact with our service agents. We should never bring in self-service ticket machines".

The Chair: I think there you were going in the direction of travel that the consumer wanted, and if you are on the consumer's side that obviously is a lot more acceptable. I think that there will be a need for some legislation—in fact, it is a question you could answer in this area—and clearly once you come to take legislation through a House such as ours or the Commons, discussions about winners and losers rapidly emerge. That was why I was asking the question. A final question might be: to what extent do you need new powers here and, therefore, can we expect a big Bill?

Keith Williams: That is not my side of the fence, but people said to me earlier on, "Be wary of big legislation". To some degree, Great British Railways is a pragmatic solution to get things moving to get the opportunity that we need now, but we do need legislation in the next few years to ultimately make things happen. I can only encourage you to be brave and make the choices that we need to make, otherwise you will look backwards in regret.

The Chair: We are listening to that and, of course, many of the people on this committee will no doubt be involved in helping with legislation when it comes to this House, where detail is often quite focused on.

Thank you very much for your time, Mr Williams. It has been absolutely fascinating, very helpful, and we look forward to keeping in touch with you, not only on fares and seeing how that develops but on the whole mission set out in your paper. Thank you very much.

Keith Williams: The final word is I wrote a review, and there have been lots of reviews into rail that did not move things forward. I think there have been 20 reviews over 10 years. This one went straight to a White Paper, which I think was important. I have to say that the Minister has been right behind everything that we have done; the Secretary of State has been right behind it. I have agreed to stay on in an advisory role, which I regard as trying to keep things honest, if you like. There are 62 commitments at the back of the paper and that will be the judge as to whether we deliver on those 62 commitments.

The Chair: Our mission is to try to improve the built environment, including infrastructure, of which this is a critical part, so I am sure we will want to have your further advice as well. Thank you very much. That ends today's hearing.