Tenth Report of Session 2021-22

Department for Transport

Overview of the English rail system

Introduction from the Committee

The rail system in England involves public bodies (including Network Rail), passenger operators under government contract, and private sector bodies. It is regulated by the Office of Rail and Road. The Department for Transport (the department) is responsible for setting the strategic direction for the rail system in England. The arrangements between all those involved in delivering rail services involve complex cash flows and accountabilities. The total expenditure of the rail system in 2019–20 was £17.4 billion, made up of £9.5 billion spent on operating rail passenger services, £7.1 billion spent on operating infrastructure and £0.9 billion spent on operating freight services and High Speed 1 (figures do not sum due to rounding). In 2019–20, total rail sector income was £17.1 billion, of which £5.1 billion was government funding. The remaining £12.0 billion was earned income, the majority (80%) of which was earned through passenger fares.

The disruption to national rail services following the May 2018 timetable change, and the collapse of the East Coast Rail Franchise in the same month, led the government to announce the Williams review to examine substantial concerns from across the industry around the rail system's structural organisation and the delivery of rail services. Those concerns included long-standing issues that have been prevalent in the rail system including: poor passenger service performance, reliability and value for money; fragmentation between bodies in the system and the lack of clear accountability; concerns around cost pressures and financial sustainability; and the ability of the system to respond flexibly to future challenges and opportunities.

To add to these challenges, passenger demand has not continued to increase in the way anticipated by the Department and train operators (plateauing at around 1.35 billion journeys per year since 2015–16). This has contributed to problems with the financial sustainability of those franchises whose finances are dependent on continuing to maintain revenues at levels previously anticipated. In addition, during the COVID-19 pandemic the government told the public to stay at home if they could, and without passenger fare income, government stepped in to pay rail operators to keep services running. In doing so, it took on all risks associated with running the railway. The Department now faces an extremely challenging and uncertain environment in which to implement its proposed reforms.

Based on a report by the National Audit Office, the Committee took evidence on Thursday 13 May 2021 from the Department for Transport. The Committee published its report on 7 July 2021. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Overview of English Rail System – Session 2021-22 (HC 1373)
- PAC report: Overview of English Rail System – Session 2021-22- (HC 170)

Government response to the Committee

1: PAC conclusion: The Department lacks a convincing and timely plan for encouraging passengers back to the railway as part of COVID-19 recovery and risks an increase in car use.

1a: PAC recommendation: The Department should write to the Committee by December setting out the actions it is taking to encourage passengers back to the railway. This should include:

- ***a plan for rail fare reform and flexible ticketing post-pandemic.***

1.1 The government agrees with the Committee's recommendations.

Target implementation date: December 2021

1.2 The government will write to the Committee in December 2021 setting out plans for rail fares reform post-pandemic by December 2021, building on the ambitions set out in the Williams-Shapps Plan for Rail. Fares reform and flexible ticketing both featured in the Plan published in May 2021. The Department for Transport (DfT or the department) has already taken action to deliver more flexible ticketing by introducing new flexible season tickets across England on 21 June 2021. The new tickets offer most 2 and 3-day-a-week commuters' savings against buying daily tickets or traditional seasons, ensuring there is a new product available to suit changed commuting patterns post-pandemic.

1b: PAC recommendation: The Department should write to the Committee by December setting out the actions it is taking to encourage passengers back to the railway. This should include:

- ***the steps it is taking to integrate across public transport to provide a joined-up transport system for passengers.***

1.3 The government agrees with the Committee's recommendations.

Target implementation date: December 2021

1.4 The government will write to the Committee in December 2021. The UK already has a well-developed and integrated public transport system. In 2019, 81% of rail users travelled to the station by public transport or active travel. In addition, DfT is delivering a new package of measures to support the return of passengers following the COVID-19 pandemic.

1.5 The government has set out in the Williams-Shapps Plan for Rail, the National Bus Strategy and the Prime Minister's long-term Walking and Cycling Plan, how it will further integrate public transport for passengers, encouraging more people to travel by rail and use public transport or active travel as part of these journeys. The government's commitments include:

- £3 billion for buses in England outside London. Railway stations will increasingly be hubs for local bus services, with full information displayed about connecting buses and greater availability of integrated ticketing between rail, light rail and bus services,
- cycling to the station and taking it on a train will be made easier. This includes £2 million funding in 2021-22 for cycling facilities at train stations and cycling routes to stations through the Cycle Rail Fund.
- in England, new partnerships with Great British Railways' (GBR's) regional divisions will give areas greater control over local ticketing, services and stations, and
- station management will be integrated within GBR to improve accountability for long-term investment in stations and identifying ways to improve connections with walking, cycling and other transport services.

1c: PAC recommendation: The Department should write to the Committee by December setting out the actions it is taking to encourage passengers back to the railway. This should include:

- ***how Network Rail is actively managing rail timetables and services to respond to emerging demand patterns.***

1.5 The government agrees with the Committee's recommendations.

Target implementation date: December 2021

1.6 The government will write to the Committee in December 2021. The number of passengers using the rail network is steadily increasing as the government's Coronavirus road map encourages more people to travel by train (at August 2021, approximately 58% of passengers compared to typical pre-COVID-19 period). However, demand is not returning uniformly. Train operating companies (TOCs) are encouraged to align efficiently passenger capacity and demand whilst maximising revenue generation potential. Operators have submitted detailed business plans for the 2021-22 financial year and high-level forecasts of activities for the following 3 years. This process is designed to allow operators to update their plans quarterly and annually and contains both immediate efficiency measures for 2021-22 and outline strategies to drive revenue and demand recovery, align services to changing demand trends and drive cross industry efficiencies.

1.7 The department set up a new Rail Revenue Recovery Group (RRRG) within Network Rail to provide expert revenue advice and develop cross industry initiatives to drive revenue recovery. RRRG is made up of Owning Group secondees who have revenue related experience, advisors and Network Rail employees.

1.8 It is not yet clear how the numbers of people travelling will be affected by Stage 4 of the COVID-19 Response road map (which was implemented from 19 July 2021) and subsequent events, such as the increase in the number of people being pinged by NHS Track and Trace for contact with someone with COVID-19. The department is working with Network Rail, the Rail Delivery Group and TOCs to understand these changes in travel patterns and to adjust services to suit conditions.

2: PAC conclusion: In recent years, we have identified serious failings in the rail system, and the Department must now overcome significant long-standing issues to bring about complex reform.

2: PAC recommendation: By December, the Department should write to the Committee setting out clear roles and responsibilities between bodies in the rail system for the delivery of reforms, and a timetable for implementing the system-wide reforms proposed in the Rail white paper.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

2.2 The government will write to the Committee in December 2021. The government has set up a Rail Transformation Programme within the department and rail industry to establish a common understanding of the vision, set out the phases of delivery and work collectively with the sector to design the transformation and implement this major programme. The Chief Executive of Network Rail, a respected leader in the sector, has been asked to develop plans for establishing interim arrangements, drawing from across the industry and beyond, including the Rail Delivery Group, government and Network Rail. There are three distinct phases to the programme with indicative deliverables:

- Phase 1 initiates the programme and supports sector mobilisation. It will comprise the design of the end state Sector Target Operating Model (STOM), which will provide organisations with the necessary parameters and guidance to undertake the organisational design required to deliver the commitments in the Williams-Shapps Plan for Rail.
- Phase 2 will focus on building operational capability and starting the realisation of programme benefits, whilst undertaking collaborative delivery of the sector target operating model. Legislation required for structural reform (2022-23) will be progressed, and the 30-year strategy, national accessibility strategy and environmental plan published. Test and learn fares initiatives and the Delay Repay 15 rollout will be launched.
- Phase 3 is the transition to business as usual operations, with a policy framework in place to execute strategic plans, a collectively transformed sector and Great British Railways fully operational from 2024 onwards. Statutory accountabilities can be transferred when legislation comes into force and end state capability will be in place. New local and regional partnerships, a long-term investment programme for accessibility and full multi-modal ticketing will be in place.

3: PAC conclusion: Published information from the Department and the Office of Rail and Road on whole-system costs and revenues is not sufficient to inform proper oversight of the rail system, given the extent of taxpayer exposure.

3a: PAC recommendation: The Department should write to the Committee by December setting out its plans to improve transparency. As a minimum these should include:

- ***the regular publication of 'whole-system' financial data, further developed to assist meaningful oversight.***

3.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

3.2 The government will write to the Committee in December 2021. The government's financial support for the railway has increased sharply since the start of the COVID-19 pandemic, and it now bears direct and immediate financial risk on most costs and revenues of train operators. As a consequence, these operators have been reclassified to the public sector in the National Accounts.3.3 In these circumstances, the government recognises the value that greater financial transparency can bring to the industry. Steps have already been taken in this direction. In July 2020, the government began publishing data on the operational support payments made to operators under the COVID-19 emergency agreements.

3.4 This material has been updated on several occasions since initial publication and extended to include data on management and performance fees payable to operators. There was no equivalent publication under the pre-COVID-19 commercial arrangements.

3.5 Initial work has already begun to develop 'whole-system' financial reporting and analysis capability, as part of the implementation of the Williams-Shapps Plan for Rail reforms. In the first instance, this information will be used within the sector to improve decision-making. Government will consider options for publishing a version of this material once complete, albeit noting that some commercial and regulatory constraints may apply. Specifically, in certain contexts the release of specific financial information may adversely affect the government's commercial position in negotiations with suppliers. Furthermore, some train operators are subsidiaries of publicly listed companies. As such, certain information about their finances may be market sensitive and thereby subject to constraints on the timing and manner of its release.

3b: PAC recommendation: The Department should write to the Committee by December setting out its plans to improve transparency. As a minimum these should include:

- ***regular reporting to Parliament on the progress and implementation of the Rail white paper.***

3.6 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

3.7 The government will write to the Committee in December 2021. The department will provide regular updates on progress and implementation of the Rail Transformation Programme to Parliament, including through the Transport Select Committee. The programme will also join the Government Major Project Portfolio (GMPP) by the end of 2021, and will report progress, quarterly, as part of standard GMPP reporting requirements; GMPP reports are publicly available on the government's website: GOV.UK.

4: PAC conclusion: It is not yet clear that the interim National Rail contracts fairly distribute risks between government and operators, or provide incentives for operators to deliver efficient, high-quality, and value-for-money passenger services.

4: PAC recommendation: The Department should set out in its Treasury Minute response the high-level terms of the new National Rail contracts, where revenue and cost risk will lie, and how it is using these to incentive improved performance, beyond the planned performance-based management fees.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2021

4.2 National Rail Contracts (NRCs) require train operators to deliver against annually-agreed business plans (ABPs) and performance targets. This allows these contracts to evolve as the industry recovers from the COVID-19 pandemic and reforms are implemented. Each year, the department will specify its objectives and negotiate updated business plans to help deliver those.

4.3 Revenue and cost risk sit with the department, subject to stringent tests of the efficiency of costs and revenue collection. Having limited financial risk allows operators to focus on operational areas within their control to drive improvements. The government will benefit from post-COVID-19 pandemic revenue recovery and cost savings from efficiency improvements. Annual budgets set caps for cost reimbursement to operators – NRCs require evidence and mitigating action before those caps can be increased.

4.4 The performance-based fee directly incentivises improved performance, with flexibility to switch from qualitative to quantified measures as circumstances permit. Fees are reduced if performance is poor; the department can require operators to develop and implement improvement plans.

4.5 ABPs will include commitments to specific activities, outputs and timescales, with operators contractually obliged to meet those commitments and the department can require remedial plans where they are not met. Where appropriate, the department can agree

'Industry Change Projects' with operators to further incentivise delivery of reforms that expose the operator to significant additional risk.

4.6 NRC rollout is ongoing, with three now in place (South Western, TransPenine Express and c2c). Before NRCs are agreed, a full business case is approved to ensure the contract is designed to incentivise improved performance, including Williams/Shapps Plan for Rail reforms.

5: PAC conclusion: We are disappointed at the lack of progress in agreeing a specific and funded plan for the electrification required to achieve the government's own net zero targets

5: PAC recommendation: In its December letter to the Committee, the Department should set out how it will work with others to deliver the electrification required to meet net zero commitments over the long term, and how it plans to fund a stable programme of investment.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

5.2 The government will write to the Committee in December 2021. In July 2021, the government published the Transport Decarbonisation Plan, which outlines how it will achieve net zero carbon emissions across all modes of transport, together with a Rail Environment Policy Statement. These documents include a commitment to deliver an ambitious, sustainable, and cost-effective programme of electrification, guided by Network Rail's Traction Decarbonisation Network Strategy (TDNS). TDNS recommends electrifying circa 85% of the remaining unelectrified network and deploying battery and hydrogen trains on the remaining 15%.

5.3 In the three years to 2021, almost 700 track miles were electrified in England and Wales. The department will take forward new electrification schemes through the Rail Network Enhancements Pipeline (RNEP), ensuring lessons from previous schemes are learned and individual projects deliver value for money. The RNEP will continue to allow the department to use this government's significant investment in rail infrastructure to take forward priorities such as decarbonisation. By managing that funding as a portfolio, DfT can ensure that investment is made in the schemes that will have the greatest impact.

5.4 The William-Shapps Plan for Rail promises to bring together responsibility for the whole system under a single organisation. GBR will be responsible for identifying the right technology for the right part of the network, delivering the necessary infrastructure, and commissioning the right train services, ensuring the decarbonisation target is met by 2050. DfT's sustained electrification programme will present opportunities to develop supply chain capacity and support long-term employment opportunities.

6: PAC conclusion: It is not clear to us how Network Rail expects to achieve the remaining efficiencies planned in Control Period 6.

6: PAC recommendation: Network Rail should write to the Committee by December to set out its efficiencies plan for the remainder of Control Period 6, how exactly it plans to achieve the £3 billion of efficiencies remaining, and how the efficiencies process is governed, monitored and incentivised.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

6.2 Network Rail will write to the Committee in December 2021. Network Rail remain committed to delivering the committed efficiency improvements in Control Period 6, and Network Rail will continue to be held to account for doing so by the independent Office of Rail and Road. Network Rail is developing a detailed response to recommendation 6 for submission by December 2021. In this, Network Rail will further set out how it will achieve the efficiency target in Control Period 6 and address wider points raised by the Committee:

- set out improvements in approach, process, incentivisation and governance for Control Period 6 delivery;
- describe the efficiencies framework to track the movement of industry costs over time;
- provide details of efficiency targets for the remaining years of Control Period 6;
- explain the increase in the Operations, Maintenance and Renewals (OMR) efficiency target from £3.5 billion to £4 billion; and
- provide further detail on the impact of the COVID-19 pandemic.