



Getting Great British Railways on track

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Summary

On 20 May 2021 the government published *Great British Railways: The Williams-Shapps Plan for Rail*, which announced the formation of Great British Railways (GBR).¹ This new arm's length body is intended to reduce the fragmentation and complexity of the current rail system, which suffers from a lack of strategic direction, inefficiencies associated with the array of bodies involved, and unnecessary confusion for customers. Both industry insiders and passengers agree reform is needed, and the announcement has generally been well received.

However, there remains a great deal to do to translate the government's high-level vision into a concrete plan. The government needs to set clear objectives for GBR, clarify the new body's operational freedoms, recruit the right leadership and plan the transition in greater detail than offered in the white paper. It then needs to maintain long-lasting political support across Great Britain. This short paper outlines the form and function of the new body, and offers some key tasks the government should set itself to make the reforms a success.

How the rail system will be simplified

GBR will run and plan Great Britain's rail network (Northern Ireland Railways is not affected by the reforms). It will receive fare revenue and set most fares and timetables. It will also maintain the network's infrastructure, previously the role of Network Rail. In place of the current franchising system, GBR will contract with private firms to run trains to specified timetables and fares – as is already the case with London Overground, for instance – while incentivising them to meet other objectives including punctuality and demand. This is not full nationalisation, but an attempt to better align risk and return than was possible under the previous arrangements and to more coherently plan what cannot be delegated to a market. It is a somewhat simpler structure that better reflects the fact that a railway is a natural monopoly requiring a degree of central oversight and control.

The key simplification is reform of what has been called the 'money-go-round' in which passengers currently pay fares to train operating companies (TOCs), which in turn pay fees to the Department for Transport (DfT), along with access charges to Network Rail. At the same time, DfT pays subsidies to the TOCs and a grant to Network Rail, which pays compensation as necessary to the TOCs. In the new model, GBR will receive fares from passengers and grants from DfT, and will pay fees to the 'passenger service operators' that will replace TOCs.*

There will be other simplifications, such as GBR being accountable for simplified ticketing across the network rather than all ticket sales being the preserve of individual TOCs, but the formation of GBR by no means removes all the complexity of the current system. There will still be passenger service operators (both those running GBR's timetables and potentially 'open access' operators adding more routes), freight operators, regulators, safety investigators, consumer champions and more in the mix. It will also remain difficult for GBR to work consensually across Great Britain's increasingly complex local, regional and devolved political landscape, with many rail lines crossing local authority as well as national borders.

Getting the right personnel and governance in place early will be essential. The public cares a lot about railways and GBR will need both meaningful operational independence and strong political sponsorship to survive. It will not be able to please all its stakeholders all the time, but it will certainly fail if they stop wanting it to succeed.

* This is a simplified description – see Department for Transport, *Great British Railways: The Williams-Shapps Plan for Rail*, CP 423, The Stationery Office, May 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/989810/gbr-williams-shapps-plan-for-rail.pdf, pp. 50–51.

Leadership and vision

GBR's leaders will not be starting with a clean slate. For example, given that GBR will absorb Network Rail and some teams in DfT, significant roles and status for their staff in the new organisation are likely. Abandoning the franchise model might also reduce the influence of passenger service operators, as compared to the TOCs, on decision making, which could potentially render local passenger concerns a lower priority (contrary to the intention of the reforms). The creation of GBR may therefore tend towards not only a simplification of the institutional landscape but also a more nationally focused and engineering-led approach to running the railways.

This could have several outcomes. An engineering-led GBR might, for example, tend to prioritise maintaining reliability over increasing capacity. There has been real tension between TOCs needing to run more trains to be profitable and Network Rail struggling to deliver the required network capacity as fast as promised. An inability to square this circle has contributed to high-profile TOC failures and timetabling fiascos.* GBR should have greater authority to resolve such tensions internally, but it is important to consider how it is likely to do so.

Government should set GBR clear objectives that enable it to trade off priorities such as reliability, capacity, cost, service quality and climate change (which is identified as a priority in the *Plan for Rail*²) – and to be held to account for how it does so. It will need a leadership team that can understand the tensions between these priorities and reconcile them in the context of a clear overall strategy for the railways. GBR will also need clarity as to the extent of its own role in developing that strategy relative to government.

However it is determined, GBR's strategy will need to lock into government's wider vision for a post-Covid recovery. It will need politically sophisticated leadership and structures that enable it to partner with DfT and the centre of government at the same time as making autonomous decisions within its own competence. Covid aside, Great Britain's travel needs are evolving, and transport technology continues to change rapidly. Despite its remarkable resilience since the 19th century, Britain's extensive rail network has an uncertain future. GBR will need to be able to look ahead with clarity to make best use of it.

* In at least some cases the TOCs involved might reasonably blame Network Rail for over-promising and/or under-delivering, to their shareholders' considerable cost: Calder S, 'East Coast main line: as another franchise hits the rocks, is rail doomed to fail?' *Independent*, 16 May 2018, retrieved 3 June 2021, www.independent.co.uk/travel/news-and-advice/east-coast-mainline-route-rail-franchise-failure-virgin-trains-renationalisation-a8354316.html; Topham G, 'The great timetable fiasco: what's gone wrong with England's railways?' *The Observer*, 9 June 2018, retrieved 3 June 2021, www.theguardian.com/business/2018/jun/09/uk-railways-great-timetable-fiasco-whats-gone-wrong

Key tasks for government

- Ensure GBR's leaders can convene and work with all of the specialists needed to make GBR successful.
- Set clear and enduring objectives for GBR, which enable it to weigh competing priorities and against which its performance can be assessed.
- Agree long-term strategic aims for the rail industry as a whole, not just for GBR as an organisation.

Transition

The government has set out a vision for GBR in broad terms. But there is little detail on how to get from here to there. Given the complexity of the current system the transition may be harder than GBR's eventual day-to-day operation. In particular, the government will need to ensure that the two-year contracts it plans to announce as a "bridge to reform"³ later this year are well defined. It will be hard to create the right incentives and controls over such a short period while the wider system is still adapting from a franchise model and recovering from the disruption of the pandemic. The operational challenges in setting up a new body will also need to be addressed, including where it will be headquartered, how staff will transfer to it from existing bodies and what budgetary and recruitment flexibilities it will have.

Key tasks for government

- Develop a clear and appropriately phased plan for the transition.
- Maximise the value for money achieved through two-year bridging contracts.
- Ensure public confidence in GBR survives an inherently complex and messy period of change.

From franchises to contracts

In a classic franchise, a franchisee is granted use of a franchisor's proprietary brand, knowledge and processes in exchange for a fee. A contract, on the other hand, is a legal agreement whereby one party provides specified goods or services to the other for a fee. The distinction is not precise, and current rail franchise arrangements are at the more contract-like end of the franchise spectrum.⁴ The shift towards more tightly specified contracts under GBR may not be seismic, therefore, but it is still a shift: operators will no longer set timetables, for example. In this context, it will be important to show that sufficient room for private sector innovation remains to justify the costs of contracting out rather than simply bringing the entire operation in-house.

The proposed contract model will require passenger service operators to take on less financial risk than TOCs do at present, as they will not be responsible for ensuring total fares received cover the fees and access charges they currently pay to use the network, but instead will simply need to keep their running costs below the operator's fee they receive. This less leveraged proposition could broaden the field of contract bidders⁵ but it is not yet clear how successful bidders will then innovate to increase profit in practice, given the limited levers they hold. One route open to them would be to reduce staff costs, which the *Plan for Rail* hints at by flagging above-inflation pay rises over the last decade.⁶ Another would be to increase demand, as operators' fees will still be pegged to that. But a demand-linked fee may be insufficient in itself to encourage companies to deliver what government hopes they will in terms of passenger experience and service quality. Such outcomes may therefore need to be the subject of carefully written contractual terms.

The decision not to nationalise passenger service operators – which was politically inevitable – means contracting with the private sector will be central to GBR's role. What the *Plan for Rail* describes as “blame culture”⁷ (with TOCs and Network Rail debating responsibility for delays) is not really that, but rational behaviour in the context of a contractual relationship: if it costs £1,000 to prove that a £5,000 liability for compensation should contractually fall to Network Rail instead of the TOC, it is economically rational for a profit-maximising TOC to spend £1,000 to prove that point. As an arm's length body GBR may have a better chance than DfT of keeping contracts simple, but it could still struggle to eliminate this kind of unproductive dispute.

Any inefficiencies in the system, of course, will reflect badly on GBR as well as its contractors. Reducing the sheer number of interfaces involved in the 'money-go-round' is a step in the right direction, but it is not yet clear precisely how, in practice, the new structure will reduce contention over track access or timetabling, for example, rather than just displacing it elsewhere in the system. What was previously a debate over a TOC's subsidy may simply become a debate over an operator's fees or the investment GBR commits to on the lines it uses.

Finally, of course, contracts are enforceable only up to a point and operators may in some circumstances feel obliged to walk away from them. GBR will need to consider how easily contracts should be renegotiable by either party when things do not go as expected.

Key tasks for government

- Evaluate how operators will be incentivised to make money in practice.
- Create incentives commensurate with government's aims.
- Ensure the contractual interface between operators and GBR is as streamlined as possible.
- Minimise the substantive areas subject to ongoing dispute between entities in the system.

Devolution, localism and 'pork barrel politics'

The parliamentary debate that immediately followed the publication of the *Plan for Rail*⁸ was characterised by calls for nationalisation from Labour, for devolution of rail from the SNP and for the funding of specific constituency projects by several MPs (despite these being under consideration through a separate process).⁹ Navigating these and other political touchpoints will not be easy.

The government will probably be able to continue to sideline calls for nationalisation, as long as the new system is seen to work, but calls for devolution could be trickier. GBR is being established to create a clear common brand as well as a seamless operation, and this inevitably places it within the orbit of devolved politics. For some, the branding will help to build British identity; for others, it will grate and cause resentment, however GBR performs. The new body cannot be expected to manage these tensions itself and will need ongoing political support.

At the same time, sensitivity to local needs will be essential. GBR will require the capacity and expertise to work closely with local, regional and devolved leaders to understand their plans for their areas and to ensure investment in rail complements wider infrastructure and industrial strategy. The proposals try to strike the right tone here, but the devil will be in the detail: in particular, expensive infrastructure projects can often be higher profile than cheaper service improvements that achieve better value. GBR is not only a national initiative in a country with increasingly assertive devolved and regional government, but it also appears to be receiving responsibility for some areas in which there is a prima facie case for more localised management, such as station real estate and commuter timetables.

An arm's length body may be better placed than DfT to shield ministers from political demands for particular local projects. It should go without saying that the relative value for money of such projects needs to be considered comparatively and in the round. It will be both important, and politically difficult, to be clear at the outset regarding the decisions GBR can and cannot make, the basis on which it can make them, and any appeals process. If GBR tries to decide everything itself local stakeholders may feel aggrieved when their proposals are not taken forward, without feeling responsible for the difficult trade-offs that will have to be made. There would then be little to stop local leaders demanding the world and simply blaming central government when it is not given. GBR must therefore aim to involve local leaders in these trade-offs sufficiently for them to share responsibility, which will be difficult to achieve without delegating a meaningful degree of influence to them.

Key tasks for government

- Establish a sufficiently robust decision making structure for selecting major projects, which can resist incentives to prioritise flagship infrastructure projects over routine service improvement.
- Build skill and capacity in GBR to interact with local and devolved stakeholders, and to partner effectively with them when they hold the salient knowledge and expertise.
- Develop a plan to build and maintain the necessary political support for GBR to weather strong public interest and potential resentment in the devolved administrations.

Long-term planning and operational independence

The *Plan for Rail* notes that the complexity of the existing landscape has led to a need for micromanagement:

“Many aspects of the whole network were minutely specified and controlled by the Department for Transport... The sector’s structures do not work: people working in the rail industry are disempowered, and central government should not be so closely involved in operational decisions.”¹⁰

DfT’s own involvement has evolved through incremental problem solving and is unlikely to be optimal as a result. The creation of GBR is an opportunity to put more streamlined processes in place from the outset. The department must resist any temptation towards ongoing micro-management. This will involve delegating meaningful discretion as well as functions to GBR: DfT should not feel obliged to repeat, regulate or audit everything that GBR does.

To achieve this, it is essential to create a clear distinction between what are properly political judgments (for politicians, supported by civil servants) and what are technical or commercial judgments (for functional experts). There is no objective way to make the distinction, so it will be necessary to set clear boundaries to GBR’s autonomy and to maintain a political consensus around these on an ongoing basis. This will require sustained commitment from both politicians and GBR’s leadership.

To give just two examples: should there be political involvement in the question of whether a late night service used by few passengers (but important to those few) should be maintained – or even which station entrances should be open at which times? Decisions on where the many such boundary issues sit will need to be worked through, and subsequently defended.

* The closure of an entrance at New Malden station some years ago was the subject of a local campaign including Ed Davey MP. Grove K, ‘South West Trains to begin work on New Malden station gate’, *Sutton and Croydon Guardian*, 10 September 2009, retrieved 2 June 2021, www.yourlocalguardian.co.uk/news/4592035.south-west-trains-to-begin-work-on-new-malden-station-gate

GBR should also be empowered to plan over a timeframe that is commensurate with its work. The five-year funding horizons that go with spending reviews and parliamentary timetables are not sufficient. The *Plan for Rail* says that GBR will set its strategy on a 30-year basis, but the strategy will remain subject to political negotiation while projects are in-flight unless funding streams are commensurate with this timeline. Government will need to clarify the practical status of GBR's long-term strategy and to consider the extent of its borrowing rights from the National Investment Bank, for instance.

GBR will need to be commercially minded without maximising profit. Unlike some other public services, the railways have paying customers who can choose whether they use it. But the wider public and politicians will make demands too, and GBR will have to accede to at least some of these while implementing them as cost effectively as possible. To succeed with the public, GBR will also need to invest in its brand in a way that Network Rail – less visible behind the TOCs – did not. Whatever independence it is formally gifted, GBR's activities will receive ongoing political and public scrutiny, and navigating this will be a key requirement for success.

Key tasks for government

- Agree a workable distinction between political, technical and commercial spheres of decision making, with GBR expected to be commercially minded but not to simply maximise profit.
- Clarify how GBR's 30-year planning horizon will align with its five-year funding settlements.
- Develop strong and enduring working relationships between GBR, DfT and ministers.
- Ensure GBR does not end up being micromanaged by government in practice.

Conclusion

Getting GBR on track will not be easy. Its announcement is positive news, but the new arm's length body will succeed or fail in the coming years depending on how the many implementation challenges raised in this paper are addressed. Over the longer term, potential changes in transport technology and travel needs make the future of railways hard to predict. As well as delivering for the present, GBR will also need to help develop a transport infrastructure for the next generation in which its own role could be quite different.

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