Ready for lift-off:

Preparing the UK Rail Industry for the Post Corona Age

The current effective nationalisation of the UK (passenger) rail industry gives us a real opportunity to take a breath, learn from 25 years of privatisation and consider some possibly radical solutions. Government currently has all the levers, except the trains themselves and the freight sector. So, on a full, mixed use network, away from the constraints of EU requirements, what are the possible ways forward? This is the first in a series of articles by Banister International seeking to broaden the debate away from the narrow confines of the much-delayed Williams' Review to cover the whole industry.

These articles will be structured around some of the real thorny issues concerning any industry structure. When both the public and private sectors are involved, an important question is allocating risk to the party best positioned to manage it. This article considers who should manage the revenue risk and will be followed by further publications to consider infrastructure risk, cost risk and quality risk.

The UK has ended up with an industry structure that is unique across Europe. The vast majority of other countries have kept a national passenger operator but allowed competition at a local level. We in the UK have let a thousand flowers bloom and ended up with 18 franchises, 3 Open Access Operators, 3 concessions, 5 freight companies and a nationalised infrastructure manager. Nowhere else do we see such a disparate industry structure. We wanted to portray ourselves as trail-blazers, but maybe we have missed something. And whilst many have espoused the success of privatisation in terms of investment, most of this has been government backed. Can an industry that delivered profit margins of 0.5% on sales be considered a triumph? Hardly.

Just before Corona, it was the worst kept secret in the industry that almost all passenger franchises let since 2012 were in trouble primarily around revenue not reaching the levels that were assumed at bid stage. Government, and in particular Treasury, has come to realise that what they thought had been transferred to the private sector had landed back on their desk. One way forward is to accept this situation, accept the risk and box on with a series of TfL-style concessions. But does it really have to be this way?

All franchise bids were based on the Passenger Demand Forecasting Handbook (known by the snappy title of PDFH) produced in the days of British Rail. Post Corona, surely the waste bin beckons for PDFH as travel habits change for good with the advent of Teams and Zoom. Travel will still be needed as humans seek to meet face-to-face but commuting 5 days a week is a thing of the past for many of us in our service-driven economy. So, what we do know is that demand is likely to be less, different and highly variable compared to previous models and it is a brave plc board that will put its balance sheet on the line to take on that risk.

One solution we have not tried is sharing the risk. As 20% of Train Operating Company (TOCs) costs are variable, why don't they take 20% of the revenue risk? Or rather than taking a straight percentage, could a TOC take the risk on the next few years growth (or decline?) i.e. the froth on a pint of beer rather than the whole glass? Another option is to have a simple pence per mile or pence per passenger payment. Treasury will not be happy but surely, they have realised after three franchise failures that this risk is more theirs than they first thought?

One implication of a revised risk profile is that a new breed of commercial managers will be needed to consider and drive revenue in the new world. Gone will be the big beasts of the Excel-hungry demand models. Welcome the new breed of data driven, technology literate graduates of the world of Google. People with new insights and a real understanding of customer behaviours, needs and mobility requirements. Rather than graduates of transport economics, it will require alumni of the school of social enterprises. Those skilled in defining personalised products in the digital age. The winners in the new age will be those preparing now, not only thinking about the structure of their industry but the structure of their teams.

The choice for the next era of the UK rail concerning revenue is for Government to take it or share it. Take it, and they will miss out on a significant body of expertise in the private sector built on driving revenue. Share it will require new skills on all sides. Let the real debate begin.