

## **Alert** | Rail & Transit



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### **UK Rail Review – Williams-Shapps Plan for Rail**

On May 20, 2021, the “root and branch” review of Great Britain’s railway industry was published in the form of a [white paper](#).

The DNA of this document can be traced back to the review prompted by the 2018 UK rail timetable predicament, and there was extensive speculation regarding its publication prior to the general election in December 2019. Much has since changed, and the extent of the re-editing has been formally acknowledged by the renaming of the review from the “*Williams Review*” to the “*Williams-Shapps Plan for Rail*” (for the purposes of this GT Alert, the **Review**).

The first thing to note about the Review is that there is much more detail to follow, with extensive analysis of, and commentary on, the Review and the additional detail likely over coming weeks and months. This GT Alert sets out initial thoughts on the Review.

#### **7 PROMISES, 10 KEY OUTCOMES – AND 62 COMMITMENTS**

The Review has taken the approach of starting with seven promises and then focusing on 10 key outcomes. It also lists 62 commitments to deliver the 10 key outcomes, but these are not considered here.

**7 Promises (with our emphasis):**

1. Bring the railways back together, delivering more punctual and reliable services.
2. Make the railways easier to use.
3. Rebuild public transport use after the pandemic.
4. Maintain safe, secure railways for all.
5. **Keep the best elements of the private sector that have helped to drive growth.**
6. Make the railways more efficient.
7. **Grow, not shrink, the network.**

**10 Key Outcomes (with our emphasis):**

1. A modern passenger experience.
2. A retail revolution.
3. **New ways of working with the private sector.**
4. Economic recovery and financially sustainable railways.
5. Greater control for local people and places.
6. **Cleaner, greener railways.**
7. **Bold, new opportunities for rail freight.**
8. **Increased speed of delivery and efficient enhancements.**
9. Skilled, innovative workforce.
10. **Simpler industry structure.**

It is helpful that the Review has been distilled into 10 key outcomes, but this is not an ideal position for a rail industry that has waited so long already for this Review. This is not, however, surprising given the complexity of the issues to be addressed and the ongoing nature of the pandemic. There may be consensus in government for the high-level strategy being set out in the Review, but the devil is in the detail and the Treasury in particular will be concerned with how significant cost savings can be achieved through the implementation of the Review.

**GREAT BRITISH RAILWAYS (GBR) – AND THE OFFICE OF RAIL AND ROAD (ORR)**

There has long been a desire from all parts of the rail industry for the implementation of a strategic “guiding mind”. The reforms in the Review will bring back together track and train under a new arms-length public-sector body, “Great British Railways” (**GBR**):

- **Track:** planning and running the infrastructure, including the track, stations and depots; and
- **Train:** planning train operations, setting the timetable, setting most fares, collecting fare revenues, and being responsible for procuring private rail operators to run the services under the new PSCs (see below).

This means there may be less direct control from the Department for Transport and that Network Rail will eventually be absorbed into GBR.

GBR will develop a 30-year strategy and have regular five-year business plans. The 30-year strategy is expected to enable the sector to modernise efficiently, with the five-year business plans influencing infrastructure-funding settlements and levels of operational subsidy. A “Whole Industry Strategic Plan” has been commissioned, to be ready in 2022 and which will become the first 30-year strategy.

The ORR will remain, although legislation is expected which will revise its role to focus on monitoring, reporting and improvement across the sector. The modified ORR is expected to play an important role in holding GBR to account.

The Review emphasises that GBR must not be “just a bigger version of Network Rail” and that it must have “a new culture and customer focus”. The responsibilities and accountability of GBR are now in the process of being drawn up – it will take a little more time to find out precisely how this new body will operate and how it will achieve this new culture and customer focus.

#### **EMAs → ERMAs → NRCs → PSCs**

Reforming the rail franchising model was always a core part of the Review, and this was further emphasised in this year’s Queen’s speech. Even prior to the pandemic, the rail franchising model was in trouble, with small numbers of bidders participating in franchise competitions and reports of various franchises in severe financial difficulty. Rail franchising effectively came to an end in March 2020, when the pandemic resulted in the collapse of passenger numbers and forced the government to step in to avoid the failure of operators – such operator failure would have forced the government to step in to fulfil its section 30 obligations as the Operator of Last Resort.

The initial Emergency Measures Agreements (**EMAs**) were subsequently replaced by the Emergency Recovery Measures Agreements (**ERMAs**). The EMAs and ERMAs will now be replaced by interim direct awards (**National Rail Contracts**, or **NRCs**). It is understood (including from the early May 20 stock exchange announcements) that the majority of rail operators have agreed the terms of the proposed NRCs which are expected to run for a term of two years (plus an extension option for up to two further years) before the respective rail services are competitively tendered and replaced by concession agreements called “**Passenger Service Contracts**” (**PSCs**).

These PSCs are to be modelled on the Transport for London (TfL) concession structure, where TfL sets fares and receives all fare revenues, TfL is closely involved in monitoring performance and service levels with a focus on customer experience (including punctuality, safety and cleanliness), and the operator is paid a management fee with performance incentives and penalties.

TfL concession agreements also have developed various financial incentives which encourage certain behaviours designed to improve the passenger experience, including driving better collaboration between the train operator and the infrastructure operator in track maintenance. The Review refers to the PSCs driving improved collaboration between operators and GBR, and some of these TfL innovations may well

be reflected in the new PSCs in order to better align incentives and behaviours – and hopefully improve passenger experience.

The Review indicates PSCs may have different durations, which could be useful in having continuity of operations when implementing certain enhancements over extended periods. The tender process for the first PSCs is forecast to commence by 2022.

### **TICKETING REFORM**

Ticketing reform has been a hot topic for some time. The May 20 headlines have focused on the new types of fares that are designed to be more attractive to flexible workers. On initial review, the discounts for multiple journeys appear relatively modest, but the start of ticketing reform is a step in the right direction for passengers. It has also been announced that a new GBR website will sell tickets and a single compensation system for operators in England will provide a simple system for passengers to access information and apply for refunds. Note that this only applies to England, but it is intended that the ticketing reforms will integrate with the ticketing structures in both Scotland and Wales. The ticketing reforms set out in the Review are not as ambitious as many hoped, likely due to Treasury wanting to wait until post-COVID-19 passenger behaviour is understood before more ambitious changes are made.

### **DECARBONISATION**

As part of the initial 30-year strategy and in support of the “green recovery”, GBR is expected to develop an environmental plan which will decarbonise the entire rail network, as well as supporting wider whole-journey green initiatives such as cycle storage and EV charging points at rural stations.

### **PRIVATE SECTOR OPPORTUNITIES**

Chapter 6 of the Review is headed “**Unleashing the Private Sector’s Potential**”. In addition, the Review contains various other references to private sector involvement, including statements that “The government is ... determined to maintain and increase private involvement and private finance to supplement the money paid by the state ...”

From a private sector perspective, further details must be developed, as the content of this part of the Review does not provide a particularly clear roadmap as to how the private sector will be utilised. Furthermore, the examples provided are already well-known in the rail industry (e.g. rail freight, innovation and collaboration between rail operators and rolling stock leasing companies, the replacement of the franchising system and Network Rail’s plan to use railway arteries for installing a new fibre network (see the tender published in April for “**Project Reach**”). Potential future opportunities (based on the Review and other recent announcements) include:

1. **New Rolling Stock / Infrastructure:**
  - a. The private financing of rolling stock has generally been regarded as one of the most successful aspects of privatisation. The Review states the proposed reforms “do not assume any direct change to the current industry model for procurement of train fleets and maintenance by independent train-leasing companies”, suggesting new rolling stock will continue to be privately financed.

- b. The Review does, however, observe “there are around 75 different types of train in passenger service” – rationalisation may occur over time, possibly as part of the GBR 30-year strategy, and financiers should consider this when preparing proposals.
  - c. There may be an immediate requirement to procure certain new rolling stock (see the May 11 tender for £500m financing of the new fleet for **LNER**) and/or new infrastructure (depots/sidings) for specific rail operators. Given the short-term nature of the National Rail Contracts, these near-term procurements may be mainly relatively modest.
2. **Passenger Service Contracts:** It is anticipated that these will be long-term management agreements, although as mentioned above, they are expected to have various durations. The Review makes clear that the aim is to encourage new entrants into the rail operator market and the opportunity to obtain a long-term contract with a fixed rate of return may be attractive to new entrants and their investors. Under the longer-term Passenger Service Contracts, there is an opportunity to task rail operators with larger-scale rolling stock and/or new infrastructure procurements – which in turn could provide an ideal opportunity to address an ambitious decarbonisation plan for rail.
  3. **Freight:** GBR will include a national freight coordination team which will “help to embed freight firmly into strategic decision making, including by incorporating freight into the new 30-year strategy.” Changes are expected to ensure freight operators have “fair access to the network.” The Review also states the government will work with the freight sector to consider infrastructure enhancements which increase rail freight capacity or grow the rail freight market.
  4. **Real Estate Development:** The Review anticipates GBR working with other relevant bodies to develop real estate near the railways, including new housing schemes as well as broader developments in and around stations.
  5. **Beyond Condor and Reach:** It remains to be seen whether GBR will have sufficient autonomy to seek private sector investment for specific projects in a similar manner to which Network Rail raised funds from the 2019 £1.5 billion disposal of railway arches (Project Condor) and is now proposing with Project Reach.

Various processes are already underway to implement the Review, and more will commence shortly.

## Authors

This GT Alert was prepared by:

- **Graeme McLellan** | +44 (0) 20.3349.8729 | [mcllellang@gtlaw.com](mailto:mcllellang@gtlaw.com)
- **Richard Hughes** | +44 (0) 20.3349.8850 | [hughesri@gtlaw.com](mailto:hughesri@gtlaw.com)
- **John Voorhees** | +1 303.685.7465 | [voorheesj@gtlaw.com](mailto:voorheesj@gtlaw.com)

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