



Department  
for Transport



# Passenger Service Contracts Market Engagement Preview

13<sup>th</sup> October 2021

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# Foreword

We all want a successful future for our railways. The rail network provides mobility for people across the country and allows vital freight to move freely. It also helps our cities to function and reduces carbon emissions and pollution.

But the railway needs to be more customer focused and easier to use. And the current investment to maintain and operate the railway is not sustainable. It was announced in May that there would be the most ambitious and radical plan to reform our railways in a generation when we published the Williams-Shapps Plan for Rail.

A new public body, Great British Railways (GBR) will provide the guiding mind to deliver the changes, providing a single point of national leadership for the railways. GBR will co-ordinate the whole network with a focus on customers, both passenger and freight, ensuring that safe, high quality and punctual services can be achieved. Its structure will be based on regional divisions to get the right balance between a whole-system view nationally and bringing decision-making much closer to the people and communities it serves.

New Passenger Service Contracts (PSCs) will be introduced as a key part of this reform. They will establish a new way of working between the public and private sector to provide passenger services. Experienced partners will collaborate with the GBR team to deliver improved services across the network. PSCs will allow the private sector to focus on operating services and delivering the best possible customer experience, while building long and beneficial relationships across the sector.

This market engagement is the first step towards defining how the private sector can bring their expertise and work collaboratively with GBR to deliver services for passengers through these PSCs. The contracts will include strong incentives for operators to meet passenger priorities, while achieving a sustainable cost base.

Together, GBR and the PSC operators will also be able to foster innovation, build trust in the system and attract more passengers back to the network.

It is an exciting time for the railway, but transformation of the sector will not occur overnight. The whole industry knows that reform on this scale will be best achieved collaboratively, and that to build back better we must collectively deliver on the commitments in the Plan for Rail. In particular, the Department for Transport, the transition team setting up Great British Railways, and partners across the sector will need to work side by side to ensure the quality and success of the PSC contracts.

Until legislative changes are made and GBR is fully established this process will be led by DfT, with the transition team that is establishing GBR fully involved and working alongside them.

By proactively engaging with this process, you will be able to discuss matters openly with the Department and the transition team, and to express your views on how the new model should work. With your support and the benefit of your contributions, we will then launch the first PSC procurement exercise early next year.



**Peter Wilkinson**

**Andrew Haines**

**The Rail PSC Day will take place virtually on 4<sup>th</sup> November.**

# Chapter 1: Background

## Williams-Shapps Plan for Rail

The Williams Rail Review led by Keith Williams was launched in **2018**:

- A full range of options were assessed and considered to form a **package of solutions for the whole system**.
- Extensive research into **passenger needs, trust in rail** and **focus groups** across different regions enabled the focus on passengers, not just structures, and **identified the key findings**.
- The finding from the review underpin the **Williams-Shapps Plan for Rail**.

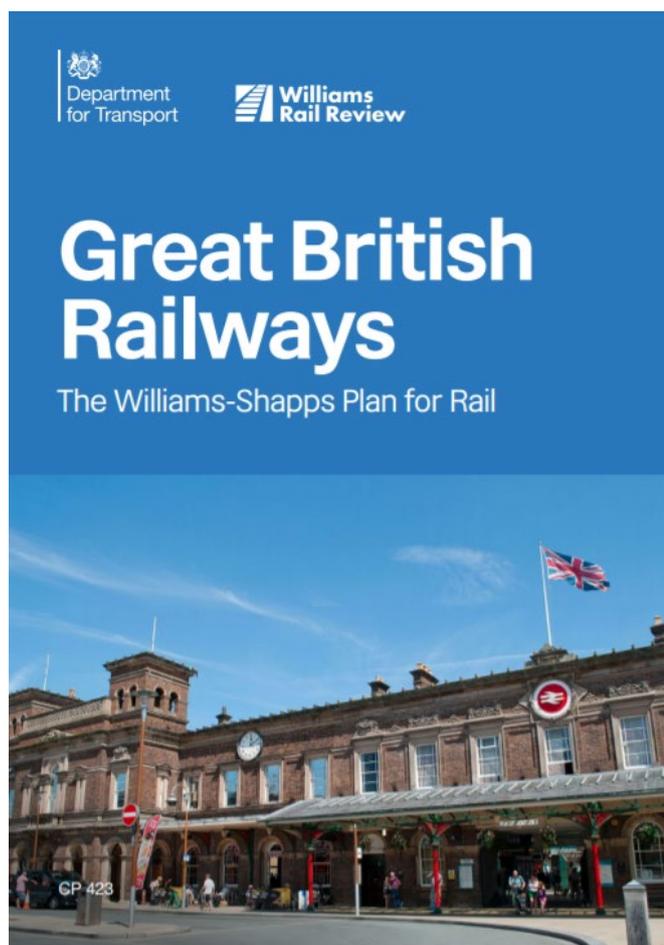


Figure 1: Image of the front cover of the Williams-Shapps Plan for Rail document.

## Key Problems

Six key problems were identified:

- The rail sector too often loses sight of its customers, both passengers and freight
- It is missing opportunities to meet the needs of the communities it serves
- It is fragmented and accountabilities are not always clear
- The rail sector lacks strategic direction
- It needs to become more productive and tackle long-term costs
- It struggles to innovate and adapt

## The Vision

Changes are required to transform the railways for customers and funders to meet the vision, including:

- A new body accountable to passengers, freight customers and local communities
- Clear accountability to Government
- New roles for private partners
- Decentralising and localising decisions
- Integration of planning, delivery and financial decisions
- A passenger champion, providing a voice to customers
- Amended role for regulator
- Simpler industry processes

Operators will work with GBR to deliver key outcomes from the Williams-Shapps Plan for Rail, including:

### **Modern Passenger Experience**

- High-quality, consistent services
- Accessible, reliable journeys that are well connected with other transport services
- New customer offers at stations and on trains

### **Retail Revolution**

- A new customer offer will be driven by clearer prices, easy to understand information and simpler travel with both contactless and cashless payment options

### **New way of working with the private sector**

- PSCs will bring a new focus on reliability, performance and efficiency
- New opportunities for innovators, suppliers (including small and local partners) and funders will be created through the sharing of ideas & collaborating with GBR, streamlined contracts and more contestability

### **Skilled, innovative workforce**

- Enhancing skills, leadership and diversity across the sector will create new opportunities for the hundreds of thousands of people working on our railways

### **Economic recovery and financially sustainable railways**

- The railways are a public service, paid for by taxpayers and passengers to connect places and foster economic growth through levelling up across our towns, cities, and regions



Figure 2: Ways in which operators are expected to work with GBR and deliver the outcomes from the Williams-Shapps Plan for Rail

## Future Passenger Service Industry Structure

GBR will bring accountability for the performance and finances of the railway together in a single organisation. GBR will enter into Passenger Service Contracts with operators to provide passenger services as set out in the Figure 3. GBR is overseen by and receives grants from the Secretary of State, with input from regional partners and devolved authorities. Meanwhile, GBR & regional railways provide grants and fees to passenger service operators, who provide services to passengers, who provide fares to GBR & regional railways.

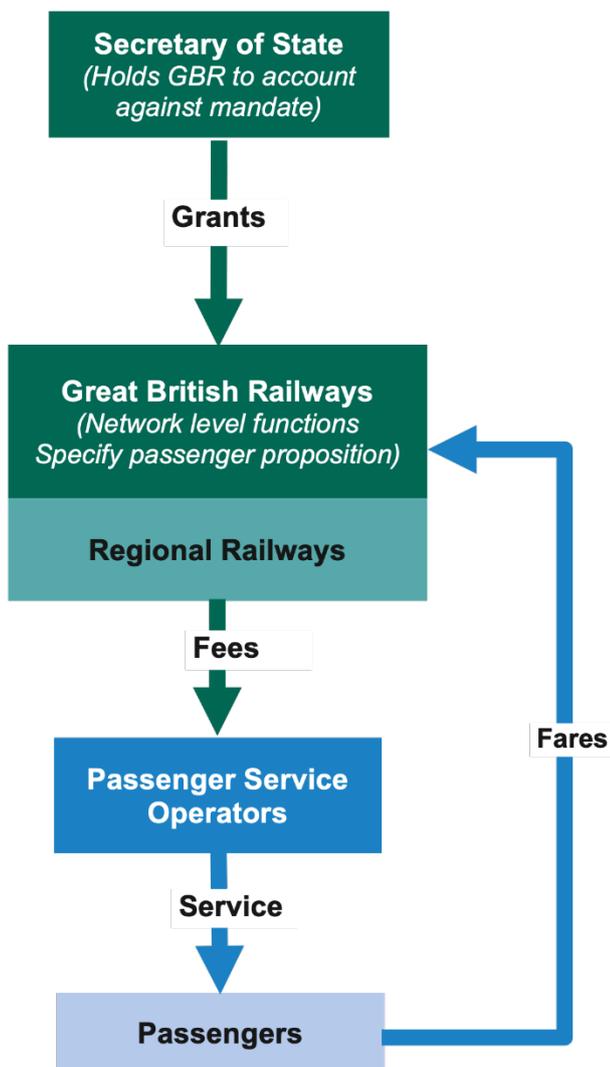


Figure 3: A flow chart showing the hierarchy of accountability in the future rail passenger service industry.

Note: This is a simplified graphic that does not demonstrate how some organisations operate across the sector. It excludes open access operators. In some markets operators will also share revenue with GBR.

## Chapter 2: The Opportunities for Bidders



## Be a part of this next chapter in the development of Great British Railways

### **The opportunity for bidders**

Collectively we are creating a better way to run Britain's railway so we can deliver a punctual service, that is simpler to use, cheaper to run and kinder to the environment. Operators will play a critical role in this transformation through the PSCs.

This market engagement exercise on PSCs is a unique opportunity for potential bidders, and the wider industry, to have a say in the way that the PSCs are developed and to shape the future of the largest portfolio of competed rail contracts in the world. Working together, we can ensure that the contracts meet the commercial requirements of investors and deliver on the vision for Great British passengers and communities.

### **A pipeline of competitions**

Future PSCs will be let at regular intervals. Initially, we expect these to be released one every 6-9 months. The frequency will provide the opportunity to review the competitions as they are competed. This will enable lessons to be learnt from the process as well as accommodating continuing development of both the commercial proposition post legislation and the maturing capability of the GBR team.

The launch of the initial competition is expected by the time the emergency recovery measures agreements end in 2022 with award of the first contract expected in 2024. It is anticipated that the first PSC will be for an operation which primarily serves commuter markets.

### **Contracts without exposure to revenue risk**

Operators will no longer be directly exposed to revenue risk outside of their control as fare revenue will go to GBR. Operators will be rewarded for efficiently providing high standards of operational performance and service quality rather than directly rewarded for revenue growth on most contracts.

Later PSCs for high-speed long-distance services may offer operators the opportunity to have greater influence over the definition of the proposition GBR offers to customers and the opportunity to benefit from direct incentives to grow passenger demand and revenue.



## Procuring Authority

The establishment of GBR requires legislation to be passed by the UK Parliament. Ahead of this change the Department for Transport will lead development of the PSC and act as the procuring authority for competitions that progress in advance of legislation. GBR's Transition Team will be working closely with the DfT throughout the process.

### A simplified procurement process

The Passport process used previously will be discontinued in 2022 and will not be used for PSC procurement, this will be replaced with a two-stage process allowing for each procurement to reflect individual competition objectives. Some technical requirements previously required will not be necessary under the new model.

For each PSC competition, the process will be:

- **Stage 1:** A Pre-Qualification Questionnaire (PQQ) which will be tailored to reflect specific characteristics of the contract. Prior to shortlisting, potential bidders will be asked to demonstrate their skills and experience using examples drawn from recent years against a series of questions.
- **Stage 2:** An Invitation to Tender (ITT) where bidders will be asked to set out their plans to deliver various requirements. The winning bid will be determined by components relating to price and components relating to quality.

Each competition is expected to take around two years from PQQ stage through to mobilisation of the contract. However, our intent is to make this as streamlined as possible, and we will be reviewing this to see where improvements can be made as we progress through the competitions.

Bidders will need to be able to demonstrate the necessary managerial capability, operational experience and financial strength to be considered for the award of a PSC.

### Funding Requirements

The new commercial model will pay the operators to provide train services to an agreed specification and price determined through future competitions. Operators will be expected to cover their costs through these fees from GBR.

Where costs are higher or performance is lower than expected, Parent Companies will be expected to provide funding to stand behind their operators, subject to a reasonable allowance for change in specifications. There will also be a requirement for a bond callable by GBR in the unlikely event that the operator's actions lead to default or early termination of the contract.

## Chapter 3: The Structure of the PSCs



## A new commercial model

The PSC will be a new commercial model that builds on the concession model that many railways across the world have used. The aim of the contract is to enable operators to collaborate with GBR to achieve the following objectives:

- Reflecting the needs of communities across the network
- Enhancing collaborative working
- Meeting passengers' priorities and needs, while growing rail usage
- Achieving Value for Money for passengers and funders
- Being deliverable and sustainable for the market, passengers and funders

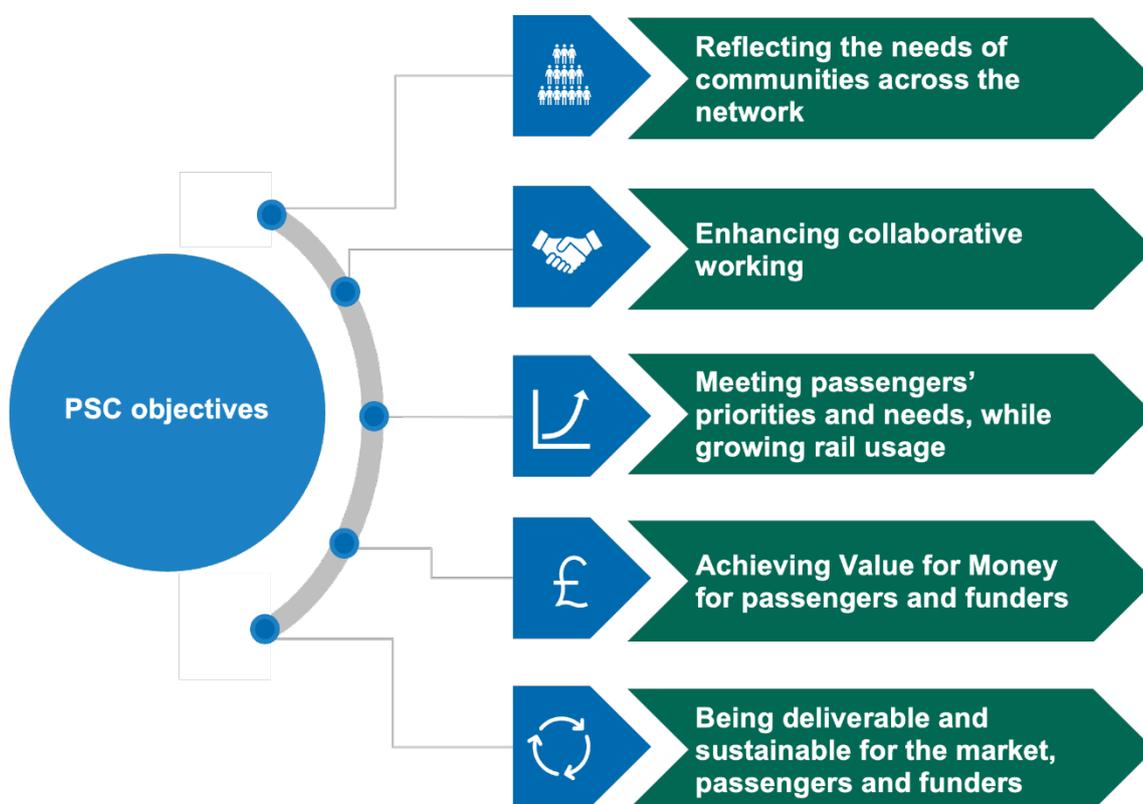


Figure 4: Key PSC objectives

GBR will run the railway in a new way – it will be simple, sustainable, separate – one single body to maintain and improve the infrastructure, set fares, sell the tickets and receive the money, plan timetables and run the network, and be fully accountable for these activities. Regional divisions will ensure we deliver a national network which meet the needs of local communities and regions, bringing decision-making much closer to the people and the communities it serves.

## Role of the Operator

Operators, when bidding, will identify the most efficient way to resource and deliver the specification. Their responsibilities will include:

- Operating trains to a high level of operational performance
- Procuring, preparing and maintaining rolling stock
- Delivering high standards of customer experience on train and at station
- Acting as a train service operations partner to GBR as it develops and refines its passenger offer



Figure 5: High-level responsibilities of the operator

We want operators to be good partners to GBR and GBR to be a good client with a strong collaborative culture. There will be a degree of flexibility in how operators deliver the specification to enable the operator to continue to innovate during the life of each contract.

## **Incentives**

PSC operators will be rewarded when trains are clean and comfortable and passenger satisfaction increases. Further, payments to PSC operators will depend mainly on trains being on time and minimal disruption for passengers. There will be additional incentive regimes for helping to reduce Ticketless Travel on the network and delivering on shared, whole industry objectives.

## **Workforce**

The operator will have a responsibility for resourcing operations with an engaged, capable, and diverse workforce. This role will include training, recruitment, and retention of operational staff, as well as managing relationships with staff unions. Responsibility for risks related to industrial relations and pensions will be considered during this market engagement.

## **Post Covid-19 recovery**

The pandemic brought into sharp focus the need for the industry to work together to protect and ensure that we have a network that has a sustainable future and it has responded positively to this challenge. This new commercial model will build on that great work, providing clear lines of accountability and a way of working that evokes partnerships and collaboration.

# Chapter 4: The Engagement Approach



## Morning session (09:00-12:00)

You will hear from:



### Why reform the railway?

Chris Heaton-Harris, Minister of State for Transport



### A new commercial model

Bernadette Kelly, Permanent Secretary, DfT



### Role of the transition team

Andrew Haines, Appointed lead of interim arrangements to GBR



## **Opportunity for Innovation**

Keith Williams, Chair of The Williams Rail Review

Followed by presentations from:

## **Sector reform & engagement plan**

Conrad Bailey, Director General, Rail Strategy & Services, DfT

## **An introduction to the transition team**

Rufus Boyd, Programme Director, transition team to GBR

## **An introduction to PSCs**

Peter Wilkinson, Managing Director, DfT

## **What we plan to buy**

Simon Smith, Director, Policy, Operations & Change, DfT

## **Commercial proposition**

David Edwards, Deputy Director Commercial Model Design, DfT

## Afternoon session (13:00-16:00)

The afternoon will consist of several breakout sessions, which will cover some key topics in more detail including:

- Operational Performance
- Customer Experience
- Capital Requirements, Bonding & Change
- Collaboration, Culture & Partnership
- Stations & Access
- Pre-Qualification Questionnaire

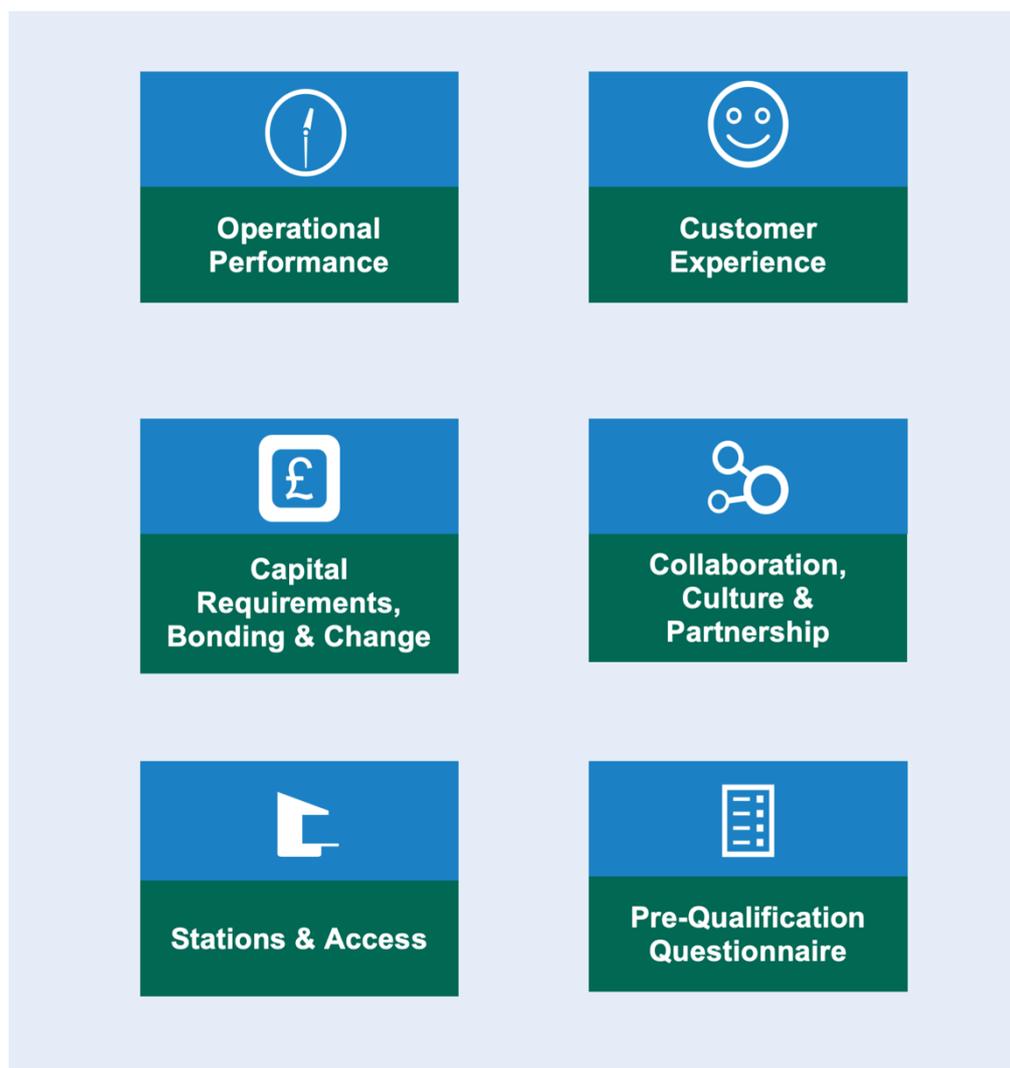


Figure 6: Topics of the breakout sessions in the afternoon

## Engagement Plan

The whole industry knows that reform on this scale will be best achieved by working together. By proactively engaging with this process, you will be able to engage openly with both the Departments design team and the transition team; express your views on the workability of the new model and help us with the continued successful development of the PSCs.

With your support and the benefit of your contributions, we will launch a procurement exercise early next year. The next phases of market engagement to facilitate this are:

1. Register for the PSC Market Engagement Day at [railpscdays.co.uk](http://railpscdays.co.uk)
2. PSC Market Engagement Day 4 November
3. Rail PSC Day Summary report & anonymised Q&A shared
4. Engagement with interested & capable parties
5. Update provided following engagement

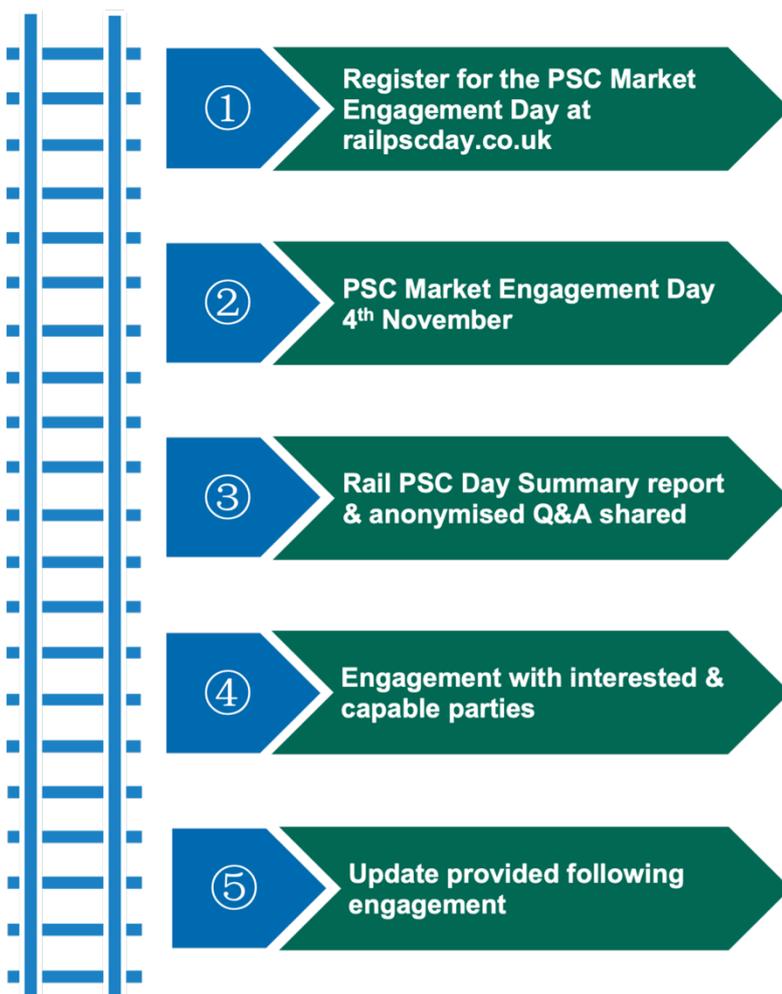


Figure 7: Key market engagement phases

