

Strictly Confidential13th January 2021**Rail Industry Recovery Group (RIRG)
Terms of Reference****Context**

Overall, the rail industry plays a key part in country's economy supporting employment, manufacturing, construction, services and innovation. With expenditure of over £20 billion a year it has a direct impact on the economic wellbeing of the country.

The rail industry has demonstrated the key role it can play in the country through the current health crisis keeping goods, people and the economy supported in the fight against Covid-19. This is reflected in the circa £800m per month investment in the rail industry by government without which the industry would not have been able to continue to operate.

As a consequence of the change in the funding of the industry the government have changed the relationship with the Train Operating Companies by having an increased influence over the way they operate, a situation that already occurs in Network Rail.

On 15th December the Rail Minister informed both the trade unions and employers that the Department for Transport was supporting the development of a rail industry recovery plan on the basis that the country is able to return to normality during 2021.

The industry directly employs in the region of 106,000 employees across TOCs and Network Rail. The income into the industry directly each year is circa £20 billion with over 50% of income generated from passenger fares and services.

In 2019/20 the government contributed £6.5 billion towards the industry directly subsidising train services and investment in infrastructure/rolling stock to modernise the network.

In 2020/21 the government has been funding the large gap created by the loss of passenger revenue which has declined by approximately 80%. This has required the government subsidy for the railways to increase significantly to circa £800m per month since the start of the pandemic. The government has also announced in December a £1bn cut in the rail infrastructure investment budget.

The health crisis has changed the way the rail industry is operating, we have seen a reduction in services, huge reduction in passenger numbers and revenue. It is becoming clear that the financial commitment from the government is not unlimited and is not sustainable with increasing pressure coming from the Treasury to ensure that the industry remains viable.

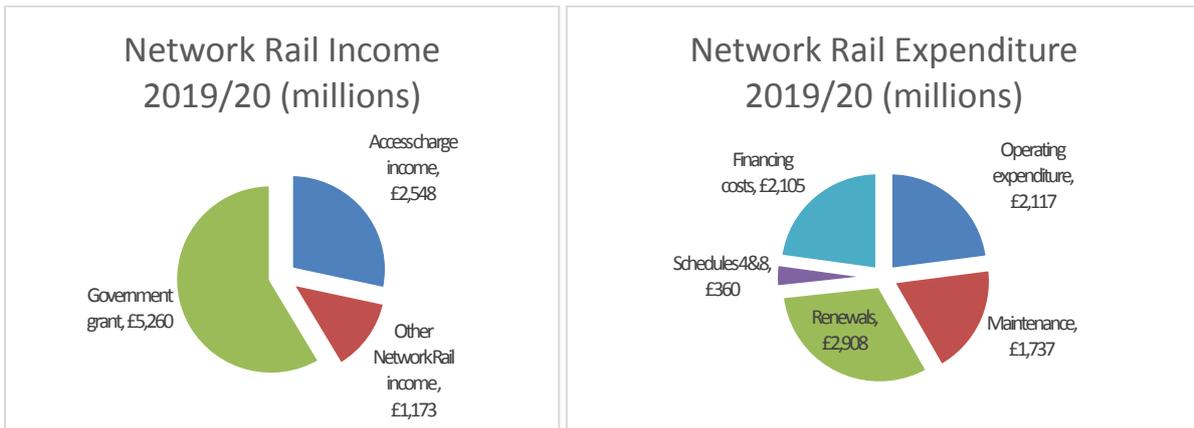
The result is that whilst passenger revenues have declined to critically low, unprecedented levels, the industry's pre-Coronavirus operating costs (excluding capital investment) have remained broadly unchanged at circa £14.4bn (TOC operating costs of £10.6bn plus NR's operations and maintenance costs of £3.8bn). Staffing costs make up circa 30% element of the total operating costs of the railway.

In addition to the difficulties faced by the reduction in passengers and the associated revenue caused by coronavirus it is also becoming clear that the crisis will potentially impact on the way people utilise the rail network for work and leisure purposes in the short and potentially medium/long term. The increase use of home working, technology and concerns around social distancing will impact on passenger usage of trains and stations. It is therefore not clear how many people will return to rail and how quickly.

Therefore, whilst the full economic aftermath of the coronavirus is still not yet fully known and has affected every sector across the UK, it is clear Coronavirus has had a devastating impact on the finances of the GB rail industry with little optimism of a return to former revenues in the short to medium term and some speculate even in the longer term.

Whilst the current years financial information has yet to be finalised an indication of the impact on income and expenditure can be seen from the information produced by the Office of Rail Regulation for 2019/20 for GB rail (see graphs below).

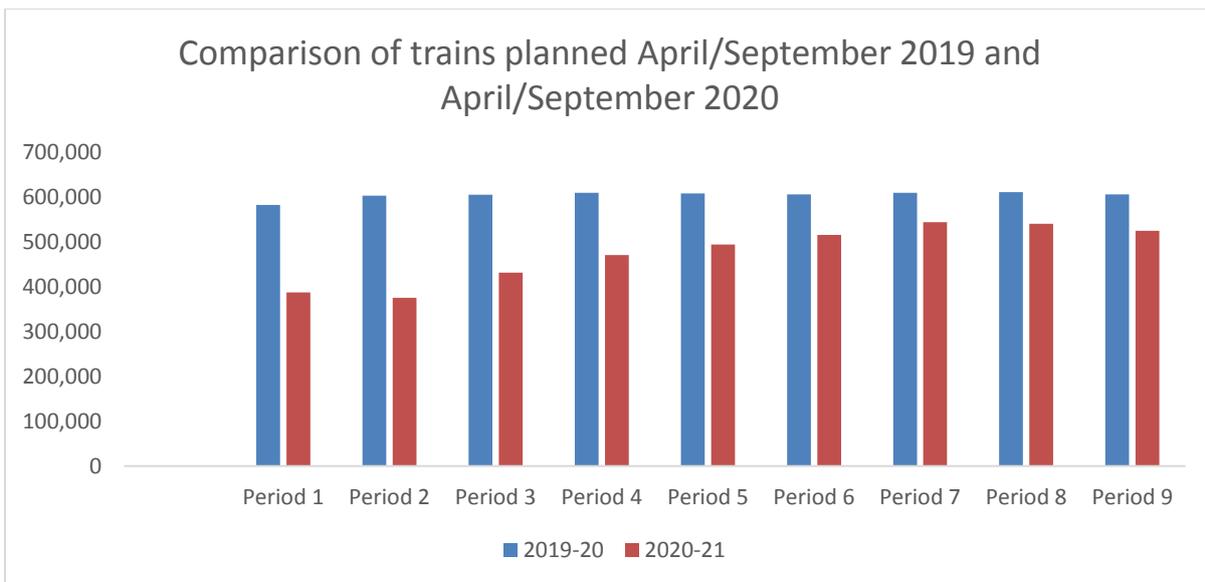
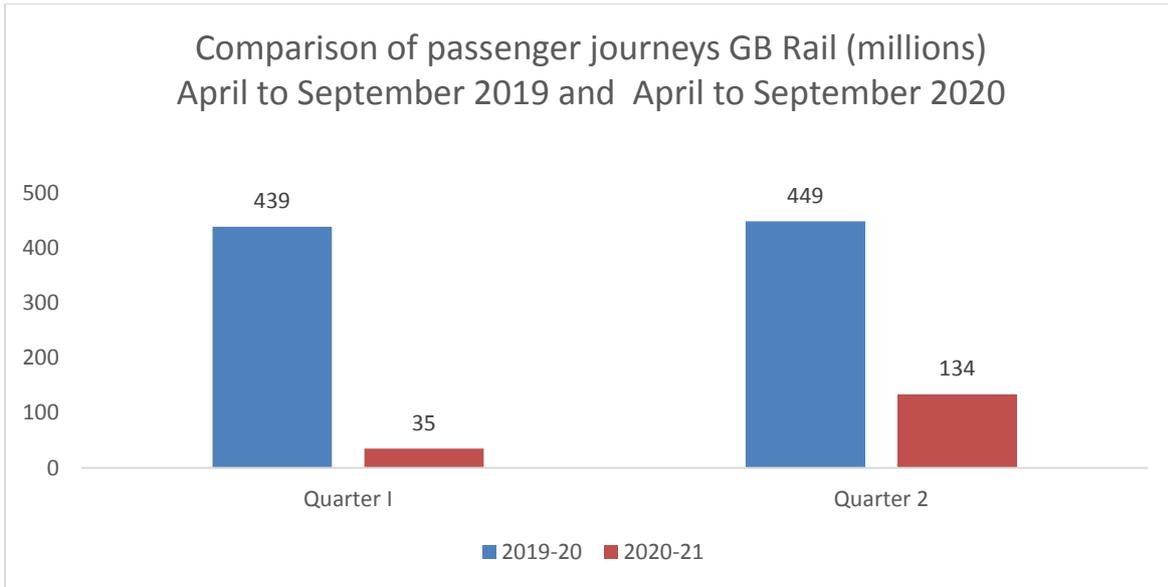
Network Rail



Please note that Network Rail staff costs of £2.7bn are included in expenditure figures

Train Operating Companies





Remit

This significant and unsustainable forecasted reduction in passenger revenues has created a major shortfall in the industry’s finances. This needs to be addressed in the short term to make the industry financially sustainable in the future and cost savings will need to be identified and included within any rail industry-wide review of performance and viability.

Whilst there is some optimism from the recent licensing of two vaccines, the recent increase in cases associated with the discovery of a new COVID-19 strain means that the current Government restrictions are likely to remain in place until at least the Spring of 2021 and potentially longer resulting in the financial challenge becoming even greater.

In view of the undoubted scale of the challenges now facing the rail industry and as the country tackles the next wave of the coronavirus health crisis the DfT is proposing that the employers and trade unions set up a Rail Industry Recovery Group (RIRG).

The proposal to create RIRG recognises that the industry is best placed to identify and address areas/issues to facilitate improvements and reduce the operational costs of the railway in order to restore services, protect employment and future support for investment in rolling stock, infrastructure and network enhancements.

RIRG will cover Network Rail and Train Operating Companies and will look at the following areas: -

1. To facilitate revenue growth through supporting a recovery of rail services and passenger usage by enabling and promoting safe rail journeys restoring passenger confidence in our rail product.
2. To understand and address the implications of home working, changing passenger requirements and the use of new technology on the rail network and the potential impact on the current provision of services to passengers in a post coronavirus world.
3. To consider the implications of the current funding arrangements for the industry and pressures caused by revenue and passenger reductions by identifying opportunities to reduce the operating costs of the railway and increase effectiveness.
4. To support the continued investment in rolling stock, infrastructure and network enhancements.
5. To support rail employees' by working on ways to provide greater employment security through an industry-wide transfer and re-deployment scheme, reviewing existing insourcing and outsourcing arrangements, role and flexible working, maintaining a sustainable pension scheme and recognise the important contribution rail employees continue to make.
6. To promote continuous improvement resulting in higher levels of employee engagement, diversity and inclusion, skills development, safety and overall performance that increases value for money. Improving policies and working practices resulting in reduced costs through improved effectiveness.

It is proposed that the RIRG shall provide a vehicle for employers and unions to consider proposed plans and measures which have been identified as well as consider other ideas necessary to address the funding shortfall. In doing so consideration shall be given by RIRG to how any such measures shall be taken forward.

It is recognised that RIRG shall provide an additional mechanism for engaging with the trade unions but shall not seek to go outside the existing collective bargaining arrangements unless there is agreement on all sides to do so.

RIRG will liaise with both the DfT and the relevant ministers to ensure that any changes that are introduced are aligned with the key principles set out in the Williams Review.

It is also recognised that trade unions and employers will require the opportunity to report back to their respective governing bodies on discussions held in the RIRG.

Membership

The RIRG will comprise the trade union general secretary or senior trade union officer and senior UK rail executives:

Mick Whelan	General Secretary ASLEF
Mick Cash	General Secretary RMT
Manuel Cortes	General Secretary TSSA

Harish Patel	National Officer for Rail UNITE
Andrew Haines	Chief Executive Network Rail
Steve Montgomery	Managing Director First Rail
Pauline Holroyd	Group Human Resources Director Network Rail
Andy Meadows	Human Resources Director Abellio (Chair)
Leila Rahimzadeh	Industry HR Partner RDG (Governance and Secretariat)

Each member may nominate a deputy to attend in their absence which will need to be agreed by all the other parties in advance.

The development of the enabling framework of principles will be undertaken by RIRG and facilitated through the establishing of two separate sub forums, one for Network Rail and one for TOCs. Any areas of overlap/duplication between Network Rail and TOCs being considered within these sub forums, all reporting to the full RIRG.

To ensure alignment and full coordination these will be chaired by an employer representative of RIRG and separate terms of reference for each sub forum will be developed for endorsement by RIRG.

Next Steps

Owning groups and trade union executives are asked to confirm they wish to engage and participate in the Rail Industry Recovery Group (RIRG).

On the basis that all parties endorse participation in RIRG the employers at the initial meeting w/c 18th January 2021 shall propose details of work streams and timescales for consideration by the trade unions.