Dear Sir/Madam,

**Competition in passenger rail services in Great Britain**

This letter sets out TfL’s response to the points raised in the Competition and Markets Authority’s (CMA’s) consultation on competition in passenger rail services in Great Britain. TfL is content for its responses to be published and shared with third parties.

TfL has significant responsibility for the provision of rail services within the London area through its management of the London Overground and TfL Rail (Crossrail) Concessions and its planning role in relation to the development of all transport modes in the London area. It has invested heavily to deliver improvements to the rail network in London. TfL therefore takes a keen interest in developments to the regulation and management of the National Rail network.

TfL notes that the proposals outlined are not intended for immediate application to suburban services. However, there is the potential for the concepts to be extended to these services. The proposal also raises issues regarding the management of the network that could have an adverse effect on services of interest to TfL. TfL’s key concerns with the proposals are as follows:

- The opportunities for achieving further improvements to service quality through greater competition for the market have not been recognised;
- Too much reliance is placed on the ability of future signalling systems to increase capacity, facilitating greater competition within the market;
- Competition within the market is unlikely to deliver benefits in urban areas because the competitive position of rail is already very strong in such locations;
Any changes to arrangements for access could disadvantage services operating in urban areas, particularly if narrow financial criteria are used to determine the allocation of capacity.

These points are explored further below.

The consultation document states that there are limited opportunities for delivering improvements to passengers through the further promotion of competition for the market, which necessitates the development of competition within the market. It is certainly true that the trend over time has been towards larger franchises which has increased the risks associated with bidding and operating franchises, creating a market with oligopolistic characteristics which does not necessarily serve the best interests of rail users and funders. However, it is possible to reverse this trend by creating smaller franchises/concessions that would be more attractive to a wider range of potential operators, generating greater competition for the market and providing a stronger incentive to reduce costs and innovate in the area of customer service delivery. TfL’s suggested approach to the management of rail services in London would result in the creation of new operating concessions focused on the Capital, achieving this aim. The value of this approach is demonstrated by the improvements to service quality and performance achieved to date by London Overground.

The consultation document suggests that the next generation of signalling systems will provide a significant increase in capacity, creating greater opportunities for competition within the market. The exact extent of any such capacity increase remains unproven so should not form the basis for any policy decisions. The rail network in Britain operates a diverse mix of freight and passenger services with different performance characteristics. It is therefore doubtful that changes to signalling systems alone will achieve significant increases in capacity without investment in other parts of the rail infrastructure to increase track and terminal capacity. This may not be forthcoming. The allocation of any additional capacity should be subject to full consideration of its economic value using WEBtag based processes.

The benefits of competition in reducing price, cost and improving quality have been widely noted across the economy. However, TfL doubts their applicability to suburban services operating in urban areas. Competitive pressures can only be relied upon to deliver improvements where there are opportunities for genuine competition within the market concerned. Such competitive pressures do not normally exist for rail in urban areas with dense rail networks (such as London) because rail occupies a dominant market position by virtue of the capacity and journey times it offers. Under these circumstances the sound management of the service requires central direction with democratic accountability to deliver improved quality of service whilst minimising fares and costs. The operating model developed by TfL has these characteristics and has accommodated private sector involvement to
maximise efficiency through the Concessioning model which could be applied more widely to increase competition for the market as described above. The success of this model can be evidenced through the performance of London Overground to date; for example the number of customers using the service has increased by c250% since TfL took over responsibility for the Overground (excluding the impact of the new East London Line route).

Careful consideration needs to be given to any changes to the access arrangements for intercity services to facilitate a greater level of competition. Any such changes must not disadvantage other operators by (for example) making service intervals more uneven on suburban services to accommodate additional intercity services. This would make suburban services significantly less useful to customers travelling in urban areas. Any framework for the allocation of capacity must recognise the significant economic benefits of urban train services (as expressed through the Department for Transport’s WEBtag methodology) rather than focusing purely on their financial value. This is particularly important in the context of urban areas whose economy is reliant on the smooth functioning of urban train services. Any failure to safeguard the interests of users of suburban train services could result in a reduced willingness on the part of public authorities to invest in the network which will be to the detriment of the quality of service it offers.

TfL does not consider that any of the Options proposed present a viable alternative for the provision of passenger train services in urban areas. In the case of Option 1 it is unlikely that any Open Access Operators (OAOs) would be interested in operating suburban train services because they would be insufficiently profitable. The urban travel market is therefore unlikely to gain anything from this proposal; indeed it could lose out in terms of capacity and finance if the incentive regime is not configured in an appropriate manner.

Options 2, 3 and 4 are unlikely to generate any significant improvements for customers using suburban services because the operators concerned would have little incentive to innovate given the lack of competition for rail within the urban travel market. It is hard to see how different operators could develop contrasting offers given the constraints imposed by the multi modal ticketing system and the available facilities / rolling stock; indeed such an approach is likely to increase costs by duplicating management requirements and increasing the complexity of operations. Option 4 could be particularly damaging if it resulted in a significant weakening of London’s integrated approach to fares and ticketing which simplifies the process of travel across all modes. Passengers value the simplicity offered by a fully integrated transport network so it is important that this is not undermined. Option four could also put at risk the security of supply of train services on which London’s economy depends.

Overall TfL considers that its current Concession based approach to the planning and management of rail services in London remains optimum. This
is evidenced by the performance and quality improvements that London Overground has delivered to date. TfL continues to lobby for the extension of this approach to other parts of the rail network serving the London area to improve the quality of the journey experience offered to customers and cater effectively for the transport requirements of London’s fast growing population. The extension of TfL’s approach also has the potential to increase competition for the market, encouraging efficiency and innovation.

Yours sincerely,

Alan Smart,
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