

## Rail Delivery Group

**Response to:**

**Office of Rail and Road**

**Impact Assessment of the CMA's Options for Increasing On-Rail Competition**

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## **Rail Delivery Group response to Impact Assessment of the CMA's Options for Increasing On-Rail Competition**

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**Introduction:** The Rail Delivery Group (RDG) was established in May 2011 to lead the industry in delivering a higher performing, more cost effective and sustainable rail network for Britain's rail users and taxpayers.

The RDG brings together the chief executives of passenger and freight operator owning groups with Network Rail (NR). RDG develops policies, strategies and plans for the coherent management of the rail industry and advances the provision of a safe, efficient, high quality rail service for users and taxpayers.

The RDG mission is to promote greater co-operation between train operators (passenger and freight) and Network Rail through leadership in the industry and by working together with Government, the supply chain and stakeholders.

It is committed equally to the long-term health of the railway as well as the need to see improvement in the shorter term.

It does this by developing strategies for the industry to put into practice and by proposing solutions for policy makers to implement.

## 1. Overview

The Rail Delivery Group welcomes the opportunity to respond to the report commissioned by the Office of Rail and Road (ORR) to quantify the impact of the options for increasing on-rail competition,<sup>1</sup> as part of the Competition & Markets Authority's (CMA) review of competition in passenger rail services in Great Britain.

The analysis in the ORR's report is helpful in gaining an understanding of the potential impact of the four options set out in the CMA's discussion document.<sup>2</sup> The RDG has already provided a response to the CMA's discussion document.<sup>3</sup> Therefore, this response focuses on the ORR's impact assessment. We provide comments on areas where we think the analysis could be extended as part of further work, or where additional clarity from the CMA would be useful. We do not discuss the technical detail of the impact assessment.

Given the varied membership of RDG, it is expected that there will be differing views on the options within the impact assessment. Accordingly, we expect members to take the opportunity to submit their own responses in addition to this RDG response.

## 2. Comments

The UK rail industry provides significant benefits to users, but there is always room for improvement. The industry welcomes any changes that lead to improvements for taxpayers and in customer outcomes, such as passenger satisfaction, safety and value for money.

One potential way to improve industry outcomes is by introducing more competition. However, before implementing this, or any significant change, it is important to consider whether it will lead to the best possible outcomes for all, whether the benefits of such a change would significantly outweigh the costs, and the feasibility of implementing change in any expected future industry structure.

The ORR's impact assessment goes some way to answering these questions by quantifying the financial and welfare impact (on TOCs, Network Rail, government, and users) of three of the four CMA options over a twenty year period.<sup>4</sup> However, some of the net present values (NPVs) are relatively small, particularly when: considered in per annum terms, compared against the benefits of the current franchising model, and compared against total annual industry revenue. This would indicate there needs to be a high level of support for industry were any of the options to be implemented. If any particular option were to be taken forward, we would expect further analysis to be undertaken to assess the impact on the chosen part of the network for which the option would apply. In a similar manner, if Option 4 were to be taken forward it should be subject to the same quantitative analysis over the wider network.

As noted in the ORR's assessment, there is inherent uncertainty involved in quantifying the impact of such complex options. Therefore, wide ranges are provided for the assessment of the impact of each option—in some cases ranging from economic dis-benefits (in the low scenario) to significant

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<sup>1</sup> The impact assessment was undertaken by Arup and Oxera on behalf of the ORR. ORR (2015), 'Impact assessment of the CMA's options for increasing on-rail competition', Final Report, 31 December.

<sup>2</sup> CMA (2015), 'Competition in passenger rail services in Great Britain.'

<sup>3</sup> See RDG (2015), 'Response to CMA Competition in passenger rail services in Great Britain', 16 October.

<sup>4</sup> An effect is not quantified for Option 4 as Oxera/Arup consider that this option has not been specified in sufficient detail to enable an appraisal. The 20 year appraisal period assumes implementation from 2023. The NPV is reported in 2010 prices.

economic benefits (in the high scenario). It would be beneficial to understand how the CMA is planning to interpret these broad orders of magnitude in coming to its final decision.

In addition, in some cases the options are not fully developed and the CMA should consider whether the option produces feasible business models, as well as any other practical issues that may be relevant in implementing the options, but which have not been included in the analysis. This is likely to lead to an underestimation of the costs put forward for each of the options.

The quantification of the benefits will inevitably be tied to fares policy and the freedom for operators to innovate or adjust individual fares.

It is important to note that the impact assessment does not take into account the degree of competition between rail and other modes. It should also be noted that the quantitative analysis excludes a range of potential impacts such as service quality, capacity, and reliability that are instead assessed qualitatively. Members also feel that each scenario has not yet been sufficiently tested for its financial impact on the taxpayer.

As we noted in our response on the CMA's discussion document, it is also important to ensure that the different parts of the industry are considered together given the numerous reviews and potentially significant structural changes already underway, so as to provide a consistent and aligned approach going forward.

### 3. Conclusion and next steps

The ORR's assessment provides a better understanding of the likely impacts of the CMA's options for increasing on-rail competition. Before recommending any of the options based on this assessment, further analysis and clarity from the CMA would be required, in order for there to be confidence in the industry that the magnitude of net benefits set out in the report will be realised.

The RDG would welcome an opportunity to engage further with the ORR, the CMA and other parties. We would also be very pleased to discuss this response and/or other points, including next steps.

For enquiries regarding this consultation response, please contact:

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