

Competition in passenger rail services in Great Britain

Response from Campaign for Better Transport

Introductory comments

Campaign for Better Transport is grateful for the opportunity to respond to the *Competition in passenger rail services in Great Britain* inquiry.

Campaign for Better Transport is the UK's leading authority on sustainable transport. For over 40 years, we have championed transport solutions that improve people's lives and reduce environmental damage. Our campaigns push innovative, practical policies at local and national levels.

We have significant reservations regarding the logic used to underpin the options set out in the discussion document. There is little reference to the pressures the railway faces, its role in wider policy objectives, other initiatives ongoing such as reform of Network Rail and most tellingly the interests of passengers.

Our comments refer to the four main options put forward by the CMA as proposals for increasing competition, and the specific proposals for reducing detail in franchise specification, reforming access charges, changes intended to make Network Rail more responsive and encouraging smart ticketing. We also wish to make more general observations about the approach taken by the CMA, set out below.

Summary

We are concerned that options being considered by the CMA are not compatible with the objectives set out for the industry by government and others. In particular, the CMA's options:

- Fail to acknowledge capacity as the primary issue affecting the rail network in the coming decades
- Would run counter to the policy and regulatory environment which is prioritising improved integration between train operators and Network Rail
- Wrongly assume that competition is a prerequisite of innovation and underestimate the ability of models to achieve improvements

In responding to these concerns, we would highlight the need for the CMA's final recommendations to:

- Develop modelling to compare efficiency in use of capacity across different options, including those not based on market competition
- Include an assessment of how any recommendations can be made compatible with other extant policy objectives, particularly those relating to integration between train operators and those managing the network
- Identify if there are other ways that benefits attributed to market competition might be achieved

Comments on overall approach

Sub-optimal use of capacity:

We do not support the CMA's implicit finding that competition would benefit passengers or represent the optimal use of any new network capacity. In their basic form, markets require the availability of capacity to allow room for competition. It is highly questionable whether such capacity will be available on the railways even in the long term. Indeed, Network Rail predicts strong and on-going growth in passenger numbers and an historic lack of investment means there will be less under-employed capacity - not more – across the

large part of the network for the next 30 years (the lifetime of their forecast). In our view, to argue for the creation of spare capacity at a time when multi-billion pound programmes of investment are needed simply to cope with anticipated demand would be highly wasteful.

Rather than considering further competition within the rail sector, we believe it would be far more effective to the interests of passengers and the wider public if the focus were on allowing rail to compete with road transport and with domestic aviation. Creating extra competition within rail would undermine network benefits and so mean a shift from rail to other more environmentally damaging modes.

Wider policy objectives:

There are significant economic, social and environmental gains to be made from increasing the percentage of journeys that are taken by rail. These relate clearly to the Government's stated policy objectives which extend far beyond transport policy and include reducing carbon emissions and other air pollution, increasing mobility and connectivity to support access to jobs, training and education, devolution of decision-making from Whitehall and helping progress toward housing objectives by encouraging higher density development around stations. Equally, there are objectives within rail policy which should influence future franchising arrangements. These include the introduction of network-wide flexible and smart ticketing including part-time season tickets, improving rolling stock and supporting the continued growth in rail freight.

We are concerned that CMA's review is being undertaken without due reference to these development and objectives, and as a result many of its recommendations run counter to the direction of wider Government policy. In making final recommendations, it is essential that the CMA make clear how its proposed reforms will support wider public policy.

Rail policy objectives:

Closer integration between rail services and network management has been recognised by the Government as a key objective in making the most effective use of the rail network. Efficient planning requires timetables, infrastructure investment, maintenance and operations to be planned with operator and Network Rail working closely together. In light of the McNulty Report (2011), the government has undertaken measures intended to better achieve this such as the establishment of the Rail Executive overseeing franchising within the DfT. Further measures are likely to feature in ongoing reviews into the operation Network Rail currently being undertaken. By complicating these arrangements, the CMA options would make the necessary alliances much more difficult to achieve and therefore undermine improvements to efficiency.

As was recognised in the McNulty report, franchising has achieved disappointing results in reducing costs. Rather than a competition-led approach, we strongly believe that the DfT-led changes within franchising are the easiest and most cost-effective way of achieving improvements. Compared with CMA proposals, the initiatives being taken up by DfT are quicker to implement and offer outcomes consistent with objectives set for rail by the DfT, ORR and Network Rail. There are also other McNulty recommendations such as longer franchises with a break clause that should be considered before on-rail competition.

Encouraging competition between operators is likely to make joint working across the industry significantly more difficult. We are concerned that competition models proposed by the CMA all follow a contradictory path to that recommended, and being followed by Government.

Open Access Operators (OAOs):

We believe the CMA is overstating the success and potential of OAOs, and the ability to incorporate such operators within a franchise-based system. In recent years, OAOs have seen strong growth on British railways. The most recent statistics from the ORR (2014-15) show an annual increase of 17.6 per cent in passenger kilometres on OAOs to 150m km. Whilst notable, this represents only 0.2 per cent of the of the total passenger km taken. Moreover, it is important to highlight that growth in passenger numbers among OAOs has come not from increased competition for services, but from the introduction of services to destinations (for example Sunderland and Hull) which are poorly served by franchise operators. We believe there is better scope for addressing these shortcomings within the franchise system and that experience of OAOs so far offers little basis for believing competition would improve passenger experience on busy routes.

Consideration of comparable sectors:

In making the case for changes within rail, we are concerned by the significance given to comparisons with sectors such as low cost airlines. There are a number of reasons why such comparisons are likely to be unhelpful in drawing policy conclusions:

- Low cost airlines profitability and growth is reliant on factors not available to rail operators. For example, high levels of seat occupancy and under-employed capacity (e.g. using smaller regional airports) cannot be used on already overcrowded rail routes.
- Low cost airlines rely on point to point travel where there is a degree of flexibility in departure and destination points. Rail's key strength is that it operates within an integrated transport network where tickets are frequently used on more than one operator
- Air travel is undertaken comparatively infrequently by the overwhelming majority of passengers. Because of this, passengers are willing to invest time and effort in finding the ticket that best meets their needs. By comparison, rail offers high frequency public transport system which many people use every day and where passengers need to have confidence that they can turn up and travel

Markets and innovation:

CMA proposals make much of the role competition can have in improving services to passengers in areas such as free wifi. It is very important to note that such innovation is not the preserve of competitive markets. Furthermore, direct competition for passengers can make other innovation far more difficult to achieve. For example, both the Swiss railways and Transport for London have achieved significant growth in passenger numbers by better integrating rail services with each other and with other forms of public transport.

It is also notable that the CMA proposal relies on market conditions remaining positive with growth in rail passenger numbers. Current projections under Network Rail's Long Term Planning Process (reporting in 2013) do predict increasing demand for all journey types across rail over the next 30 years, but recognise this is dependent on external factors such as average incomes and overall growth in the economy. It is, however, unclear what impact an unanticipated downturn affecting demand for rail would have on the options being considered. For example, if lower passenger demand led to a withdrawal of non-franchised services what costs would this incur in terms of loss of mobility and consequently the ability of the economy and the labour market to recover? How would the withdrawal of non-franchised services affect non-profitable services they were cross-subsidising? Would an OAO still have a responsibility to support them, or would the 'anchor franchise' or national Government become liable for their running costs? It is vital that such considerations are detailed in any final commendations made by the CMA.

Comments on specific options

Option 1 – Existing market structure, but significantly increased open access operations

Campaign for Better Transport characterises the CMA proposals as requiring OAOs to pay toward unprofitable lines via levy. In return, OAOs would be given the right to offer services on currently profitable routes while unprofitable routes would remain the preserve on an 'anchor franchise'. Such an approach would be introduced as new capacity comes on line.

We are very concerned by the impact of such an approach would have on the integrity of the network and on the interests on passengers. For example, even if the CMA assessment is accepted at face value, this could create a two-tier network with innovation and downward pressure on ticket prices only on profitable lines with loss-making routes potentially seeing less emphasis than currently.

Option 2 – Two franchisees for each franchise

Campaign for Better Transport characterises the CMA proposals as having two operators delivering rail services in a franchise area offering either direct competition or competition based on a split either by route or route type.

Capacity issues on the network make such sub-optimal use of capacity highly undesirable. By creating competing operators - both of whom would need to be actively involved in maintenance and planning for the network - such a set up would strongly militate against increased efficiency in operations. Ticketing could also be negatively affected, with a transferable ticketing viable across different operators being hard to incorporate into such a model. It is also difficult to understand how the integrated services which passengers want could be accommodated within an arrangement based on direct competition.

Option 3 – More overlapping franchises

Campaign for Better Transport characterises the CMA proposals as redesigning the franchise map to create routes with direct competition between operators. Through lower specifications in franchising, it is expected that a wider range of journey would be offered by operators.

As with other options put forward by the CMA, we do not believe this approach takes proper account of the capacity pressures which are forecast to affect the rail network for a minimum of 30 years. The billions of pounds of public money committed to upgrading the network is necessary to tackle the historic lack of investment, existing overcrowding and predictions of strong future growth in passenger numbers. A model based on duplicating services wherever possible is seemingly incompatible with these objectives.

We are also concerned by the proposal to simplify franchise specifications under this option. While we accept that the current process is highly detailed and prescriptive, this is necessary to support one of the chief strengths of the rail network – its integrity. In particular, we see a strong potential threat to socially important services (which contribute both to the effectiveness of the network and its attractiveness to rail users) which would be downgraded or lost. Equally, by offering overlapping services run by different operators, such a model would be likely to add complexity to a ticketing system which passengers already find confusing.

Option 4 - licensing multiple operators, subject to conditions (including public service obligations)

Campaign for Better Transport characterises the CMA proposals as replacing franchising with licencing, with similarities with markets such as energy.

We do not favour a move to a licence-based approach. In practical terms, this would require wholesale change to the way the industry operates with DfT, ORR and Network Rail all needing to overhaul their operations to accommodate an untested approach used on no other major rail network. As with other options discussed, it is very hard to see how Option 4 could result in the most efficient use of scarce capacity or in network management which integrates the needs of train operators with the network operators.

Conclusion

We are concerned that options under consideration by the CMA are out of kilter with moves to improve the efficient operation of the rail network. Any recommendations the CMA makes must include comparison with other options including those not based on further market competition and include an assessment of how they can be made compatible with the wider regulatory and policy environment.

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Campaign for Better Transport's vision is a country where communities have affordable transport that improves quality of life and protects the environment. Achieving our vision requires substantial changes to UK transport policy which we aim to achieve by providing well-researched, practical solutions that gain support from both decision-makers and the public.

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