



Periodic Review 2013: on rail competition - consultation on options for change in access

Ref: ORR/008/2013

Response to the above consultation by the Centre for Policy Studies

Introduction

On March 25th the Centre for Policy Studies published, *'Rail's Second Chance – putting competition back on track'*. For the purposes of this response the publication will be abbreviated as 'R2C'. <http://www.cps.org.uk/publications/reports/rail-s-second-chance/>

The CPS welcomes the ORR's intentions to find approaches which support an increase in the level of on-rail competition. Evidence contained in R2C has demonstrated that on-rail competition through open access brings significant benefits to passengers, operators, funders, infrastructure, the wider industry and the regions. The higher level of revenue growth for both the whole industry and for individual operators evident on passenger flows where on-rail competition exists reflects the positive effect of all these benefits on the market.

The benefits of open access competition, alongside franchises, must now be deployed more widely on the UK rail network in order to reap these benefits across other parts of the network. The evidence from R2C, which is detailed below, is clear and is in parallel with the benefits of successful competition in other key public service sectors which were also previously dominated by incumbent monopoly suppliers.

Twenty years since the 1993 Railways Act the maturity of the rail sector is now at an important stage where clear trends and evidence provides a critical mass of information which allows quantifiable assessment to be made. Consequently, it is now an ideal time to drop previous draconian blocks on more open access competition, alongside franchises, in the interests of passengers, the taxpayer and the industry and the regions.

Evidence supporting more open access alongside franchises

New evidence presented in R2C shows that in those few areas where on-rail competition has been allowed to emerge – primarily on the East Coast Main Line and in rail freight – the benefits are clear: competition has led to new private investment, innovation, new routes, lower taxpayer subsidies, lower transparent fares, more journeys and happier passengers.

A small part of the passenger rail network is open to some competitive pressures. On the East Coast Main Line (ECML), two non-subsidised "open access" operators – Grand Central and First Hull Trains – compete with the franchise holder East Coast. They have shown that competition leads to more journeys, higher revenues for the train companies, lower fares,

more and happier passengers. Data for R2C, based on AECOM figures, showed that at ECML stations:

- passenger journeys increased by 42% at those stations which enjoy rail competition, compared with 27% for those without competition;
- revenue increased by 57% where competition occurs compared to 48% for those stations without competition;
- average fares increased by only 11% on those stations with competition, compared to 17% at those stations without competition.
- in the case of the ECML franchise holder – East Coast – it has been able to increase its premium payments to Government year on year with no need for subsidy, whilst facing increased on-track competition from open access operators.

In addition, in the official rankings of passenger satisfaction of the 31 main train companies, the companies which came first and second were those which are running “open access” competitive services against the franchise – Grand Central and First Hull Trains. See National Passenger Survey, Passenger Focus – Spring 2013.¹

The need for a new approach from Network Rail

Network Rail’s approach to timetabling has led to significant delays to many applications for all types of operator who have sought to operate new or revised services such as Alliance Rail on the West Coast Main Line, where a decision on new open access services is expected later this year.

Where Network Rail had previously suggested there was no available capacity on the WCML, analysis by private timetable experts has subsequently identified available capacity for such extra services. It is therefore essential that Network Rail’s current work to improve the timetabling process is progressed with a degree of urgency and with a new attitude towards delivering more capacity for a more competitive railway.

Network Rail and the ORR must now be mandated to:

- encourage as much competition as possible between train companies and to free up as many routes as possible. It should also be better incentivised to maximise the capacity available on all routes through its role in the timetabling process.
- work and make sure that the rail network is used most effectively with a view to better rail competition, where capacity exists.

¹ <http://www.passengerfocus.org.uk/research/publications/national-passenger-survey-spring-2013-nps-main-report>

- identify and explain to Ministers and Parliament the benefits of more rail competition (alongside franchises) and how it can reduce industry costs and boost passenger satisfaction, in line with initial Conservative rail privatisation ambitions.
- detail, in light of the rail franchise collapse of 2012, how open access should play a bigger part alongside existing and soon to be re-let franchises, especially on the West Coast Main Line.

At present Network Rail is not effectively incentivised and lacks corporate commitment and ambition to create and sell more capacity, in particular where this can be achieved at no cost.

Providing capacity to allow operators to run existing and new services is fundamental to Network Rail's role in the industry and it should prioritise the improvement of the processes which enables it to perform this task.

Regional business support for open access

The Chambers of Commerce in those locations served by open access operators provided the following statements for the R2C report.

Bradford Chamber of Commerce (served by Grand Central West Riding service)

“It keeps Bradford on the map, offers a less expensive option to local people, and has created job opportunities in the area as well. Perhaps open access should be explored more as an option by train operators?”

Hull and Humber Chamber of Commerce (served by First Hull Trains)

“Hull Trains have done an outstanding job for the city in improving our rail service from one a day return with GNER to seven a day now. They have quite literally put us on the map. DfT should allow open access operators to make their value added contribution to the network in future”

Mid Yorkshire Chamber of Commerce (served by Grand Central West Riding service)

“Colleagues and many other of our business contacts who have used the service have expressed their satisfaction, and we therefore conclude that open-access services are a very important part of the UK's future rail strategy.”

North East Chamber of Commerce (served by Grand Central North East service)

“The Hartlepool (open access) rail link has assisted in securing inward investment to the Enterprise zones around Hartlepool and Stockton. There is evidence that companies are more willing to look at the area because of the rail link”

Conservative Leader, Calderdale Council (served by Grand Central West Riding service)

“I consider that having a direct (open access) service to and from London was a major factor in persuading Lloyds TSB to maintain a substantial presence in Calderdale”

Franchising and competition

The franchising policy adopted by the DfT has a significant impact on the level of competition on rail and in the market. This is the case for competition between all types of operator including between franchise operators. The creation of large regional operator

monopolies has not maximised the growth of rail revenue through the provision of an improved and more attractive customer service proposition. *See National Passenger Satisfaction statics – Spring 2013.*

In fact, the areas where on rail competition has been a feature such as at Peterborough, York, and Northallerton, passenger growth has outstripped that seen in areas where there was no effective competition. This again makes the approval of applications for new open access services on the West Coast Main Line a key test for the ORR in the coming months.

The increasingly draconian tools employed to determine the approval of new open access services such as the Not Primarily Abstractive (NPA) test are now outdated and should be dropped or modernised to be more representative of what will actually happen in the market. There has been a major change in retailing from inter-available tickets bought at ticket offices to Advance tickets bought online but this has not been recognised by today's out of date modelling systems and criteria.

It is a significant reflection on the innovative and entrepreneurial zeal of those existing open access operators that they have become established and worked within existing arrangements to grow viable businesses which have provided very well regarded services to communities previously poorly served by rail. It is clear that these services would not have been provided by any other operator including the incumbent franchised operators; they are the direct result of private initiative and private finance determined to develop and grow markets without exposing the taxpayer and the Government to any threat should they fail; a task successfully achieved after a difficult and challenging start.

Boosting the franchise premium and railway infrastructure

These services have operated without any negative impact on the incumbent franchise operators or impact on premium payments to government. Indeed, on the contrary, official statistics show that the premium paid to Government by the East Coast Main Line franchise holder, East Coast, has increased year on year, though facing increased open access competition. The evidence available shows that this has occurred as a result of faster growth in overall passenger numbers at locations where competition takes place between the franchise holder and open access operators. Importantly, open access operators also act as feeder services onto the ECML where passengers may well change for franchised operators to reach certain destinations not served by open access operators thus bringing more passengers for the franchise holder.

Also, for many northern centres served by open access operators private finance has been successfully raised to significantly improve railway infrastructure, such as the material improvements proposed at Wakefield Kirkgate station where significant private funds have been raised and also at Eaglescliffe station in County Durham. Both stations are served by open access operators and have consequently seen a significant increase in footfall and patronage. Both facilities had fallen into disrepair in the pre-open access period (particularly Kirkgate) which was condemned in 2009 by former Transport Secretary Lord Adonis in a letter to the then Network Rail Chairman, as “probably the worst medium large station I have seen in Britain.”²

² <http://www.wakefieldexpress.co.uk/news/local-news/lord-adonis-criticises-network-rail-in-letter-about-state-of-wakefield-kirkgate-1-971896>

Conclusion

Regrettably the consultation does not provide a detailed breakdown of when the ORR expects to take its plans to forward to deliver new policies to enhance on-rail competition on Britain's railways. This must be clarified in the final report following this consultation. But there is a key decision which the Centre for Policy Studies and many MPs are eagerly awaiting – the decision to award paths for new open access services on the WCML, expected in the Autumn, at the latest. A positive determination will tally with the ORR's clear support for the positive role open access operators can play on the modern rail network.

There is now sufficient evidence, as contained in R2C from the first wave of open access operators to adopt a more evidence based policy and consequently award new high speed long distance open access services to serve new locations on the WCML and strengthen and extend existing and popular ECML open access services

The apparent change in approach from Government on open access is welcome. The Centre for Policy Studies looks forward to concrete policies and their delivery which cements this new approach both with regards to supporting existing open access operators and their future track access as well as new applications which we hope to see later this year.

Open access alongside franchises is now successfully proven and should now be more widely and enthusiastically supported by the ORR.

Centre for Policy Studies

July 26th 2013