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Economic Bulletin

GET RAIL COMPETITION BACK ON TRACK

Competition leads to more journeys, lower fares and happier passengers



Image Credit: Ian Kirby/Creative Commons

- UK rail passengers are suffering from militant Trade Union action and poor performance by Network Rail.
- 60% of delays on Southern are due to network problems. Delays are exacerbated by strike action and the doubling of staff sickness rates since earlier this year.
- A deeper underlying problem is the near absence of “open access” on track competition, where two operators run services in competition over similar routes.
- Where open access operates in the UK, passenger satisfaction is at its highest. But the DfT is concerned that more open access will reduce the franchise premium.
- A new high speed open access application has been submitted on the overcrowded London to Southampton route. This could allow on track competition in Southern England for the first time, giving passengers more choice and lower fares.
- Government should publicly support competition on UK rail and show its commitment by easing the path for those seeking to deliver competition against franchise holders.



1. UK'S RECORD ON RAILWAY OPEN ACCESS

Competition on the UK's passenger railways occurs in the bidding stage for franchise contracts. With a handful of exceptions, competition after this process effectively ceases.

The UK's transport authorities have been resistant to open access competition on passenger routes. Open access operators are train companies that secure track access agreements for individual routes and are not subject to franchising agreements.

The Office for Road and Rail (ORR) has only approved four out of 19 open access proposals from 2000 – 2014 (all of these were approved under a Labour Government). In 2015, there was an additional open access application accepted for a route from London to Blackpool – although this has not become operational yet.

Today, there are just two long distance Open Access Operators (OAOs) currently in operation as well as the Heathrow Express. The open access regulations are also currently restrictive, being mainly used as a vehicle to fill a gap in services, rather than to provide competition to franchise holders.

2. THE OPEN ACCESS ISSUE: THE CASE AGAINST

Bad for high density commuter lines

There is some evidence from Continental Europe that, in some cases, boosting competition by promoting open access on railways does not always benefit train passengers. An OECD study looking at Austria, the Czech Republic and Italy suggests that “two years of on-track competition following open access entry have not yielded efficiencies on the rail market”. Moreover, a study focusing on the Netherlands claims that the country's dense and intensively used transport networks are unsuitable for an open access system. This highlights that on track competition is probably not appropriate for high frequency commuter services.

The doubts about open access competition are not limited to Continental Europe. In the UK, there have been concerns that competition from OAOs might pose a risk to the revenue streams of franchisees, which would in turn reduce the payments to the Government for funding the network.

3. THE OPEN ACCESS ISSUE: THE CASE IN FAVOUR

Good for longer distance, intercity travel

The Competition and Markets Authority

The pessimism about the benefits of open access on railways is not shared by the UK's Competition and Markets Authority (CMA). Earlier this year, the CMA released a report that pushed for there to be a significantly greater role for open access on intercity, long distance routes. In particular, the CMA has suggested trialling greater open access competition on the East Coast Mainline when the franchise comes up for renewal in 2023.



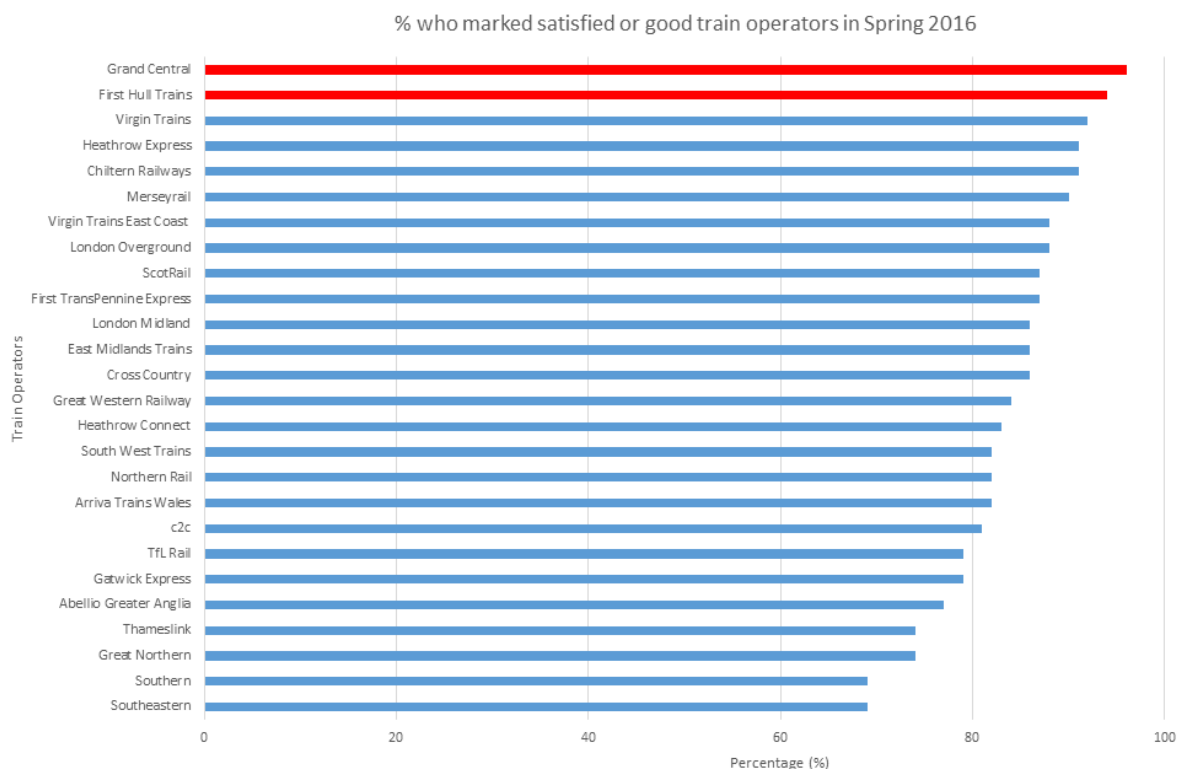
The East Coast Mainline Example

Open access on this route is benefitting passengers. According to a CMA [document](#) published in 2015, First Hull Trains and Grand Central – which are the two open access operators on the East Coast Main Line (ECML) – have a 94% satisfaction rate for passengers, which is the joint highest score across all operators. This was reconfirmed in the 2016 Passenger Satisfaction survey (see Figure 1).

Fares in areas of the line where the franchise holder competes with open access operators are more competitive compared to areas of the line that face no competition, according to evidence given by Tony Lodge at the [Transport Select Committee](#). From 2007 – 2012, [average fares](#) increased by only 11% at those stations with competition, compared to 17% at those stations without competition.

It is also notable that open access does not appear to be affecting the franchisee's revenue streams. In fact, the ORR's statistics [show](#) that the franchise premium on the ECML was £205 million in 2015-16. This undermines the “cherry pick” claims that are used to undermine the case for open access.

Figure 1: Passenger Satisfaction Survey, 2016 (Red lines are open access operators)



Source: Transport Focus (2016)



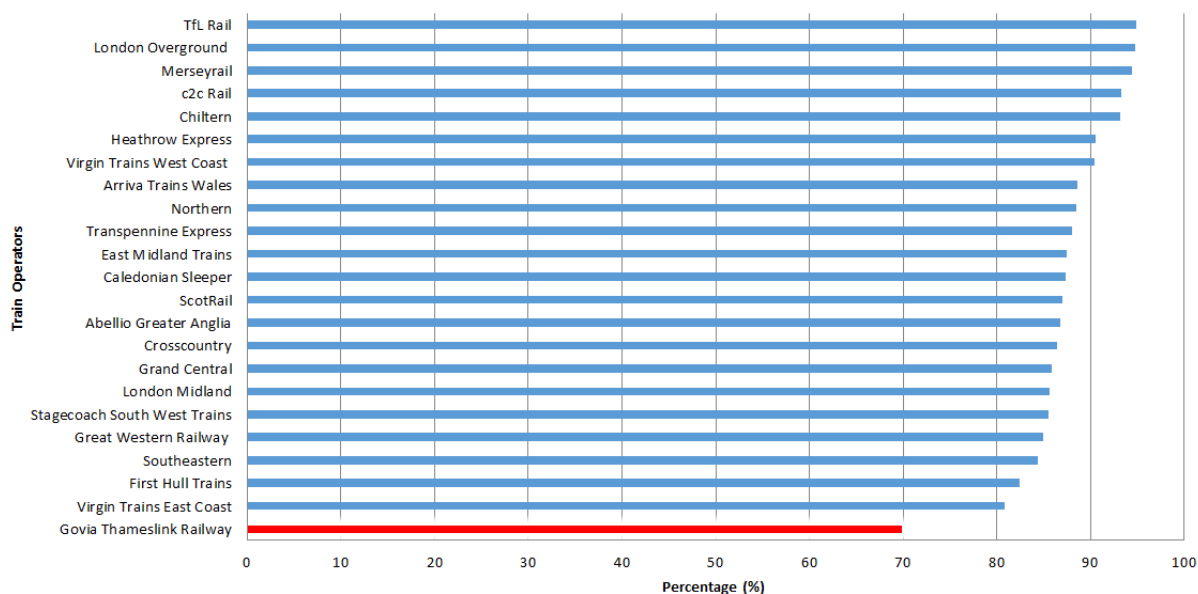
4. THE BELEAGUED SOUTHERN RAILWAYS

Poor performance

Southern passengers have suffered from unprecedented and sustained disruption during 2016 through a combination of RMT industrial action, track and signal failures, and poor operator performance, according to the [Department for Transport](#). The franchise, which is currently run by Govia Thameslink Railway, scores poorly in every measure for passengers.

According to [Network Rail](#), Govia Thameslink Railway has the worst public performance measure in the country, having the most cancellations and late running services across the UK. The second worst performers in the UK are over 10 percentage points ahead on this measure.

Figure 2: Public Performance by train operator (2016/17)



Source: Network Rail

Why the poor performance?

Writing for the [Daily Telegraph](#), Nick Herbert MP has outlined why Southern railways (Govia) is performing so poorly. Many of the delays are not, in fact, the fault of Govia. Last year 60% were due to network problems with track and signalling, which is the responsibility of Network Rail. This highlights the need for cooperation between Network Rail and Govia, and the Secretary of State for Transport's recent [announcement](#) to axe Network Rail's current monopoly position may go some way to alleviating such problems in the future.

But, of course, there have also been a number of issues with industrial relations. In addition to the well-publicised [strikes](#) by the RMT and Aslef unions that will last throughout the Christmas period, the rates of sickness among staff have mysteriously soared. In May of this year, it was reported that one in six conductors had taken sickness leave in the previous month. This was

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double the level observed compared to pre-strike levels, according to Southern Railway. This led to Southern having to cut the number of services during the summer period.

5. NEW OPEN ACCESS APPLICATIONS

Southern England has not seen any competitive entry into the network since privatisation, according to a report by the Southern Daily Echo. There has, in effect, been no on-track competition. However, there is the possibility of some competition being introduced in the future. On 19 December 2016, Alliance Rail submitted a bid for an open access contract that would have services call at Southampton, Eastleigh, Winchester, Basingstoke and Hook, before heading towards London Waterloo. This route would not directly compete with any of the services that are run by Southern Rail, but this is – in any case – an interesting proposal given that no open access has been permitted south of the River Thames since privatisation. The application would see trains compete against the South West Trains franchise.

CONCLUSION

The UK's railways are suffering from militant trade union action and poor performance from Network Rail. The Government is sensible to examine whether it may be appropriate to review strike laws when the delivery of essential services is at stake. Mandating a minimum service provision for essential services during strike action might be the way forward – given that many countries across Europe have such requirements. And Chris Grayling is also right to indicate that Network Rail will no longer maintain its monopoly infrastructure role for the UK's railways.

However, a deeper underlying problem for the UK's railways is the lack of on-track competition after a franchise has been awarded. There are currently just two long distance high speed open access operators on the UK's railways.^[1] The evidence suggests that these operators are helping to boost passenger satisfaction and lower fares while not hampering the franchisee's revenue streams.

Unlike the CMA, the Government has yet to formally declare its support for the principle of open access on the UK's railways despite warm words in the recent past. The Government should publically support the principle of open access competition, and should also introduce a review of the current "not primarily abstractive test" to see whether changes are required to encourage and deliver more open access.

More on track competition may not, of course, be appropriate for high density commuter lines. However, there is great potential to boost competition and productivity far more on long distance routes, and the new application by Alliance Rail for an open access service from London to Southampton is very encouraging.

The CMA has recently called for greater on track competition on long distance routes. It is now time for the Government to follow suit.



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