A THIRD WAY FOR BRITAIN'S RAILWAYS

Injecting competition into UK rail

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About the Author

Adrian Quine is an entrepreneur with a specialist interest in transport and infrastructure. He is a former journalist and broadcaster and has worked for many leading publications including: the BBC, Discovery Channel, National Geographic and the Times. He also writes regular opinion pieces on rail as a guest columnist for The Telegraph.

Since leaving journalism Adrian has worked as a consultant and analyst on various projects including a number in the rail and aviation industries. He has specialist knowledge in public transport and infrastructure. He has worked with management consultants and culture change organisations on how to overcome key challenges providing broad insight and pragmatic solutions.

Adrian has a particular interest in rail competition and was one of the original founders of 'Alliance Rail Holdings Ltd' – he devised the name around a proposed 'Open Access' service between the Scottish and Welsh capitals from Edinburgh to Cardiff via the West Coast Mainline and Shrewsbury.

Having spent a huge amount of time in the rail industry at many levels Adrian has garnered a unique insight. At one stage Adrian even trained as a signaller for Network Rail to experience first-hand what it was like from the inside; an experience he found fascinating and frustrating in equal measure. His background as an investigative journalist coupled with business background and unrivalled access to the industry at all levels has given him a unique perspective into the complex issues surrounding the industry today.

Executive Summary

- Efficient infrastructure is the bedrock of a successful economy. For too long Britain has failed to take bold decisions and is lagging behind fast-growing economies such as China and India. The lack of new towns, airport runways, modern power stations and high speed internet is hampering UK growth.

- The UK rail network is no exception and is a prime example of where investment is urgently needed. However it also needs a fundamental change in its structure too. The industry is facing crisis; public confidence is at an all-time low with growing calls for re-nationalisation worryingly gaining momentum.

- Passengers are fed up with the status quo but nationalisation is not the answer.

- Privatisation was supposed to bring about competition however this has not been achieved. British Rail (BR), a state run monopoly, has simply been replaced with largely non-competing privately-run franchises delivering the same uncompetitive model as was the case under BR.

- The Department for Transport (DfT) stipulates exactly what a franchised train company can offer: dictating timetables, frequency, stopping patterns and even minor details such as whether a train has a catering trolley or not. Under the current model Train Operating Companies (TOCs) have very little room or incentive to show flair or innovation. What is needed is less central control, not more while protecting core services.

- The current 'one size fits all' franchise model needs to be replaced with a system that is agile and best reflects the diverse needs of the passengers it serves. The railway must be competitive to encourage innovation, improve standards and drive down fares.

- Different railway routes serve different markets. The new structure needs to better reflect the specific needs of passenger types on each route – whether they be commuters, business or leisure travellers. There needs to be a better distinction between the commercial and social railway and to create bespoke models that best serve the passenger, communities, businesses, and taxpayer.

- Flexible long distance train fares are some of the most expensive in the world. It is often cheaper to fly twice the distance. The current privatised railway model is largely immune from the basic principle of competition as each franchise is, in effect a monopoly in its own right.

- This paper advocates a new, fresh and dynamic approach to running Britain's passenger train services that best reflects the markets they serve while also driving down costs and improving the service for the end user. By creating choice, fares will be lowered, service standards will be raised and costs can be reduced proving a 'win win' for both passenger and taxpayer.

1. Introduction

None of the 1980s and 90s state privatisations have been as contentious as the break-up of British Rail (BR). Despite a number of improvements and record passenger numbers there is still widespread discontentment and increasing calls for renationalisation.[1]

Privatisation has not delivered the one central benefit any break up of a state controlled monolith is supposed to bring – competition. 20 years on, the network is still made up of highly specified, privately provided yet state controlled monopolies mostly delivering the bare basics.

There are pitifully few examples of where railway companies compete. Where they do this is normally more by accident than design - usually where two franchises just happen to overlap. Occasionally a small niche 'non franchised' 'Open Access' (OA) operator has limited access to the network creating some real competition, but this is less than 1% of the market. Where competition does exist however – either directly or indirectly - fares have dropped, passenger satisfaction is up and rail has attracted new users.

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1 Passenger Rail Usage 2016-2017 Q4 Statistical Release, Office of Road and Rail.

To encourage greater use it is essential that the railway truly reflects and best matches the requirement of its users. By matching the most appropriate operating model on individual routes the industry can ensure that it not only best serves the community but also provides better value for money for both passenger and taxpayer.

This paper advocates a complete re-think of how UK passenger rail services are structured and provides a better solution to both the current unpopular franchise model and the nationalisation alternative proposed by Labour.

The key points:

- Identify and deliver a system of bespoke financial and operating models to the varying rail markets currently operating rather than the current crude 'one size fits all' version

- Create competition on key long distance rail routes to deliver lower fares, reduced running costs, improved customer service, and a greater focus on technology and innovation to ensure a better deal for the passenger & taxpayer

- Encourage new entrants into the rail market with a focus on customer service and better yield management to encourage greater rail use and modal shift from road and air to rail

Railways bring enormous social and economic benefits to the country. Britain's road network is getting increasingly congested and distances are generally too short for air travel to be commercially viable. This makes rail the perfect logistical and environmental model.

Despite the Beeching cuts in the 1960s the UK still benefits from an expansive, wide ranging and potentially versatile rail network where the vast majority of the population is within easy reach of a station.

Although much of the network is outdated and requires immediate investment, more can be done to create short term gains. This includes:

- better use of timetabling
- running longer trains to maximise capacity
- allowing the industry and not civil servants to match supply to demand
- updating working practices
- Bringing fresh talent into the industry
- creating a 'can do' culture
- Empowerment of staff at all levels
- rewarding success
- cutting waste and reducing bureaucracy

This paper outlines a new and innovative approach to running passenger rail services; one which best reflects the social and economic benefits rail brings and how it can be enhanced.

THE POLITICAL ARGUMENT

In the UK rail has become a contentious issue. Its structure has been the subject of often heated debate generating increasingly polarised and ideological views around whether the system should be in private or state hands. In reality such debate tends to detract from the core issue at stake, namely its operating structure and staid culture.

The GB rail network plays a hugely important role both in economic & social terms. It supports the economy, enables social mobility, provides the most efficient and environmentally way of moving millions of commuters every day and removes hundreds of millions of tonnes of freight off the roads each year.[2] In short railways play a positive role in all our lives either directly or indirectly.

Providing a solution to the industry's woes is neither quick nor simple however. There are multifaceted issues at stake, many as a direct result of the current fragmented and inflexible structure plus an intransigent culture fiercely resistant to change. But things can change if there is the right political will. Bold decisions need to be made and those in the industry need to accept that change is inevitable or make way for new talent.

Short term political thinking and civil service micromanagement of the industry is unsustainable. This has simply added layers of cost and bureaucracy with little benefits to the passenger, freight user or taxpayer.

SYNOPSIS

While wider references are made to the structure of the industry as a whole, the purpose of this paper is how to deliver bespoke solutions to provide better passenger services. Where appropriate, competition can bring about more choice, better service and cheaper fares, principally in the long distance rail market.

It is recognised that competition is not a panacea for all routes and that eliminating public subsidy for rail on many rural routes is unrealistic given the huge social and economic benefits that such routes bring. However where a free market approach can be adopted it should be enthusiastically endorsed providing a cheaper and better solution for both passenger and taxpayer.

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2 Each freight train has the effect of removing the equivalent of 60 Lorries off the road reducing Co2 by 76% per tonne. - Source: Network Rail.

2. Background

In 1992 when the Conservative government published its white paper on rail privatisation, competition was sold as a major benefit. It stood at the very heart of the policy which, it was claimed, would establish greater efficiencies and choice for passengers.

A quarter of a century later (and after numerous tinkerings of the system by successive governments) this fundamental principle remains largely unachieved. 99% of passenger miles are delivered by franchised train operating companies, the vast majority run as monopolies immune from competition.

Many Inter-city train companies have been gradually cutting back service standards while at the same time increasing the price of unregulated flexible tickets. An 'anytime fare' is now almost 250% more on many routes than it was in 1995, the last year of BR.[3] In that time the RPI has risen only 86%. By comparison the aviation market which is fully liberalised has seen fares fall in real terms – this, a direct result of competition.

Rail franchises are far too heavily prescribed by the DfT.[4] Private sec-

3 Source: Barry Doe, Rail fares consultant.

4 Transport policy is devolved in Scotland and Wales.

tors companies that understand service culture are best placed to run trains – not civil servants. Ironically BR actually had far more commercial freedom to match supply to demand than today's franchise holders. Given its meagre budget BR did remarkably well with its hands tied but suffered from an absence of commercial acumen and widespread 'lacklustre' middle management.

Innovation is key to delivering better service, attracting new business and cutting waste. At the start of privatisation there was some limited innovation but this has been hampered by the largely unimaginative structure that continues to this day. Rail operators are heavily restricted by the nature of their contracts and lack of commercial freedoms.

The Department for Transport tightly specifies the contracts. A leading rail company Managing Director told me recently that "*at the start of the process in 1995 the specification for a train company was about an inch thick and would fit into a ring binder whereas now it's about 20 foot long along the shelf*".

There are literally hundreds of minute specifications covering everything from the precise calling pattern of trains to the design of the loos and the colours of the interiors. Even the contents of the catering trolley are said to emulate from civil servants.

A combination of over-specification and absurdly tight margins means that operators have little freedom for action. This was not the case at the start of the privatisation process when operators like GNER and Virgin were encouraged to - and did - show innovation and flair.

Casualties have included restaurant cars on GNER, a travelling chef providing fresh food to your seat on GWR and free hot drinks and a newspaper in standard class ion the Midland main line to name a few.[5] Virgin's staff were empowered to provide outstanding friendly customer service in the early days. Silver standard coaches offering the railways equivalent of 'premium economy' has disappeared as have generous loyalty programmes.[6]

The franchising model worked well 20 years ago but this was against a backdrop of years of previous underinvestment. The early days of private franchises saw hope triumph over gloom and rising passenger numbers off the back of a buoyant economy.

Notwithstanding outdated working practices, lack of investment and a creaking infrastructure, from an operational level BR was actually fairly adept at doing its best with so little. However, the organisation largely lacked commercial acumen drive and flair. It had a vast portfolio including: long distance, commuter, regional, rural, freight and parcels trains. It even operated cross channel ferries, food outlets and hotels. Clearly the state run BR was never best placed to maximise this diverse, valuable and largely untapped asset base to anything like its full potential.

Two decades on, although BR's vast portfolio has been broken up there remains largely no 'like for like' competition advocated as the showpiece of the 1992 rail white paper.[7] While it is easy to criticise the Train Operating Companies (TOCs) for not showing enough entrepreneurial flair in reality this is down to two key factors:

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5 Dining car fans gather for a last supper on East Coast service, The Guardian, 22 May 2011

6 Last day to redeem East Coast Rewards and where to buy tickets now, *Business Traveller*, 30 Sept 2015

7 New Opportunities for the Railways: The privatisation of British Rail, Department for Transport, 1992.

1. Tightly worded specification by the DfT tying the hands of operators
2. Lack of competitors resulting in apathetic service and a crude pricing model

TOCs constantly receive bad press over high fares, shortage of coaches and recently, new hard uncomfortable '*ironing board*' seats. These unpopular policies are almost entirely driven by the DfT leaving TOCs to take the flack.[8]

PASSENGER NUMBERS STARTING TO FLAT-LINE

Against the current public discourse it's easy to forget how in many ways the rail network has improved dramatically since the breakup of BR 2 decades ago. Trains now carry more passengers than ever before with broadly persistent growth, improved punctuality and record levels of safety. However in 2017 growth flatlined and some rail companies now face a serious financial squeeze on their revenues.[9]

Franchised TOCs run on very thin margins. Due to this increased risk bidding for rail franchises is not seen as lucrative as it once was which has resulted in fewer companies entered the tendering

8 The 2015 'Competitions and Markets Authority' report into passenger rail franchising noted: "franchisees have a limited ability, and muted incentives, to respond to customer preferences, because of detailed franchise specification and risk-sharing mechanism."

9 The South East of England has seen 6 million fewer passengers in 2017 mostly as a result of flexible working practices with fewer full-time Monday to Friday commuters. Season ticket sales fell 2.9% in the last quarter of 2017. Recent record fare increases have also made it less attractive to use rail. Source: Office of Rail and Road, 2017-2018 Statistical Release.

process.[10]There is huge risk in bidding for long distance passenger franchises where the DfT appears to have favoured unrealistically inflated bids. The result is that many companies are now struggling financially and the government risks TOCs simply walking away from their contracts. The East Coast Mainline franchise has proved a poisoned chalice with 2 high profile failures and incumbent operator 'Virgin Trains East Coast' on the brink.[11]

It is widely believed that a number of other rail franchises are in a similar position including Serco, operator of the 'Caledonian Sleeper' overnight trains from Scotland to London. Any handing back of keys by a TOC causes huge embarrassment to the government as it simply highlights the flaws in the current system and strengthens the hand of those calling for re-nationalisation.[12][13][14] Any handing back of keys by a TOC causes huge embarrassment to the government as it simply highlights the flaws in the current system and strengthens the hand of those calling for re-nationalisation.

There is fundamental flaw in the current franchise specification which outlines an assumed level of GDP and inflation throughout the contract. However as all companies bid on these assumed growth levels, revenue and cost risk is on an even keel for all bidders.

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10 TOC margins are 3% or less before tax. By comparison utility companies work on 5% after tax.

11 Both GNER and National Express handed back the keys after failing to meet expanding premium payments and Virgin Trains East Coast (10% Virgin/90% Stagecoach) is now in the same situation having massively overbid and got its sums wrong.

12 The Caledonian sleeper contract is devolved to the Scottish Government.

13 "Fears over the future of the sleeper train" *The Sunday Post*, 25 February 2018.

14 "Is Britain's rail franchising system fit for purpose?" *Financial Times*, 5 January 2018.

Virgin Trains East Coast (VTEC) - owned 90% by Stagecoach and 10% by Virgin - blames its precarious financial position on terrorism and Brexit yet it knew these risks when bidding.[15] More credible is its criticism against Network Rail for infrastructure failures and delays to promised upgrades, however it is worth nothing that OA operators on exactly the same route have been largely unaffected by these issues although they operate a 100% diesel fleet so are less affected by failure of power supplies than VTEC which operates a mixed fleet of diesel and electric trains. In reality Virgin/Stagecoach saw fit to bet on punchy future GDP figures which have not materialised.

HOW CURRENT FRANCHISING WORKS

Franchising works by letting a route (or a collection of interconnected routes) within a specific area, region or country to a specific company for a fixed term franchise.[16] Traditionally nearly all franchise holders have been PLCs – mostly bus companies or joint ventures/commercial arms of foreign owned state rail companies such as Deutsche Bahn in Germany. The only real current exception of a company with a wider portfolio is Virgin Group which owns 51% of 'Virgin Trains' on the West Coast Franchise and 10% of 'Virgin Trains East Coast' on its namesake route. However its partner in both cases and overall larger player is bus company Stagecoach PLC.

The supposed rationale behind franchising is that by setting companies against each other at the bidding stage, the most dynamic will end up winning the contract, delivering the best passenger outcome. Putting it crudely, on profitable routes the DfT has tended to favour

15 "Stagecoach says it has overpaid for East Coast rail contract as profitability plunges" *The Guardian*, 29 June 2017.

16 Wales and Scotland are devolved to The Welsh Assembly and Scottish Government.

whoever offered the largest premium payment; on loss making routes it was whoever could do it for the least subsidy. More recently there has been limited scoring of bids against innovation and quality of service but in reality this has only been cosmetic. The current model of one 'monopoly' supplier delivering a minimum service requirement set by government is neither conducive nor advantageous to rail user or taxpayer.

The traditional franchise business model is based on highly stipulated criteria leaving little room for operators to show true innovation or flair. Against this backdrop there is generally little incentive for creativity or commercial acumen as is the case in other private sector businesses which have to fight for custom.

Despite record investment the industry is still inefficient and disjointed. Since BR the opportunity to get to grips with costs has largely been wasted especially at the risk-averse Network Rail. In many senses, it is not surprising that the government now has greater control than during BR's tenure. It is ironic then that there are so many loud voices calling for nationalisation when this is exactly the model we have at present in all but name.

Overall the current franchise system is a mess. As franchises have come towards their end the government has dithered, holding back on taking long term decisions. Many traditional transport companies such as National Express, Abellio and First Group have become far more cautious in bidding, leading to less tender competition.

In the midst of this political hiatus the result is that many franchises are currently let on different terms. Some are short, some long. Others are run as management contracts or concessions while a few are subject to alliances with the publicly funded infrastructure owner - Network Rail (NR). Regardless of these different structures one thing remains standard – franchises do not compete with one another and are pretty much immune from competition.

It's widely accepted that the franchise system has major flaws and needs to be overhauled. On loss making routes bidders receive a government subsidy while on profitable routes TOCs pay a hefty premium, often increasing year by year based on often exponential growth assumptions.[17] Some routes are run on management contracts whereby all fare box revenue goes directly to government, who in turn pay the franchisee a basic fee to run the service.

THE RAILWAY STRUCTURE IS OUTDATED AND ITS COSTS ARE FAR TOO HIGH

There is currently little incentive to improve efficiency or update working practices when you have a monopoly franchise system. Potential franchisees simply price such *inefficiency* into their bids. The regime where a franchised operator pays a high *fixed access* charge to Network Rail - without any real say over what value it is getting from such a payment – simply creates an environment where operators have to accept the status quo.

A far better solution would be to *scrap fixed* access charges altogether and replace them with direct grants from government to NR in order to provide the infrastructure. The government could then cajole NR into making efficiency savings though a mix of better working practices, tighter procurement, better planning, upgrading of infrastructure at a sensible cost, culture change and less bureaucracy.

The current system is too fragmented and bureaucratic. Working

17 Virgin Trains East Coast which is currently eating into its £165m bond as its revenue has fallen short of expectations.

practices are often hopelessly outdated and not fit for purpose. Despite 20 years of private TOCs, the whole industry is still heavily unionised and in many cases staff wages have risen way beyond inflation creating a higher cost base.[18]

The industry is still very incestuous with large numbers of lower and middle ranks of rail management made up of career ‘railwaymen’, most of whom lack any outside world experience.[19] This is a particularly acute at an operational level where traditional ex-public sector ‘job for life’ working practices remain largely unchallenged. Even now most progression remains largely through the ranks and there is a deep rooted suspicion of outsiders or of anyone that challenges the status quo.

HEALTH & SAFETY

Britain has one of the best rail safety records in the world and the trend has been steadily improving over the past two decades.[20] However, Health and Safety legislation has to be seen in the context of the environment in which it operates. To achieve a 100% risk free railway would result in no passengers, no freight and no trains!

There needs to be a pragmatic approach to safety where risks are properly assessed and intelligent decisions made rather than simply

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18 A train driver at the end of BR earned below £20k. Now it’s £48k on average and often much higher. This has been brought about by the creation of a marketplace for drivers amongst the different TOCs and freight companies and in so doing has strengthened union negotiating power. Training remains hopelessly slow using ‘out of date’ practices and is largely a closed shop to outsiders.

19 There are a number of key operational positions where having solid industry experience is essential. However these positions tend to be at the ‘sharp end’ rather than in management grades.

20 Railway Safety Statistics, Eurostat.

kicking them into the long grass. The rail industry is a 'safety critical' environment however a balance needs to be found that maintains the impressive current safety record while finding practical and pragmatic solutions.

Culturally far too many people in the industry remain firmly stuck in the past and are resistant to change using safety as an excuse. This default position has to be robustly challenged.

The industry needs to be 'open-minded' to new ideas and ways of working. There needs to be far more of a 'can do' attitude with safety and innovation combined as an enabler not a blocker.

Although the UK's rail network has an unenviable safety record in reality this does come at a very high cost. There is a danger that risk levels are not being pragmatically assessed and an overzealous 'Health & Safety' culture has evolved. Many perfectly safe working practices have been banned in the name of safety when in reality the risk is so insignificant that in many other industries a practical and cost effective solution would be found.

One such example is a pedestrian crossing over the railway track linking the two lightly used platforms at Halesworth station in Suffolk. This practice has been in use since the line was built in 1854 largely without incident. To mitigate risk the railway line speed over the crossing is restricted to only 15mph which is of no consequence to timekeeping as all passenger trains stop at the station anyway. A new rule has been recently introduced that requires all disembarking passengers to wait for the train to depart before crossing the line. But as the train can sometime wait for 5 minutes at the platform most passengers simply cross having checked the train is still stationary as has been the case for over 150 years.

Most train drivers take a pragmatic view as in reality there is no risk if the train is not moving. However a regular minority of drivers report people crossing the line resulting in Network Rail protocols kicking in, identifying the level crossing as ‘at risk’.

Having received a number of such reports (mostly from the same few drivers) Network Rail’s ‘at risk’ level crossing profile is adopted and it’s currently trying to have the crossing closed on ‘safety’ grounds.

Network Rail is lobbying hard to close the crossing which would result in pedestrians and wheelchair users having to deviate via a busy road instead. In this case the railway can eliminate a minor risk while at the same time creating a much bigger one outside its boundary.

The only alternative Network Rail would reluctantly consider would be the installation of a basic warning system. However as Network Rail is notorious for gross over specification, the cost of an audible warning system can be as high at £250k

Following the tragic death of two teenage girls at a level crossing in Essex in 2005 and subsequent prosecution of Network Rail there is an understandable reluctance to apply pragmatism to risk especially when it comes to level crossings. However the Halesworth case highlights how a perfect (and expensive) storm in a teacup can easily develop and escalate out of all proportion to the supposed risk. This is not an isolated case, there are numerous other similar such examples across the country.

NETWORK RAIL

One of the biggest challenges facing the industry is the disconnect between the nationalised infrastructure provider Network Rail

(NR) and its customers – the TOCs and FOCs (Freight Operating Companies).

The relationship is neither efficient nor collegiate. The penalty regime whereby whenever anything goes wrong both sides immediately reach for the calculator and play the blame game is both destructive and wasteful.

There needs to be a far closer working relationship between NR as infrastructure supplier and its customers – the train companies. Both sides then need to focus on the end user - the passenger. Some TOCs have already formed alliances with NR but more needs to be done to ensure that NR remains a far more customer (TOC and FOC) and ultimately passenger focused industry with a 'can do' ethos.[21]

NR has a poor financial and operating record and is renowned for bureaucratic processes, inappropriate decision making, inefficiency and waste. A number of major capital projects such as the electrification of the Midland Main Line have been put on hold because of NR's record at delivering large scale capital projects on time and on budget.[22]

Another example of inept planning was during March 2018's heavy snowfall.

The recent spell of severe weather appears to have caught Network

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21 NR has a fully integrated alliance with Scotrail including a joint Managing Director - Alex Hynes and is part of a looser alliance with South Western Railway (SWR).

22 The Great Western electrification project has been a total shambles. The original £874M cost has risen to £2.8bn with large swathes of the route modernisation scrapped. Network Rail chiefs were forced to appear before the public accounts committee whose chair famously summed up that: "this is a stark example of how not to run a major project".

Rail and operator Greater Anglia by surprise. A decision was taken to suspend all rural services in Norfolk the night before the snow was due to arrive. On the day the weather forecast turned out to be overly pessimistic with no snow falling and clear skies. However the lines remained closed all day as nobody wanted to be the one to reverse the decision. In the end to assess the 'snow risk' an empty train was sent along a line to assess the state of the track even though no snow had fallen.

This type of tick-box approach to safety is endemic in today's railway industry and needs to be urgently addressed. Local managers need to be given the power to make rational decisions in real time without fear of losing their jobs. Ironically by the time permission was given to reopen the line in Norfolk snow had indeed started to fall. The line was then subsequently closed again and remained closed for a further 2 days despite neighbouring roads remaining open having been cleared by local council gritters.

Advocates of nationalisation really need look no further than the current costly and ineffective culture within the already nationalised NR. It's not hard to realise this is hardly the most compelling role model for improvement elsewhere.

The Transport Secretary's announcement on 20 March 2018 that a new line connecting Heathrow Airport to the existing rail network into London Waterloo will be built by a private consortium rather than NR is welcome news.[23]

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23 The Proposed Oxford to Cambridge line is also to be built and operated using private sector funding.

3. The Opportunity

Despite the current disjoined and bureaucratic structure Britain's rail network is uniquely placed to succeed in the future. The current railway act allows for competition through Open Access (OA) operators, however in reality the barrier to entry is too high and there have been few take ups. 99% of passenger miles are currently undertaken on a franchised TOC.

Open Access operators are privately run non-franchised businesses with very restricted access to the rail network. They have to demonstrate that they are not simply cherry picking the most profitable routes and abstracting revenue from the franchised operator. This is known as the 'Not Primarily Abstractive' test. It dictates that for every pound of abstracted revenue 30% of new revenue has to be generated.[24]

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24 First Group recently won the right to operate a new 'low cost' direct Edinburgh to London service from May 2021 in direct competition with the franchised TOC. On the face of it this fails the NPA test but First Group successfully argued that its business model was aimed at driving business from air to rail rather than taking away existing rail business along the route.

In return for opening up new markets OA operators are allowed to serve limited intermediate stations where they compete 'head to head' with the incumbent.

Despite such constraints OA operators have shown that competition can work and where there is 'head to head' competition, passenger numbers have increased and fares have fallen both on the OA operator and franchised TOC. OA operators also sit consistently at the top of passenger satisfaction tables.[25]

However the barrier to entry for an OA operator remains tough so, in reality rail policy remains heavily skewed in favour of protectionism rather than competition.

Only two mainline long distance passenger OA operators currently exist, both serving London Kings Cross - 'Hull Trains' from its namesake and 'Grand Central Railway' from Sunderland and Bradford. Both of these operators are over ten years old. There have been no new Inter-city OA operators coming to the market over the last decade.

On long distance routes it is time to look at expanding this model, encouraging dynamic players into the marketplace. However there is a financial conflict where TOC and OA operator compete side by side.[26] What is needed is a new model that creates a more level playing field whereby both are replaced by new operators of broadly equal size competing on a 'like for like' basis through a system of licensed

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25 Rail passenger satisfaction (Autumn 2017), *Transport Focus.*

26 Long distance TOCs pay a premium to government to in-effect have immunity from competition. OA operators conflict with this financial model by abstracting revenue from the monopoly TOC where they compete and in so doing undermine the TOCs ability to pay hefty premium payments back to the DfT.

slots.[27]

Currently the UK is the only European country that runs its commercial Inter-city operations on a monopoly franchise model. In all other countries they are run on a commercial 'Open Access' model even where there is no competition and the service is provided by the state run operator.

In Britain on the East Coast Mainline where franchised TOC, Virgin Trains East Coast (VTEC) competes with OA operators Hull Trains (HT) and Grand Central (GC), passenger satisfaction across all three operators combined is top of the charts by a mile.[28] By comparison the Great Western Main Line operator - GWR which faces no competition (except between Exeter and London Waterloo operated by SWR) is at the bottom.[29]

COMPETITION IS NOT THE ONLY ANSWER

While direct competition is the best model for long distance routes this is not a panacea for the whole industry. The needs of a commuter traveling 20 miles into a major city each day are very different from that of an occasional rural rail user which varies again from the long distance business or leisure rail user.

On some lines a sole operator should remain, operating services with minimum service levels dictated by either the DfT or the rail regulator. On others, competing operators would provide real choice for passengers at the same time driving down costs for passengers with

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27 A system of licensed slots is adopted by the aviation industry and has proved a catalyst to improving service, reducing fares and ensuring innovation.

28 Best and Worst UK train companies, 2018, *Which? Magazine.*

29 Rail passenger satisfaction (Autumn 2017), *Transport Focus.*

the flexibility to match supply to demand.

Today's franchising model is little better than the monopoly enjoyed by BR. It acts as an obstacle to passenger choice, flair and innovation. The proposals outlined in this paper work in the best interest of the passenger, the economy and ultimately the taxpayer by increasing efficiencies, cutting waste and driving down costs.

The Proposal:

- A bespoke model for individual routes that best reflects the interests of passenger and taxpayer
- Real 'head to head' competition on profitable long distance routes
- Align rural lines with the local communities they serve

The Benefits:

- More passenger choice
- More trains
- Cheaper fares
- Improved customer service
- A boost to economic growth
- Encourage a modal shift from road to rail – less Co2

Broadly the opportunity can be split into three.

1. Long Distance routes
2. Commuter lines
3. Rural routes

LONG DISTANCE 'INTER-CITY' ROUTES

The main market for long distance Inter-city rail travel is occasional leisure and business rather than commuter traffic.[30] On the whole however these routes don't serve the same social requirement as most loss making rural lines or the high density suburban and commuter lines into major conurbations like Glasgow, Manchester or London.

In terms of passenger demographics the long distance rail market is actually closer in style to the airline business than it is to the rest of the UK rail market. As such it needs to be operated as a very different business model.

Most Inter-city rail users are 'one off' business or leisure passengers with many booking their tickets in advance as they would if flying. However, unlike airlines where passengers have a choice of carriers and tend to book based on price and service quality, with rail there is no such option.[31] The result is increasingly lack lustre service and monopolistic pricing of fares especially for walk on flexible tickets.

In its 2015 report '*Competition in Passenger Rail Services in Great Britain*' The Competition and Markets Authority highlighted the lack of competition across the long distance rail market and suggested that the industry needed more players. However, 3 years on the rail business model remains largely unchanged.

HS2 AND THE OPPORTUNITY FOR COMPETITION

Despite its huge capital cost HS2 provides a golden opportunity for

30 On some routes there is limited commuting over short distances during a journey. This is usually where an intermediate station is within commuting distance of a big city such as Runcorn to Liverpool, Durham to Newcastle, Bath to Bristol or Reading to London, all of which are served by Inter-city trains traveling over a longer distance.

31 Except on limited OA routes such as London Kings Cross to Doncaster and York where TOC and OA operator compete 'head to head'.

new competition on Britain's busiest network between London, the West Midlands, North of England, and Scotland. The current 'West Coast Mainline' is the busiest mixed traffic railway in Europe and finding any spare capacity is challenging. Diverting long distance traffic onto HS2 will release much needed capacity for potential competition either through OA or licensed slots.

Ideally though competing operators would also have access to HS2 and not just the existing 'classic' route which will become less attractive to rail users after the faster HS2 route opens. The current DfT tender for the next West Coast mainline franchise incorporates future HS2 services and the existing West Coast 'classic route' into one mega monopoly operator which is of great concern.

Left unchecked the new 'West Coast/HS2' super franchise will result in an even bigger monopoly than is currently the case with Virgin Trains. With its huge price tag the government will be keen to extract as much revenue back from the new combined HS2/West Coast TOC and competition could be seen a threat to this model.[32]

Despite the contention over HS2, it does produce an opportunity to truly open up the marketplace for the benefit of passengers. By diverting longer distance trains into HS2, the existing classic 125 mph route can be opened up to new journey opportunities currently constrained by capacity issues.

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32 When HS1 (St Pancras to the Channel Tunnel) opened to domestic Kent bound trains in 2009 services on the existing classic route were slowed down and cut back to make the HS1 premium route more attractive. Passengers currently have the option of either paying a 35% premium to travel on HS1 or accept a slower and less frequent journey time on the classic route to Charing Cross than was the case before HS1 was built. The current single fare from Ashford to London St Pancras on HS1 is £32.30 compared to £23.90 on the 'classic' route to London Charing Cross.

THE STATUS QUO

Despite improvements to both journey time and frequency (both largely paid for by the taxpayer) the current long distance private railway companies have done very little to innovate. Despite a promising start in the mid to late 1990s today on most routes flexible fares have soared and on-board service has declined. This is particularly apparent on Virgin Trains (West Coast) which it has operated since 1996.

The early days of Virgin advocated improvements in customer service, good complimentary food in 1st class and a general 'can do' attitude with pleasant and helpful staff empowered to provide exemplary customer service. The company is now at the bottom of the punctuality table but more worryingly its customer service has taken a major turn for the worse.[33] Complaints about Virgin Trains have soared recently with independent watchdog 'Transport Focus' currently handling 860 appeals in 2018 against only 103 for the whole of the 2014/15 year period.[34]

As the franchise nears its end, passengers are being penalised for minor discrepancies and being charged brand new full fare tickets and told that if they do not sign a penalty form they will be met by the British Transport Police and could face criminal charges.[35]

There has been a marked increase in negative press coverage recently over the way Virgin Trains is treating its passengers. Worryingly this sort of behaviour simply plays directly into the hands of those call-

33 Most train delays are down to Network Rail infrastructure failure rather than any direct fault of Virgin.

34 Only a small percentage of complaints against a rail operator ever get as far as the independent watchdog so it is a fair assumption that the true number of dis-satisfied Virgin Trains passengers is considerably higher.

35 This has been witnessed twice by the author.

ing for nationalisation. Transport Focus has raised concerns over Virgin's hard-line approach to ticketing terms and conditions and its poor quality responses to passenger complaints.

Recent examples include:

- A Virgin train manager charging an elderly passenger for a new ticket for being on the wrong train despite disruption and ticket easements being in place
- Amputee Afghanistan war veteran Andy Grant being frog-marched by British Transport Police at Euston station having lost his disabled railcard
- Businessman Steve Morrissey accused of getting on the train after his stop and detained by British Transport Police for an hour until CCTV proved his innocence
- 15 year old daughter of Timpson's CEO James Timpson travelling legally on a child ticket refused access to the train because Virgin ticket staff at Euston didn't believe her age
- Transport Focus set up a special board meeting in July 2017 to discuss Virgin Trains uncompromising attitude to passengers[36]

The website Trustpilot.com has 4471 Virgin Trains reviews of which 68% are bad and 10% poor.

Such aggressive tactics can quite simply be attributed to Virgin's monopolistic position on the profitable West Coast mainline as it nears the end of the franchise. By comparison when airlines face negative publicity they tend to react immediately adopting a 'damage limitation' exercise knowing passengers can vote with their

36 Transport Focus has raised concerns about the involvement of the British Transport Police in what are clearly civil ticketing matters. It is not uncommon for Virgin trains staff to threaten passengers with criminal records if they refuse to either buy new tickets or sign 'penalty fares' forms.

feet.[37] Competition therefore provides natural 'checks and balances' against bad practice but this is largely not the case in the rail industry.

THE WAY FORWARD

On core long distance routes where there are multiple trains run by a single operator a system of licensed slots would work best. This would be predominantly on the following routes radiating in and out of London.

- London Euston to Birmingham, Manchester, Liverpool and Glasgow
- London Kings Cross to Leeds, York, Newcastle and Edinburgh
- London Paddington to Bath, Bristol, Cardiff and Swansea

Other routes for consideration could include:

- London St Pancras to Leicester, Nottingham, Derby and Sheffield
- London Liverpool Street to Norwich
- The Cross Country corridor from Bristol to Birmingham/Leeds/ Newcastle and Edinburgh

CASE STUDY – VIRGIN TRAINS ON THE WEST COAST MAINLINE

Currently there is a minimum of 9 long distance Virgin trains per hour from London Euston serving the following destinations:[38]

37 Following sustained negative coverage of Ryanair's uncompromising customer service the airline was forced to adopt a far softer focussed approach.

38 In the peak there can be up to 11 per hour with an additional train to Liverpool and Glasgow.

- 3 per hour to Birmingham
- 3 per hour to Manchester
- 1 per an hour to Liverpool
- 1 per hour to Glasgow
- 1 per hour to Chester/North Wales

The current even 'clock face' 20 minute frequency to Birmingham and Manchester could easily be split between 3 operators running on a licenced slot system. Each operator would still have an hourly service to both destinations yet rail users would gain real choice. If no additional paths could be found then the remaining services could be split between two and three operators each running a 2 to 3 hourly frequency to Liverpool, Glasgow and Chester/North Wales.

It is worth considering that these routes are currently some of the most expensive pence per mile anywhere in the world and certainly the highest in Europe.[39] London to Manchester currently costs £169 for a standard class anytime single ticket up to £484 for a first class anytime return.

OA operators have shown that where limited completion has taken hold fares are far more competitively priced and passenger satisfaction increased. This is explored in detail in chapter 6 - Long Distance Competition.

THE PROBLEM WITH THE CURRENT OA MODEL

Currently there isn't a level playing field between TOC and OA. The current 'Not Primarily Abstractive' test is, in theory, difficult to pass

39 Walk on 'anytime' fares are largely unregulated outside the commuter belt. The reason these types of fares have risen at such a rate is not just down to a lack of competition but more recently a result of hefty premium payments by TOCs to government and lower TOC margins.

as all the profitable destinations are already served by TOCS.[40] If OA operators are not allowed to abstract revenue from the monopoly operator they have to resort to marginal or non-profitable routes resulting in higher risk for these *disruptor* operators.

The only carrot extended to OA companies is a reduction in track access charges payable to NR to access the network.[41] The rationale behind this policy, enshrined in the railway act, is that the OA operator takes all the risk yet is prevented from cherry picking the premium routes. However this leaves the incumbent operator virtually immune from any form of competition. This is bad for the passenger and runs contrary to the whole concept of opening up the railways – central to what privatisation was supposed to have achieved.

To date, apart from Heathrow Express and Heathrow Connect which runs partly along track owned by 'The British Airports Authority' (BAA), only two UK OA operators currently exist: Grand Central and Hull Trains.

GRAND CENTRAL RAILWAY (GC)

The company started in 2007 as a privately backed consortium but has since been sold to Arriva PLC (owned by German state railway Deutsche Bahn). Arriva runs both the 'Wales' and 'Cross Country' TOC franchises. GC operates from London to Bradford and

40 The 'Not Primarily Abstractive' (NPA) test requires an aspiring OA operator to demonstrate 30p in new revenue for every £1 generated. There has been no new OA operator over the past decade however First Group has successfully won the right to operate a low cost Edinburgh to London model from May 2021 aimed at competing with the low cost airlines.

41 A Track Access Charge is the fee levied by Network Rail to the train operator to access the UK rail network.

Sunderland.[42]

From London GC runs along the main east coast line competing with Virgin Trains East Coast (VTEC) as far north as Doncaster and York. From these points GC takes two slower routes to its final destinations of Bradford and Sunderland stopping at various marginal stations along the route in order to meet the NPA test.

HULL TRAINS (HT)

The company is owned by another large TOC player – First Group PLC.

HT operates 7 trains a day between Hull and London and like GC would struggle to make the route commercially viable had they not been allowed to compete for passengers on the main line.[43]

The current situation whereby OA operators have to jump through so many hoops and massage commercially viable stoppings patterns to pass the NPA test is outdated and runs contrary to the spirit of privatisation. However despite such obstacles both OA operators have managed to grow into niche profitable businesses with record levels of passenger satisfaction. Passenger numbers have also grown significantly at formerly marginal stations such as Eaglescliffe and Northallerton proving that competing operators like GC bring added value to the rail industry and indirectly support the local economy.

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42 4 a day to/from Bradford and 5 a day to/from Sunderland.

43 HT competes with Virgin Trains East Coast (VTEC) at Doncaster, Retford & Grantham.

4. Commuter Lines

These are lines that radiate into and out of our major conurbations and for ease can be broadly split into two:

1. Inter-urban metro services serving the outer edges of a city (usually within 10 or so miles).
2. Medium distance services to commuter towns & rural areas.

Suburban metro type services tend to be high frequency with many passengers not checking a timetable before traveling.[44]

On journeys beyond the suburbs to commuter towns within an hour there tends to be more of a mix of passenger types. Commuters are still the majority in the morning and evening peak but there is also business and leisure use too.

Examples include:

- Oxford to London
- Perth to Glasgow
- Liverpool to Manchester

44 In London metro services use the Oyster travelcard zone system and in effect these lines are seen as an extension of the tube network.

- Sheffield to Leeds

As our cities and towns grow and rents steadily rise, more and more people are choosing to live further away from their workplace. On many of these routes the key is providing capacity and frequency of services. Even with the *flat lining* of passenger growth in the South East overcrowding is still a major issue for many rail companies. The trend is therefore for new trains to be configured with high density seating to reduce standing on short distance commuter routes.

Without major infrastructure upgrades like digital train control it is difficult to find a short term solution to the problem of overcrowding on routes where demand massively exceed supply.[45]

For high density commuter lines the current government model of investment in track capacity, stations platforms and longer trains is the right solution as the problem is about capacity and reliability rather than competition *per se*.

There is currently record infrastructure investment on certain routes but this tends to be focused in London and the South East on busy commuter lines. Certainly in the South East of England the concept of competition on high density routes is neither practical nor desirable on a metro style high frequency 'turn up and go' railway.[46]

On the heavily congested South East routes any OA proposals would

45 NR has a Digital Railway project in place whereby analogue fixed distance signalling would be replaced with digital train control to allow more trains to run closer together on the existing network. However there is widespread scepticism about NR's ability to deliver such a complex project.

46 Addressing an audience of rail industry leader in early March 2018, Chairman of Network Rail Sir Peter Hendy said "traditional rail timetables will be ditched within a decade in favour of London Underground-style countdown timers on platforms".

almost certainly fail the NPA test as they would inevitably be abstractive. Alliance Rail Holdings Ltd, a subsidiary of Arriva PLC (owner of GC) has applied for a licence to operate a competing service on the main London Waterloo to Southampton route against franchised TOC South Western Railway (SWR).

It is unclear how this could pass the 'not primarily abstractive' test given the route is already served 100% by SWR. Alliance's main argument is that on this relatively long distance commuter route SWR struggles to provide enough seats at peak time so the proposal is largely about capacity enhancement rather than revenue abstraction. Despite capacity issues on the route Network Rail has found paths for the new service and the final decision now rests with the regulator – The Office of Road and Rail (ORR).[47]

GC is promising new innovation for commuters such as a guaranteed seat for season ticket holders, flexible season tickets and carnets for commuters who work part time. Although GC is promising innovation and lower fares, there needs to be a balance between the benefits to a very small number of longer distance commuters vs the vast majority who will not benefit from GC's proposals.[48]

The challenge for the regulator is to balance the potential benefits such a new operation will bring against direct abstraction of revenue from the franchised operator undermining its ability to pay a premium payment back to the DfT which in turn could compromise its ability to fund SWRs wider comprehensive and unified service.

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47 SWR is introducing new trains with more seats in 2018 so this could undermine the core part of GCs business case.

48 GC's proposed service would only have one or two peak time trains and serve only 6 stations vs over 300 on the wider SWR network.

While new operators should ideally demonstrate they are bringing new business to rail - in this case most likely from road – it is not unreasonable to poach business from the incumbent where demand currently exceeds supply and passengers are left standing.

Passengers should still have the option of buying an 'inter-available' ticket so being able to benefit from a seamless journey should they wish.[49]

Competition on commuter lines is likely to be very niche and only really feasible on longer distance commuter journeys rather than metro style routes. However where this is feasible there is a potential benefit to the passenger in terms of competing fares.

- Inter-available fare (same as current peak fare)
- Grand Central only fare
- South Western Railway only fare

Inevitably both GC and SWR's own fares would be set at a lower level that the current inter-available fare however passengers would be restricted to travelling on that specific operator's services.[50]

Currently the only routes where commuters have a choice between

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49 Inter-available tickets are ones that are flexible and remain valid on all operators.

50 Although currently SWR is the sole direct operator on the Southampton-Winchester to London route the current fare is still 'inter available.' This allows passengers to change between operators which run along part of the route for example: Cross Country Trains between Southampton and Basingstoke. As inter-available tickets are marked 'London Terminals' a passenger is permitted to transfer at an interchange station such as 'Clapham Junction' onto another operators service to an alternative London terminal such as Victoria. Should GC be granted access to the route holders of new cheaper SWR or GC 'only tickets' would be tied to that specific operator and would lose the flexibility that is currently available.

operators are generally where two TOCs run along the same line for a short distance. A good example of this is Peterborough – 72 miles north of London Kings Cross. Virgin Trains East Coast (VTEC) has a frequent Inter-city service to London. Peterborough is often the last stop for trains heading south from Yorkshire, the North East of England and Scotland.

Peterborough is also the starting point for GoVia Thameslink Railway (GTR) which runs a half hourly stopping service to London and onwards to the South Coast via the Thameslink tunnel between Farringdon and Blackfriars. These trains takes longer yet the fare is cheaper giving passengers the choice of either paying Virgin's higher price to travel faster or paying less to travel on the slower GTR service.

This is an example of where competition exists by accident as a result of franchise overlap rather than by design. However where such a position does exist the passenger is given welcome choice. In the case of Peterborough a sizable number of commuters choose the slower service not just because it's cheaper but because they are guaranteed a seat as the train starts its journey there.[51]

INTEGRATION OF LOCAL RAIL SERVICES

In London, transport is devolved to local government and operated by a unified organisation 'Transport for London'. TfL operates the successful 'oyster' and contactless payment system within the London zonal boundaries across most modes of transport. It is gradually taking on more mainline rail services that predominantly serve

51 A GTR only annual season ticket is £6,540 compared to the higher priced £7,752 'inter available' ticket which is valid on both GTR and Virgin Trains East Coast (VTEC).

the outer London suburbs.

This system works well as it creates a seamless mass transit ‘turn up and travel’ network.

Other parts of the UK have similar smaller schemes including: Manchester, Leeds and Glasgow which are run by strategic authorities that hold powers over transport, economic development and regeneration. The advantage of such structures is that local authorities have a say in how transport is integrated into the wider local economy which is to be encouraged.

A recent development is the creation of ‘Transport for the North’ (TfN) which has gained statutory status allowing elected leaders across the north of England to formulate an integrated transport strategy. In effect this is a quango but the intention of integrating transport and infrastructure with the wider economy is on the face of it welcome.

The organisation is in effect a public private partnership working alongside the national transport bodies in the region and the DfT providing strategic transport and infrastructure advice. In April 2018 TfN was formally established as a statutory body. Although TfN does not have statutory powers to enforce its wishes, the DfT must formally consider its opinions and findings when taking funding decisions.

COMMUTER LINES CONCLUSION

While there might be room for very limited niche competition on medium distance mixed commuter/business/leisure routes such as Southampton to London and potentially on routes like Norwich and Ipswich to London, this should not be to the detriment of a seamless unified route where frequency is key.

In the digital age working patterns are changing especially with the advent of hot-desking and home working. A small yet growing minority of the population now works from various locations and rail companies need to adapt to these changes with ticketing initiatives that reflect this.

Operators need to be far more flexible in the way they sell tickets. Rail operators need to offer a range of tickets including ‘part time’ and ‘off peak’ commuter fares plus carnets for regular business and leisure travellers. The advent of smart ticketing has the ability to offer huge passenger benefits even where there is no competition.

The government is starting to write ‘smart ticketing’ criteria into its franchise requirements so that a distinction can be made between the daily ‘same train, same route every day’ commuter and other travellers that require a more flexible and diverse offering that better reflect their individual travel patterns.

On commuter lines there is no suggestion that the franchise operator should be scrapped in favour of a free for all. This would simply undermine the good progress that is already being made to provide a unified and flexible rail network in areas of high density. On these routes far better integration between TOC and Network Rail needs to be introduced.

5. Rural Routes

Most rural lines serve sparse populations, run fairly infrequently and require a subsidy. However such routes do serve an important economic and social role. Passenger numbers are generally on an upward trajectory and the advent of modern technology has the ability to reduce costs while increasing farebox revenue.

Many rural routes serve to feed passengers onto busier lines thus providing a seamless rail alternative to driving. However on most rural routes the service offering is often poor with old and dirty rolling stock running at slow speeds. With the public sector finances as precarious as they currently are it is understandable that when infrastructure funding is available it tends to be diverted to areas where it can benefit the greatest number of the population. It is therefore on the face of it, perfectly reasonable that there is no blank cheque for lines that serve very small populations however beneficial they may be locally.

Rural lines however do have an important role to play not just socially but also in terms of providing economic regeneration in areas that have fallen behind over the past few decades. The solution therefore is to find a balance between a network that is modern, efficient and encourages more passengers while at the same time does not require huge investment.

Much of the current decline has been the lack of availability of rolling stock nationally. However with record investment in new trains there is a huge opportunity to transfer good quality cascaded rolling stock to lines that currently suffer from life expired and cheaply built 1980s early generation 'pacer' and 'sprinter' trains.

A PARTNERSHIP BETWEEN THE COMMUNITY AND ITS RAILWAY

On many local lines there is a local partnership with interested local stakeholders. However in reality, the lack of funds and tightly prescribed franchise contracts leaves little room for innovation. However this model whereby a community can have a greater say in the running of its network is potentially a game changer.

THE SETTLE TO CARLISLE LINE EXAMPLE:

The Settle to Carlisle railway is a rural route of significant heritage importance. However, it also has the potential to add greater economic benefit not just to the local region but to act as a panacea more widely as well. The line was under threat in the 1980s but a well fought campaign saved it from the axe and since then passenger traffic has boomed.

Passenger services on the line form part of the Northern Franchise (one of the most heavily subsidised franchises in the country). However Northern has formed an alliance with various stakeholders along the route in an attempt to tap its potential.

The model adopted so far is a good start but far more needs to be done to truly integrate the railway with the community it serves – both passengers and businesses. Professionally run commercial enterprises with commercial acumen should be encouraged on all rural routes to maximise their potential. The UK rural rail network has the potential to encourage business growth, jobs and housing and in so doing help to redress the economic balance between north and south, rural and urban.

Ultimately such routes should be devolved to the communities they serve. While they will still require to be underwritten by the DfT, with innovation comes economic growth and a natural swing between higher fare revenue as a result of better utilisation resulting in less burden to the taxpayer.

Politically too such an approach should win broad support as it not only brings economic benefits but cements the social role many such routes serve by allowing communities and businesses to best match supply to demand rather than civil servants.

6. Long Distance Rail Competition

The long distance rail market provides the most exciting opportunity for change since rail privatisation 2 decades ago. Unlike commuter or rural railways, Inter-city lines are largely ‘commercial’ rather than ‘social’ operations.

When John Major’s conservative government broke up BR in 1995 privatisation was trumpeted as ushering in of a new golden era for rail travel with competition at its heart. The 1992 Government white paper on rail privatisation specified:

- Competition would be instrumental in driving greater efficiency and a wider choice of services that were to be more closely tailored to passenger preferences.
- The rail industry was more insulated from the demands of the market than other forms of transport - such as the airline, coach and road haulage sectors - and that radical changes were needed.

Two decades on neither of these overriding fundamental principles has been met. The railway is still run largely as a monopoly supplier.[52]

In the early days of privatisation some of the franchised Inter-city TOCs did rise to the occasion and show some flair however this has largely been eroded. Today the system is utilitarian, functional and costly. Long gone, the pioneering spirit shown by the likes of the excellent GNER. Virgin Trains, once a dynamic and passenger focused entity is now a mere shadow of its former self.

Gone are the niceties such as good quality food in first class, free tea and coffee for standard passengers, generous loyalty programmes and the fresh bright helpful staff who felt part of a fresh new revolution that was so lacking in BR. The constraints of the tightly prescribed DfT franchises that commit companies to paying huge government premiums is clearly at odds with providing a service where passengers should be at the heart.

Unregulated fares have more than trebled since the current cartel structure whereas in every other industry where competition has been allowed the flourish the reverse has happened.

CASE STUDY: FLEXIBLE FARES

The West Coast Mainline franchise - operated by Virgin Trains since March 1997 - is one of the most lucrative lines in the country. It links London to Birmingham and on to the major UK cities of Manchester, Liverpool and Glasgow. Unregulated 'flexible fares' have rocketed over the past two decades and the time window in which a passenger can use the alternative regulated flexible '*off peak*' ticket has been

52 Apart from a couple of niche routes where OA operators 'Grand Central' and 'Hull Trains' compete head to head with franchised TOC - Virgin Trains East Coast (VTEC).

massively restricted.[53]

FARE TYPES ON INTER-CITY ROUTES[54]

Fare type	Nature	Regulated/Unregulated
Anytime	Buy anytime,travel/any permitted route	Unregulated
Off-Peak/	Buy anytime, travel off-peak/any permitted route	Regulated
Advance	Buy in advance, can only be used on a specific train, date, time and route.	Unregulated

REGULATED TICKETS BY OPERATOR

Off-Peak	Virgin Trains West Coast, Greater Anglia, Cross Country
Super Off-Peak	Virgin Train East Coast, Great Western Railway, East Midlands Trains

Virgin Trains is the one Inter-city operator to never introduce ‘super-saver’ or ‘business saver’ fares alongside the regulated ‘savers’ (now ‘off peaks’) except recently between London and Birmingham where

53 Unregulated anytime flexible fares On Virgin West Coast have risen 245% (260% first class) against an RPI of 86% since June 1995.

54 Historically the regulated semi flexible fare was known as a ‘saver’ ticket. However in order to manage the shoulder peak time period better some operators introduced cheaper ‘super savers’ for periods of low use or more expensive ‘business savers’ for when demand was highest. Both of these additional ticket types fell outside the regulated ‘saver’ legislation. The saver term has now been replaced with ‘off peak’ or ‘super off peak’ Where operators historically introduced the lower priced ‘super saver’ (now become ‘super off peak’) the higher priced ‘off peak’ ticket is regulated as it retains the historical connection with the saver. However where an operator introduced an unregulated ‘business saver’ the reverse is the case as there is currently no description for a ‘business off peak’ ticket. The result here is that the ‘business saver’ becomes an unregulated ‘off peak’ and the old regulated ‘saver’ is now described as a ‘super off peak’ ticket. This anomaly can cause confusion as on some routes it is the ‘off peak’ ticket that is regulated while on others it is the ‘super off peak’.

they face competition. The result is that the fare gap between the current regulated ‘off peak’ and the full anytime (unregulated) fare has grown significantly. Virgin has also significantly restricted the time window passengers can travel on an ‘off peak’ ticket on a weekday to encourage users to travel on either full ‘anytime’ or ‘advance’ tickets.

For example, a passenger wishing to travel from Liverpool to London for a day trip without booking in advance or being tied to a specific return time is now heavily constrained. The earliest arrival into London with an ‘off peak’ ticket is now 11:59am. As there is an afternoon northbound ban between 14:59 and 18:59 the last permissible train north before the evening peak restriction is at 14:07 leaving just over two hours for a day trip or waiting back until 19:07 resulting in a very late arrival back in Liverpool. Passengers who have not booked in advance are therefore left paying £318 for a ‘peak’ flexible ticket as opposed to £87 for the off-peak return fare- a 365% price hike.[55]

THE HUGE RISE IN UNREGULATED ‘ANYTIME’ FARES

It is not just on Virgin Train’s route that long distance anytime fares have rocketed. Most operators have raised these fares by similar percentages. On ‘Great Western Railway’ (GWR) which connects London Paddington to South Wales and the South West of England unregulated fares rose even more than Virgin’s - 270% since 1995. The route to the West Country has poor roads and, with the exception of Newquay Airport in Cornwall there is no alternative to taking the train. Currently less than half of passengers are satisfied that they

55 Traditionally a ‘buy-on-the-day’ flexible ‘off Peak ticket’ was valid on any train times to arrive in London after 09:30am with no return leg time restrictions.

receive value for money.[56]

It is clear that in the absence of competition, operators will exploit this to maximise revenue potential. This is not good for passengers and worryingly simply plays into the hands of those calling for the network to be re-nationalised which would simply create an even larger unresponsive monopoly.

Disproportionate 'anytime' fares are a direct consequence of the current Government model. Long distance operators like Virgin are paying ever higher premium payments back to government and face greater commercial risk with diminishing margins. This has resulted in operators hiking walk-on 'unregulated' anytime fares to levels that would not stand the scrutiny of a free market.

IS TICKETING REALLY TOO COMPLEX?

There has been much debate about the structure of the current ticketing system with accusations that it is too complicated. In reality, the system is fairly simple but it is the TOCs complicated restrictions and manipulation of what should be a fairly easy to understand pricing policy that has created anomalies, confusion and negative headlines.

The current fares system is best broken down into three categories:

- Anytime (unregulated) – These are 'buy on the day' fully flexible tickets that are valid on any train at any time across multiple operators along multiple routes heading roughly in the same direction. Breaks of journey are allowed up to one month on the return leg. For example a London to Edinburgh ticket is valid on all routes heading north (Euston and Kings Cross on Virgin, St Pancras on

56 Rail passenger satisfaction (Autumn 2017), Transport Focus

East Midlands trains and Paddington via Oxford on GWR).

- Off peak (regulated) – Exactly the same as above yet increasingly restricted time barriers placed by some operators such as Virgin Trains.[57]
- Advance (unregulated) – These are advance purchase inflexible fixed dates tickets valid only on the train and date shown by the specific operator (plus any connections if applicable). If booked early, on routes where there is lots of capacity, these can be very good value fares and certainly play an increasingly important role in encouraging greater rail use.

Both 'anytime' and 'off peak' tickets offer route flexibility however where the former allows has no time penalty it comes at a huge price whereas the latter (a regulated fare) offers excellent value but can be heavily restricted in terms of its time bar.[58]

Although routing flexibility can be an added bonus for canny passengers - someone who plans various stops offs en-route - in reality the vast majority of passengers prefer to travel from A-B as fast as possible and are thus is restricted to just one monopoly TOC.[59]

Opening up Inter-city routes to competing companies will give passengers the benefit of being able to select a range of fares from each of the three brackets – *anytime, off peak,* or *advanced*. Competition would retain the current full inter-available fares alongside the intro-

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57 Some operators such as Virgin Trains East Coast and Great Western Railway have split the 'off peak' period in two and have created an unregulated 'super off peak' fare.

58 For example from London to Edinburgh a passenger buying an 'any-time' or 'off peak' ticket and can travel over any of the following routes using a combination of train companies and break their journey as many times as they like on the return within a month.

59 Except where there is limited OA competition.

duction of completing train companies own bespoke flexible offerings. The advent of competition on the most direct route would therefore create even more choice for passengers while head to head competition would result in operator's own fares being lowered as market forces dictate giving passengers the best of both worlds.

In it's 2015 report the 'Competition and Markets Authority' (CMA) report summed up the benefits of multiple operators perfectly: "*Downward pressure on fares, upward pressure on service quality and innovation and greater efficiency are – in theory at least – benefits that competitive markets tend to deliver*".

This assumption is totally correct and is a given in nearly every other industry where the free market has been allowed to flourish. The closest comparison to UK rail in terms of both sector and geographic location has to be the European airline industry. Air passengers have enjoyed a huge increase in choice and frequency to ever expanding destinations as a result of liberalisation as new players like Ryanair challenge the status quo. This new competition has been overwhelmingly good for passengers, driving down fares while increasing choice.

The current lack of competition, high operating costs and high ticket costs is beginning to have a negative effect on rail as passenger numbers flat-line following two decades of growth.

THE DISRUPTORS – OPEN ACCESS OPERATORS

Where limited competition exists there is overwhelming evidence showing that passengers have benefited. As well as in the UK, there are also limited OA services in Europe. In Italy the core Inter-city rail market is on much more of a level playing field than is the case in the UK. Italian operators compete head to head on most core routes resulting in lower fares and greater choice.

The benefit of strong competition on long distance rail routes is overwhelming. It doesn't just provide choice for new passengers but also attracts modal shift from road and air to rail. Where a current OA is in competition with a franchise TOC fares are lower than where a monopoly exists.

Current fare examples using peak buy on the day walk on standard class peak singles:

1. No Competition:
   London to Manchester (Distance 183 miles)
   Virgin - £169
2. Where a TOC and OA operator compete:
   London to York (Distance 188 miles)
   £127 Virgin or £86.90 Grand Central[60]

On the East Coast line to York where Virgin has competition it is noted that its own single fare is 25% cheaper than its comparable fare to Manchester (a shorter distance) where it runs a monopoly.

60 GC does not impose a pre 09:30am peak restriction out of London in the morning whereas Virgin does. Here the difference is even greater - GCs 'off peak' fare is £58 compared to Virgin's £127.

LONDON TO DONCASTER - OPEN ACCESS (156 MILES)[61]

	8am (Peak time)	10am (Off-peak)
Virgin	£99	£76
Hull Trains	£58	£58
Grand Central	£52	£52

LONDON TO CREWE (158 MILES)

	Peak (Before 9.30am and 3pm-7pm)	Off-peak
Virgin	£131	£78

The differences are stark. On the route to Doncaster the fare range is between £52 (GC) and £99 (Virgin) compared to £131 to Crewe (Virgin).[62]

Virgin's own fare on the West Coast is 32% more than what it charges on the East Coast where it faces competition.

It is not just Virgin that adopts such monopolistic pricing: London Paddington to Tiverton Parkway is a similar distance (157 miles.) The operator here 'Great Western Railway' (First Group) is immune from competition on the route.

The peak single fare to Tiverton is £130 (off-peak - £71) almost identical to what Virgin charges to Crewe.

Another interesting example is between London and Birmingham (112 miles). Here there are effectively three routes. Virgin has three

61 Grand Central does not impose a morning peak restriction.

62 There is a slower local service between London and Crewe which travels via a different route but takes an hour longer so is not a fair 'like for like' comparison.

fast trains an hour. ‘West Midlands Trains’ runs a slower service on the same route from Euston and Chiltern operates a competing service from Marylebone.

All three are franchised TOCs but compete by accident as a result of franchise overlap rather than by design. However the effect is that on this route fares are far more competitive. Using London St Pancras to Loughborough (111 miles) as a comparable example with no competition the findings are again telling.

LONDON TO BIRMINGHAM - FRANCHISE OVERLAP (112 MILES)

	Peak	Off-peak	Journey time
Virgin	£88	£54	1h 23m
Chiltern	£49	£30	1h 40m
West Midlands Trains	£50	£26	2h 4m

LONDON TO LOUGHBOROUGH (111 MILES)

	Peak	Off-peak	Journey time
East Midlands Trains	£88	£63	1h 13m

COMPETITION IN EUROPE

In Italy OA operator ‘Italo’ competes head to head with government run TrenItalia.

Florence to Rome is 231km - roughly the same as London to Doncaster or Crewe. However unlike the UK where OA operators only have a handful of trains, in Italy there is a much more even spread of trains between the two operators. Where this has happened market forces bring fares much closer together.

Where there is a single operator there is inevitably a high cost legacy that tends to only be addressed by new operators.

From Florence to Rome both operators charge around £41 for a flexible single.

At 189km Rome to Naples is almost the same distance as London to Birmingham. The flexible fare between these two key Italian cities is between £35 and £51.

Open Access Operators enjoy a lower cost base of some 10 to 15%.[63] This is down to a number of factors including:

- The ability to run a commercial model that matches supply to demand
- Flexibility in the marketplace
- Better yield management
- Marginal track access costs
- A lean management structure
- A greater focus on delivery
- The ability to negotiate better train leasing costs

WHY LONG DISTANCE RAIL IS THE PERFECT MODEL FOR COMPETITION IN BRITAIN

In a country the size of Britain where roads are becoming ever more congested, rail provides the perfect answer. On journeys of between 100-300 miles end to end journey times are nearly always quicker by rail compared to either road or air as with traffic congestion and traversing airports comes added time.

63 PR18 Structure of charges review: Market can bear analysis: Passenger Services, Cambridge Economic Policy Associates for Office of Rail and Road.

However the current Inter-city network is very London-centric. Cross country trains are slow and expensive and do not compete well compared with driving or flying. The growth of UK regional airlines highlights what poor value rail is on many routes:

COMPARISON OF CROSS COUNTRY FARES TRAIN VS AIR[64]

EDINBURGH TO BRISTOL

Company	Fare	Journey time
Cross Country Trail (Rail)	£178.20	6h 11m
EasyJet	£56	1h 10m

NEWCASTLE TO EXETER

Company	Fare	Journey time
Cross Country Train	£95.70	5h 58m
Flybe	£92	1h 15m

GLASGOW TO CARDIFF

Company	Fare	Journey time
Virgin/Cross Country Train	£152	6h 22m
Flybe	£60	1h 25m

64 All single booked 24 hours before travel.

7. How Competition has Revolutionised the Airline Industry

Liberalisation of the global aviation industry has resulted in extraordinary results. Passenger numbers have soared, seat prices have fallen year on year and innovation is booming. In the US, adjusting for inflation, last quarter's average fare of USD$352 was the lowest ever recorded since the US government began collecting statistics in 1995.[65]

The industry today is a far cry from the state run monopoly carriers of the 70s and 80s, renowned for their high fares, sloppy service and a lack of innovation. Today passengers have a huge choice not just of fares but also service levels. The 'low cost' carriers such as Ryanair offer highly competitive fares with no frills. At the opposite end of

65 1st-Quarter 2017 Air Fare Data, US Bureau of Transportation Statistics.

the spectrum in premium business and first class cabins on long haul flights airlines are ever improving their luxurious offerings to stay competitive. The market led approach has been overwhelmingly beneficial to all air travellers.

By adopting sophisticated computer yield management models airlines can match supply to demand and passengers can often find a business class fare at very reasonable price at very short notice.

A search for a Business class 'flat-bed' return from London to Mumbai on the same day as booking shows various carriers offering fares for just over £1k. The cheapest, Gulf Air offered a £997 return flight in business class, a distance of 9,300 miles or just over 9p per mile.

By comparison Virgin Trains charges £484 for an 'on the day' 1st class peak return ticket to Manchester* or £1.32 per mile compared with 9p per mile on a flight offering a flat-bed and free champagne the contrast is stark.[66]

Airlines fight tooth and nail for passenger loyalty whether price driven at the bottom end or premium service at the top. The result is that where the free market has been allowed to operate, prices have tumbled and that is great news for passengers. Like rail, airlines also charge more where competition is non-existent.[67]

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66 Virgin Trains has recently introduced an 'off peak' first class return between Manchester and London at £298 (£0.81 per mile).

67 Using the website skyscanner.net to book an economy single flight for the following day on a journey of roughly similar distance.

LONDON TO EDINBURGH

Company	Fare
British Airways	£39
EasyJet	£48

LONDON TO NEWQUAY (SOLE OPERATOR)

Company	Fare
Flybe	£91

COMPARISON OF UK FARES BOOKED ON THE DAY OF TRAVEL (AIR VS RAIL)

LONDON TO EDINBURGH

Company	Fare
British Airways (Air)	£39
EasyJet (Air)	£52
Virgin Trains (Rail)	£144.90

BA is 73% cheaper than Virgin Trains.

LONDON TO GLASGOW

Company	Fare
British Airways (Air)	£39
EasyJet (Air)	£52
Virgin Trains (Rail)	£141.50

BA is 72% cheaper than Virgin Trains.

LONDON TO INVERNESS

Company	Fare
EasyJet (Air)	£65
Virgin/ScotRail	£176

EasyJet is 63% cheaper than Virgin/ScotRail train fare.

LONDON TO ABERDEEN

Company	Fare
EasyJet	£85
Flybe	£104
Virgin Trains	£157.50

EasyJet is 46% cheaper than Virgin Trains.

Other dates and routes were sampled and in nearly all cases where there was a competitive route fares were nearly half that of where there was just one operator. In most cases flying was considerably cheaper when traveling at short notice.

8. Innovation

- Increased flexibility
- Modernised contracts for staff
- Compete for trains
- Fixed track access
- Less management layers
- Less entrenched culture
- A real focus on delivery
- Significant costs savings (10-15% cheaper)

The railway industry is way behind other sectors in the way is does things. Working practices are often outdated, processes clunky, and entrenched bureaucratic attitudes rife.

If the rail industry is to realise its true potential as a broad enabler of social and economic empowerment then the culture within the industry has to charge. Training of safety critical operational staff is stuck in the dark ages. Train drivers can take between 1 and 2 years to learn their trade. It takes less time to learn to fly a jet from scratch. Trainee signalling staff take a month to rote learn Victorian bell codes only to end up never using them in the real world. There is an army of entrenched safety managers who aggressively defend the status quo.

This entrenched culture is a major barrier to creating a forward thinking and outwardly facing industry with private sector vision and discipline. What is needed is a complete rethink of how railways best serve the passenger and tax payer whilst supporting the UK economy.

HAILING A TRAIN

Unlike renting a car, hailing a cab or chartering a private jet, renting a train is fought with problems. Weeks of notice are required as the cost usually so high that it's unrealistic for any less than 300 people. To add insult to injury the available rolling stock is usually old and the paths offered by Network Rail usually so slow that the whole offering is deeply unappealing.

This needs to charge. The rail infrastructure is expansive with huge potential, yet it fails to be responsive to the needs of its current or future potential users. The major problem is the inflexibility of the current timetable. Capacity on parts of the network is tight and finding spare paths for one-off trains is very difficult. The advent of a new digital traffic management system led by Network Rail's 'Digital Railway Programme' should improve this. However without a broad vision beyond simple fixed franchised timetabling there is a danger that the industry is putting the cart before the horse.

The industry needs to engage with disruptors and creative thinkers. What is required is an opening up of fresh outside talent to dictate a new agenda and challenge the legions of railway industry stalwarts.

While hailing a private train at short notice would be unworkable and uneconomic this should not prevent fresh ideas about how rail provides a more agile offering for existing and potential new users. Innovative ticketing options brought about by digital technology is becoming a reality but far more needs to be done. The danger is that unless there is genuine competition, true innovation is likely to be stifled. Only when companies have to fight for their passengers do they tend to go the extra mile and come up with true innovation.

In the absence of competitive forces, DfT over-specification may be a necessary evil to protect passengers. But under real competition companies would be penalised for offering substandard conditions. By moving to an OA model the DfT can reduce its prescriptive franchise specifications and create space for innovative offerings. For instance, one company might pursue a low-cost Ryanair style approach (prohibited under the status quo), while others may differentiate themselves by providing free tea and coffee offering a more premium based service.

The industry must not be frightened of fresh ideas. Record investment is currently being funnelled into the railway industry. There is a danger however that unless there is a massive change in mindset and encouragement of fresh thinking, this funding will simply be wasted.

Conclusion

It is time to move away from the narrow and increasingly idealistic nationalised vs privatised narrative. Different railway routes serve very different purposes and we need to adopt a flexible policy that harnesses the best out of them all. This requires different approaches and diverse financial models.

Opening up of Britain's long distance rail network would bring the following benefits

- Better use of timetabling
- Running longer trains to maximise capacity
- Allowing the industry and not civil servants to match supply to demand
- Updating working practices
- Bringing fresh talent into the industry
- Creating a 'can do' culture
- Rewarding success
- Cutting waste and reducing bureaucracy

For commuter and rural railways the current franchise model has largely worked well, but this is not to say that innovation should not be encouraged. There needs to be an open platform to new ideas and processes in place that can be both responsive and agile. On rural routes we need to integrate lines with the communities they serve. There needs to be fresh ideas about how these often unused, unloved, and expensive assets can be turned into enablers of social and economic empowerment.

On long distance routes there is huge untapped potential. Opening these routes to the free market is compelling and makes perfect economic sense. It will help to drastically improve services, drive down costs, reduce fares, drive innovation and above all give passengers real choice. It will help to steer more people away from road and air onto rail and in so doing provide much needed additional revenue reducing the burden on the taxpayer.

Competition in the Long Distance Inter-city rail market has the potential to bring about the most radical and progressive realignment of our rail system since privatisation and in so doing can create a true rail renaissance.