BRIEFING PAPER

HOW TO MAKE LONG-DISTANCE WORK:

Fixing Britain's railways with open access

By Adrian Quine and Sophie Jarvis

EXECUTIVE SUMMARY

- Open Access, by enabling competition between operators on the same route, drives down costs and ticket prices, improves passenger satisfaction, increases frequency, and encourages innovation.

- Fares are up to 55% cheaper on Open Access routes compared to where a single monopoly franchise operates.

- Open Access operators have the highest level of passanger satisfaction. Open Access operator Grand Central has had the largest increase of passengers of any train company, up 12% over 2017-18, discluding Transport for London services.

- Under Open Access new routes have been opened by operators, giving smaller stations direct, fast, long-distance services without the need to change trains. These new rail destinations drive economic growth, social mobility and wider prosperity.

- The running costs of Open Access operators is lower than the heavily unionised monopoly franchise operators, resulting in lower passenger fares.

- In order to expand rail competition, this paper recommends:

  1. Abolishing the current monopoly franchise system for long distance rail routes and replacement with an Open Access system.

  2. In the meantime, the creation a level playing field between Open Access and monopoly franchise operators by:

     a. Abolishing the Not Primarily Abstractive (NPA) test, which limits which tracks Open Access operators can use.

     b. Introducing parity between the track access charges for monopoly franchise operators and the open access operators.

  3. Reverse auctions to allocate operators and decide the subsidy level for less profitable stations.

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by John Penrose MP

2017 and 2018 were terrible years for the Rail Industry. Misery for Southern Rail passengers on a service crippled by strikes was followed by timetable meltdown on both Northwestern and Thameslink services and, as the cherry on the cake, the East Coast Mainline franchise collapsed.

These disasters shouldn't surprise us. They're symptoms of an old, brittle and inflexible rail franchising system that's hardly changed since privatisation.

In those days, mobile phones weighed the same as a brick. Email, broadband and wifi were unknown. Google, Facebook, iPhones and Uber were all years away.

Since then, all those things have been invented, grown and improved beyond recognition. They have disrupted and upended entire industries, and changed our lives for the better, forever.

But on the railways, time has stood still. Oh they've done great things with old technology: the number of extra passenger journeys on a largely Victorian-era network has been genuinely impressive. But nothing to transform passengers lives, or set pulses racing in Silicon Valley.

We can and must do better. Much better. It's time for change. For fresh thinking and new technologies.

That's why the Transport Secretary Chris Grayling has, rightly, launched Keith Williams' rail review. And why this paper is extremely well-timed. It's an intelligent and thoughtful contribution to creating a much brighter, more modern, more flexible future for the railway industry. And, in the great tradition of Adam Smith, it shows how more competition and choice can make passengers lives a great deal better too.

The great man would be proud.

We are calling for more open access operators on the main profitable long-distance routes in order to increase competition in the UK rail industry and improve service standards.

The privatisation of Britain's railways led to a renaissance, with record passenger numbers, new services, improved safety and record investment.[1] Despite these positive developments the British public generally don't acknowledge this.

Overcrowded trains and high costs have led to the perception that the current privatised model is not fit for purpose. Against this backdrop, there have been growing calls for renationalisation. However, this is not the answer as it will not deliver the benefits that the public rightly expects.

It is essential to distinguish between different business models in the railway network. Firstly, there are commuter and loss-making rural routes. These could be considered essential public services that deliver - or have the potential to deliver - wider social and economic benefits. Secondly, there are long-distance routes aimed at leisure and business travellers. These are mostly profitable routes, opening the possibility for a commercial model, which is the norm in nearly every other industry. It is on these long-distance routes that 'head to head' rail competition would deliver a far more satisfactory outcome and better value for passengers and taxpayers. While competition is not a panacea for all routes, on these key routes it would deliver huge benefits.

Aviation is a prime example where consumers enjoy competitive fares on a wide range of airlines, entirely down to a marketplace with an abundance of choice. Passengers can choose to travel on one of the burgeoning low cost carriers for a few pence per mile or in supreme luxury on a flatbed with champagne. It is acknowledged that the airline industry is more agile and does not rely on the same level of expensive physical infrastructure. However, a lot more can be done to improve innovation in the rail industry.

The current long-distance rail model, whereby private sector monopoly franchise operators deliver highly specified public sector contracts, limits consumer choice. Innovation is lacking, customer care is poor, and the unions retain a stranglehold. Consumers say they want better service, more choice, and lower fares. Renationalisation would not deliver any of these goals.

On routes with even limited competition, either where franchises overlap or there are small non-franchised open access operators, fares have fallen and passenger satisfaction is high. These cases make up just 1% of the UK rail market yet act as shining examples; bursts of positive energy in an otherwise uninspiring industry.

1 Nigel Hawkins, "Utility Gains: Assessing the record of Britain's privatized utilities," Adam Smith Institute, September 20, 2015.

The likes of Emirates and EasyJet at either end of the rail market could deliver real choice compared to the straightjacket of current government controlled system.

The railways need flexibility and agility to thrive; a model that allows the best of the public and private sectors to work together to deliver real value for both passengers and taxpayers. We have a golden opportunity to make the public and the private sectors work together to provide a service that empowers passengers, supports the economy and delivers wider social and environmental benefits. We must be brave, bold, and visionary to deliver real value and make our railways cherished again. To do so, we must acknowledge that the current model is not working and a change in mindset towards the rail industry as a whole is needed to reintroduce competition and make rail work for passengers.

THE PRIVATISATION BOON

Since privatisation in 1996/7 rail services have been transformed with better, faster, and more utilised services. Privatisation has been a success. But not all forms of privatisation are the same and the woes of a nationalised rail service are often forgotten amidst the delays, overcrowding, and bad service we get on some railway lines today.

Passenger satisfaction

Since privatisation, Train Operating Companies (TOCs) have forged their own identities, using creative flair and innovation to improve on British Rail's lacklustre services. Long-distance routes epitomise the benefits of privatisation, led by innovators such as GNER (smart new branding and restoration of traditional restaurant cars on nearly all trains), Midland Main Line (free tea/coffee for all passengers) and Anglia Railways (good quality and value onboard bistros carriages). Privatised rail operators have achieved record passenger satisfaction. Targeted local ownership and innovation have delivered positive results.

However, there has been a gradual erosion of genuinely valued passenger enhancements over the past decade. This is shown by the reduction in passenger satisfaction figures. Virgin Trains (West Coast) is perhaps the starkest example, declining from one of the most popular, innovative and customer focused brands to one of the least popular and receiving the 2nd highest number of escalated complaints.[2] Onboard service, especially in First Class, has been cut right back.

The highest number of current complaints, however, is against another monopoly operator: Great Western Railway (GWR) (1798 to date for 2018). GWR and Virgin are two of the most financially lucrative long-distance franchises in the country yet have low levels of passenger satisfaction. Both of these operators are immune from Open Access competition. By comparison, the East Coast mainline franchise monopoly franchise operator - LNER - competes with open access operators Hull

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2 1168 escalated complaints to Transport Focus in 2018 - Source Anthony Smith CEO Transport Focus

Trains and Grand Central Railway.[3] All three have much higher levels of passenger satisfaction and fares across all 3 operators are competitive.

There is a trade-off between passenger satisfaction, which generally improves where there is a freer market, and revenue protection for the franchises and the Department of Transport, when there is a sole operator. It is widely accepted that the current system of high premium paying monopoly franchises based on over optimistic growth is unsustainable. The failure of three successive private company franchises on the premium East Coast Mainline route - GNER, National Express and Virgin Trains East Coast - shows that the model is not beneficial to either taxpayer or passenger. Such failures pose a high revenue risk to government. Increasingly competition on these routes would result in better operating efficiency, improved customer service and increased modal shift from road and air to rail. As passenger numbers increase, net revenues to the Department for Transport will be more sustainable and better aligned between demand and supply.

Passenger numbers

Passenger numbers in Great Britain increased from 800m in 1996/7 to 1.72b in 2017/8.[4] There are a number of factors that have contributed to this rise, including population growth, greater social mobility, and a shift from road and air transport to rail.

The privatised rail network has shown great flair, especially in delivering improved yield management with more 'advance fares' than was the case under British Rail. However, fares are a bone of contention for passengers and uncompetitive practices remain where there is a monopoly operator. Renationalisation would do nothing to increase competition in the rail market, which is necessary for improved quality service and lower fares. The East Coast Mainline franchise, itself a casualty of flawed government franchising policy, has moved between private and public sector 6 times since 1996 yet the actual industry standard fares structure, while providing some benefits of 'head to head' competition, has largely remained the same. The notion that a public sector provider would deliver a better quality service or lower fares is flawed.

Trains per hour on key routes

One of the greatest success stories of the privatised railway industry is frequency. Under British Rail, the number of trains on key long-distance routes was generally 1 or fewer per hour. On routes such as London to Manchester there are now three trains per hour in each direction (1 before privatisation). To Bristol, Cardiff, Norwich, Derby, Nottingham, Sheffield and Leeds frequency has doubled from 1 to 2 per hour. Reliability has also improved, especially on the West Coast Mainline, however there has been a dip in performance recently - mostly because of issues with Network Rail's infrastructure.

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3 Hull Trains passenger satisfaction dipped between April and June due to ongoing reliability issues with its current train fleet which is due to be replaced in 2019.

4 Office of Road and Rail, "Passenger Rail Usage: 2018-19 Q1 Statistical Release," October 4, 2018.

Franchise system

The current rail franchise financial model is based on a mix of subsidy and premium payments. In simple terms, loss making franchise routes receive a subsidy from the government (or local authority) for delivering services - examples include Northern Rail and Scotrail. On profitable routes the reverse is the case with franchisees paying the government a premium payment over the term of the franchise. This level of premium payment is determined at the outset of the contract and increases over the term of the franchise term based on assumed growth at a predetermined percentage from the outset.

After two decades of perpetual growth, passenger numbers have flatlined and even started to decrease severely threatening Department for Transport premium payments. To reverse this trend on long-distance routes, the rail industry needs to adopt a far more agile and competitive approach. The current premium payment levels on potentially profitable routes is unsustainable.

Premium payments are defined as a reverse public subsidy. Not all routes are profitable so some franchises receive a public subsidy (mostly commuter/rural) while others pay a premium (long-distance routes.) During the bidding stage, to take on a premium paying monopoly franchise, bidders have been encouraged to over bid to ensure they won. This has resulted in many facing financial hardship as growth has not matched expectation. The current bidding model is fundamentally flawed and acts as a major barrier to competition.

In order to maintain the balance between reducing taxpayer funding and increasing farebox revenue, it is important to create new brands with widespread appeal. Only competition can deliver lower fares and higher quality service which in turn will deliver greater operating efficiencies that will drive down unnecessary costs.

The current system of premium bidding for profitable franchises is unsustainable.[5] Following the early termination of the Virgin Trains East Coast franchise and associated negative headlines, it is clear that bidding on presumed growth is economically risky and politically problematic.

In response to the failure of the two preceding East Coast franchises (GNER and National Express East Coast), the government attempted to mitigate risk by requiring bidders to put up a bond against any revenue shortfall. However, this was not sufficient in the case of Virgin/Stagecoach further undermining the process. To mitigate the risk of the previous two failures (GNER and National Express) Virgin was made to put up a hefty bond. However, even this was not enough to cover the revenue shortfall based on the company's over optimistic growth forecast.

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5 Philip Gates, "Stagecoach East Coast rail line franchise 'to be axed in days'," Business Insider, May 15, 2018.

This resulted in the emergence of a nationalised Train Operating Company (TOC) of ‘last resort’ by the Department for Transport (LNER). Other franchises are currently drawing down their bonds to meet current premium franchise contracts. This is raising the very real chance that there could be other bankruptcies soon, which will be politically very damaging.

The current system is not good for government, monopoly franchise operators, passengers, or the industry as a whole. Failed franchises are costly to government, both financially and politically.

The franchise system also eliminates competition and entrepreneurship. In many areas rail companies have less commercial freedom than they did at the start of the privatisation process in 1996/7. Franchising dis-incentivises operators from showing entrepreneurial flair for three reasons:

1. Tightly prescribed franchise terms often prohibit or limit commercial acumen from monopoly franchise operators.
2. Premium payments are often so tight that there is little budgetary scope to invest in passenger enhancements.
3. Lack of competition creates commercial inertia with rail companies risk averse and lacking innovation and flair.

Nearly all the monopoly franchise operators’ parent organisations are bus companies. No airline, hotel, or major retail company has been involved in rail. Even the one exception, Virgin Trains, is a joint venture with bus company Stagecoach PLC. These companies see rail franchises as a safe, steady, low-yielding investment; a climate that hardly inspires innovation or putting the passenger first.

The rail industry should have the equivalent of price comparison sites - like SkyScanner and Kayak. This would give passengers the ability to choose their journey based on time, train company and length of the journey. It would also incentivise the monopoly franchise operators to distinguish themselves and up their game.

Privatisation was supposed to bring about a revolution in rail services underpinned by private sector expertise, a greater focus on passenger benefits, stricter financial controls and less union power. While there have been some successes, namely in performance, frequency and safety, many of the other aspirations remain largely unachieved.

The core principle of privatisation - competition - is sorely lacking. Where it does, either through monopoly franchise operators overlap or through limited Open Access routes, there are discernable passenger benefits. Passenger numbers are up, satisfaction is at the top of the league tables and fares are far more competitive than on routes where a monopoly exists.

The current system has delivered impressive results, including increased passenger numbers, new trains and one of the best safety records in the world. However, fares are often uncompetitive in comparison to other forms of transport, and innovation and customer service is lacking.

Decline in passenger satisfaction

There is a general distrust of the government's handling of rail. Passenger service is lacklustre and there are record numbers of escalated complaints to watchdog Passenger Focus.[6] This is contributing to record support for renationalisation.[7][8] The negative sentiment is driven more out of frustration than ideology. The railway industry is notoriously bad at communicating both internally and externally, and is perceived to be too process led, culturally inefficient, and resistant to change.

Political game playing by the unions

Union leaders are fiercely resistant to change. Many of the operational working practices are out-of-date and inconsistent. Driver-only trains (without guards) were introduced by British Rail in the 1980s and have worked safely for over 3 decades. Yet the RMT union is insisting on guards remaining on all trains that currently have them regardless of technological advances. The government regulator The Office of Road and Rail (ORR) have stated consistently, for years, that Driver Only Operation is safe, yet the rail union RMT still oppose it. Safety is being used as an excuse to block productivity gains by unions who are only interested in protecting outdated practices and securing higher pay for their members at the cost of passengers.[9]

Rail staff are paid extremely well in comparison with other industries. The average driver salary is £55k a year for a 35 hour week, which is often completed in 4 days. With overtime, many earn around £75k and even as high as £100k plus. This is considerably more than the average median full-time worker in the UK, who earns a gross annual salary of £29,574.

The unions thrive in an environment with little competition and the monopoly franchise operators and Department for Transport are beholden to the demands of the unions. The unions are cynical exploiters of the railway system. More competition would weaken the grip of the unions by spreading industrial relations across multiple operators. Indeed, the most stable IR climate tends to be on smaller Open Access operators rather than the monopoly franchise operators that are all too often marred by strikes.

The rail industry is notorious for its 'staid' and backward looking culture. This is primarily because it's heavily unionised and sees itself as a public utility and not

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6 Office of Road and Rail, "Appeals closed by Transport Focus and London TravelWatch by train operating company - Table 14.15," 2018, http://dataportal.orr.gov.uk/displayreport/report/html/404194c7-87d0-49a8-8666-4f905b52868f.

7 Harry Carr, "Majority of Brits back rail nationalisation, Sky data poll shows," *Sky News*, 2 January, 2018.

8 Matthew Smith, "Nationalisation vs privatisation: the public view," *YouGov*, 19 May, 2017.

9 RMT Press Office, "RMT confirms raft of new strike dates on Northern Rail ," *RMT*, 12 October, 2018.

a business. The industry is also fiercely resistant to change. Many in the industry view it as a secure 'job for life'.

In the case of long-distance routes competition will put pressure on the players in the market to become more efficient, lower costs to get higher profits and innovate to generate custom. The result will be lower fares to get more consumers to use their product.

Lack of level playing field between open access operators and monopoly franchise operators

The main reason why open access operators have struggled to break into the rail system is because open access operators are subject to the Not Primarily Abstractive (NPA) test.[10] The NPA test was a mechanism set up to protect premium paying monopoly franchise operators revenue by preventing open access operators from 'cherry picking' the most lucrative routes. In effect they have to target new secondary routes which are less attractive and are more commercially risky. The current system is equivalent to a two tier road tax system, whereby a driver could opt to pay less road tax but would be restricted to B roads at certain times of day only.

The NPA test discourages innovation as it creates artificial barriers to competition. In effect, the monopoly franchise operator has a protective non-compete mechanism attached to its licence. This is designed to protect its revenue streams which allow it to pay a premium payment to government. This model as we have seen is fundamentally flawed in that it encourages risky bidding, acts as a barrier to competition, dissuades innovation, and creates a two-tier track access charging mechanism.

To offset the competitive disadvantage open access operators face of not being allowed to access the main routes, they pay a lower track access charge. If the DfT scrapped the NPA and brought open access operators track access charges in line with the monopoly franchise operators it would create more of a level playing field between all operators, therefore increasing competition.

The benefits of open access

Competition incentivises cost-reductions and innovation. It is time to inject competition into our long-distance rail industry. In nearly every other industry consumers benefit from choice. Whether it's retail, utility or even other transport sectors such as air, prices have fallen as a result of competition. Increasing Open Access on long-distance rail will align the industry with other everyday businesses providing more choice, lower fares, and improved service.

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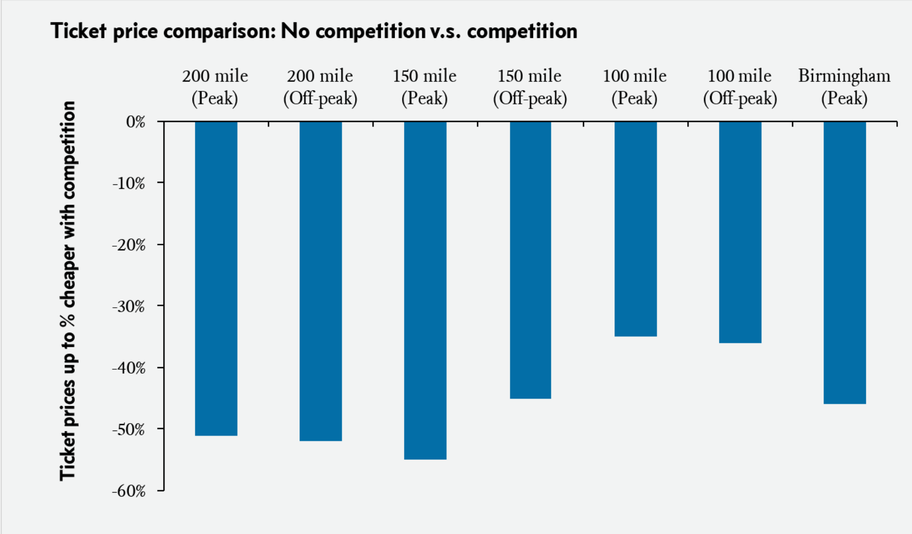
10 Office of Road and Rail, "Annex D: The five stages we use to conduct the 'not primarily abstractive' test", December 2011.

Ticket prices are lower on Open Access lines

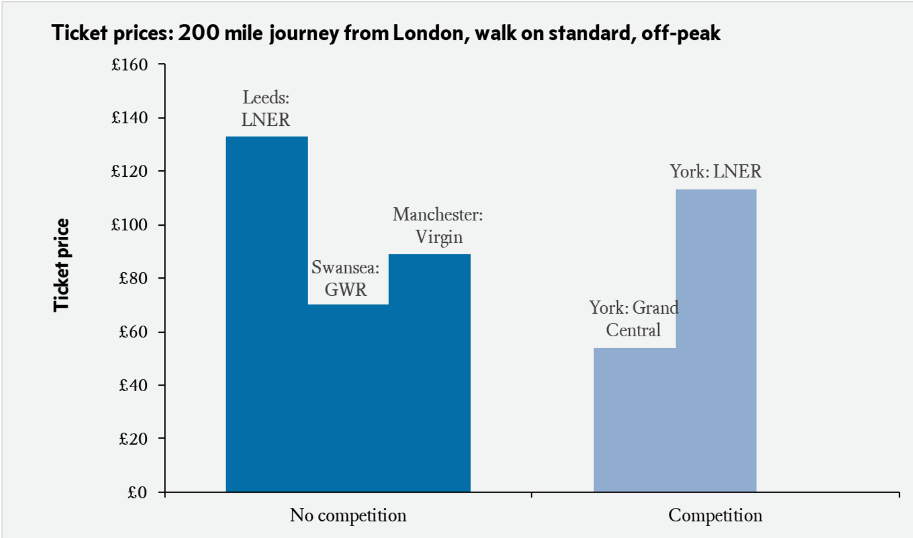
The ticket prices for consumers on Open Access lines are up to 55% cheaper than ticket prices for monopoly franchise operators (See Appendix 1).

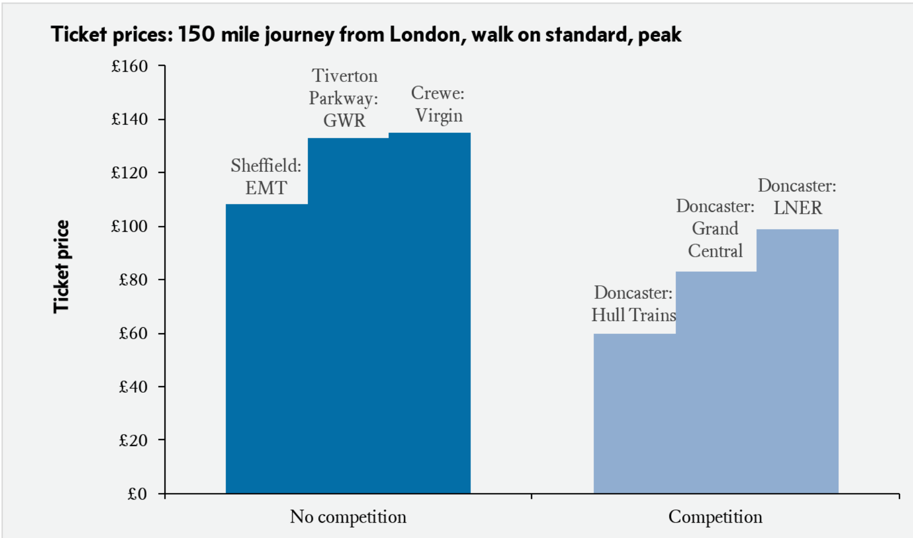


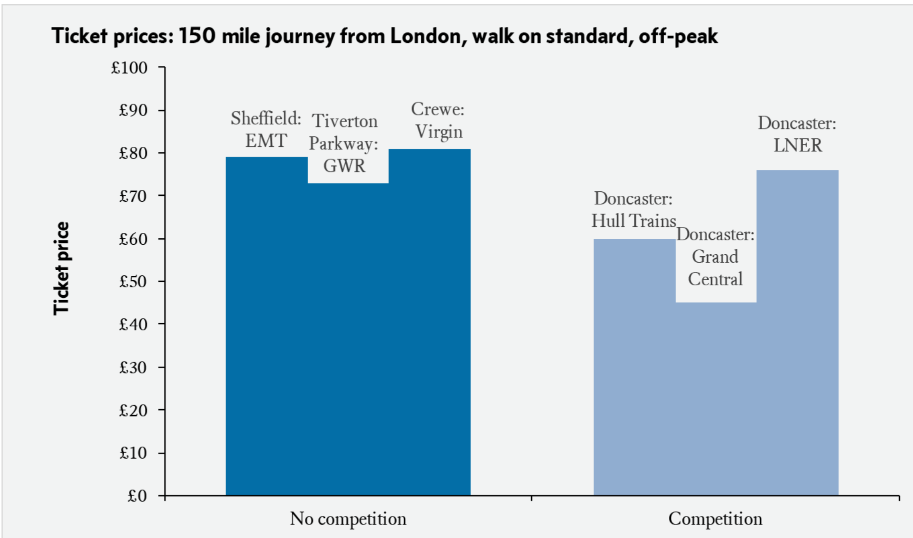
This is because operating costs are lower for a number of reasons, including:

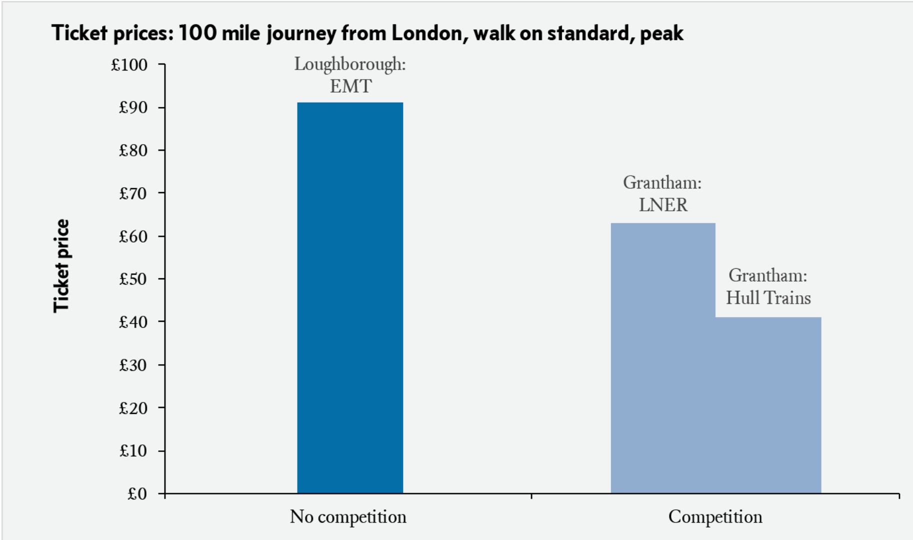
- The ability to run a commercial model that matches supply to demand;
- Flexibility in the marketplace;
- Better yield management;
- Marginal track access costs;
- A lean management structure;
- A greater focus on delivery; and
- The ability to negotiate better train leasing costs.[11]

11 Basic market principles indicate that with more entrants in the marketplace for train operation will be able to source trains from different suppliers including new build. The current relatively short term prescriptive one franchise model does not encourage the Rolling Stock companies to raise their game.

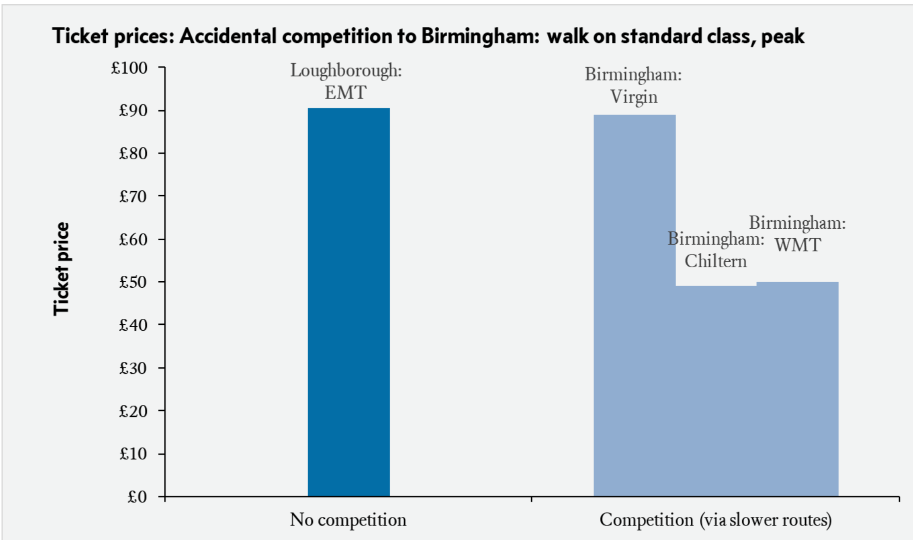

Ticket prices: 200 mile journey from London, walk on standard, off-peak
£160
£140
£120
£100
£80
£60
£40
£20
£0
Ticket price
Leeds: LNER
Swansea: GWR
Manchester: Virgin
York: Grand Central
York: LNER
No competition
Competition


Ticket prices: 150 mile journey from London, walk on standard, peak
£160
£140
£120
£100
£80
£60
£40
£20
£0
Ticket price
Sheffield: EMT
Tiverton Parkway: GWR
Crewe: Virgin
Doncaster: Hull Trains
Doncaster: Grand Central
Doncaster: LNER
No competition
Competition


Ticket prices: 150 mile journey from London, walk on standard, off-peak
£100
£90
£80
£70
£60
£50
£40
£30
£20
£10
£0
Ticket price
Sheffield: EMT
Tiverton Parkway: GWR
Crewe: Virgin
Doncaster: Hull Trains
Doncaster: Grand Central
Doncaster: LNER
No competition
Competition



The key reason why Open Access leads to lower prices is because it drives competition. There is accidental competition between London and Birmingham where monopoly franchise Virgin Trains has limited competition on two slower routes that also link the two cities:



Satisfaction is higher on Open Access lines

While the two primary open access operators (Grand Central and Hull Trains) operate fleets of older rolling stock, passenger satisfaction figures remain high. These figures could be skewed by the fact that these operators run fewer trains than the franchised monopoly franchise operator LNER (formerly Virgin Trains East Coast), however, generally it is choice of fares that prove popular. The National Rail Passenger Survey (published in June 2018) highlights a wide gulf in terms of value for money between Open Access and monopoly franchise operators.[12]

The highest scoring operators were the two open access operators - Grand Central and Hull Trains had 74% and 65% satisfaction, compared to the lowest (Cross Country, East Midlands Trains, and GWR) which all scored only 50%.[13] Interestingly, a 2018 'Which' survey on customer satisfaction of train companies had Grand Central and Hull trains in the top two positions of long-distance operators followed by LNER at number 3. It is telling that the top 3 operators all compete with one another on the same route.

The two Open Access operators have built up loyal followings, revenues have risen sharply, and healthy new rail markets have been created at secondary destinations such as Selby, Brough, Thirsk, and Eaglecliffe.14

Productivity is higher on Open Access lines

The Competition and Markets Authority found higher productivity on Open Access lines because of competitive pressures .[15] There are 3 reasons for this:

- within the firm, it puts pressure on managers to increase internal efficiency;
- between firms, it enables higher efficiency firms to increase market share at the expense of lower productivity firms, which may be forced to exit the market and allocate their capital more efficiently;
- in respect of innovation, in many situations competition will be good for it, although 'too much' competition may be harmful on non-commercial (commuter and rural) routes

Case Study 1: Rail competition in Europe

Britons returning from their summer holiday in Europe often comment on the efficiency of German rail, the price of Italian trains or the cleanliness of French ones.

It's no coincidence that Open Access is the model used in Europe. For example in Italy, the open access operator 'Italo' competes head to head with government run 'TrenItalia'. Florence to Rome is 231 km, roughly the same as London to Doncaster or Crewe (156 and 158 miles respectively). However, unlike the UK where open ac-

12 Transport Focus, "National Rail Passenger Survey (NRPS) at a glance – Great Britain wide – Spring 2018," 19 June, 2018.

13 Transport Focus, "National Rail Passenger Survey (NRPS) at a glance – Great Britain wide – Spring 2018," 19 June, 2018.

14 LNER has one peak time train a day in each direction serving Selby/Brough

15 Lorenzo Casullo, "The Efficiency Impact of Open Access Competition in Rail Markets: The Case of Domestic Passenger Services in Europe," *OECD's International Transport Forum*, March 2016, p. 11-2.

cess operators only have a handful of trains compared to a far more comprehensive timetable from the monopoly franchise operators, in Italy there is a much more even spread of trains between the two operators as all the slots are more evenly distributed.

In cases where there is only a single operator there is inevitably a high cost legacy. This cost legacy can only be addressed only by new operators.

Florence to Rome is approximately the same distance as London to Stockport. In Italy both the open access operators charge around £41 for a flexible single ticket. In the UK the single fare on Virgin Trains is £88 (off-peak) or £175 (peak), 214% to 426% more expensive for the same distance.

Case Study 2: Rail competition in freight

The rail freight industry, which has thrived since privatisation, is run on a total Open Access basis. Before privatisation rail freight was dwindling and increasing numbers of goods were being moved by road. Since privatisation, rail freight has grown and cost per unit has reduced by over one-third. The growth in rail freight is a result of the sector running entirely on a non-franchise, Open Access competition model. This experience is a compelling reason alone to introduce Open Access across the passenger sector.

Case Study 3: Competition in the airline industry

Aviation is a prime example of innovation and value as a result of competition. But it's not just Ryanair and Easyjet that have shaken the industry and provided choice for millions of consumers. Air users now have a multitude of innovative offerings from great value fares on low cost, no frills airlines such as Jet2 and EasyJet to more opulent offerings from carriers such as Thai and Singapore airlines or Gulf Air and Air France. For example, in 2018 to compete with its well established neighbours Emirates, Etihad, and Qatar Airways, much smaller carrier Gulf Air introduced an innovative new business class cabin more akin to traditional 1st class, including an onboard chef to win a greater share of the lucrative premium passenger market.

Emirates has experienced a near doubling of its First Class product from 315,000 seats sold in 2008 to 623,000 in 2018, despite a price tag often around £10,000 for a seat. Virgin Atlantic has an excellent mid range 'Premium Economy' product with leather seats that feel more like comfy armchairs. Air New Zealand recently introduced flatbed 'sky couches' for its long haul economy passengers willing to pay a small premium. Leading airlines are increasingly becoming luxury brands, rail however remains unsophisticated and unimaginative and lacking in flair.

Potential concerns about Open Access

Open access operators could cherry pick lines

A potential criticism of Open Access is that the liberalisation of long-distance rail services could lead to an erosion of the current timetable frequency with less attractive off-peak services cut. To prevent this from happening it is key to ensure a balance between demand and supply. The solution is for the government to create a minimum service level obligation of train paths that encompass both peak and off-peak services 7 days a week but also give operators the freedom to reduce some lightly loaded off-peak service services. This would include a provision for early morning, late evening, and weekend services similar to the current timetable. However, where supply clearly outstrips demand, or vice versa, operators would have the option to amend services to make the best use of resources. In many cases, this could actually result in more trains being added when they are needed most and reducing service levels when they are not.

For example, the current 7 day a week 'clock face' timetable on the West Coast Mainline between London, the West Midlands, NW England and Glasgow doesn't make best use of scarce resources. Between London and Birmingham/Manchester there are 3 trains an hour to each destination regardless of time of day or day of the week. The current timetable is dictated by the DfT resulting in current monopoly operator Virgin Trains lacking the commercial freedom to better match supply to demand. Such a crude frequency model is not indicative of demand and results in massive spare capacity at times when demand is light.

The solution is to allow commercial operators more freedom to best match supply to demand. This could be achieved for example by reducing some lightly loaded off-peak service services (currently prescribed as 3 per hour) down to only 2 or even 1. If demand picks up operators would provide more services to match demand. When demand is highest the current prescribed 3 trains per hour could be increased to 4 or even 5 per hour.

Open access operators causes fragmentation

There is also concern that operators on Open Access lines would not coordinate, endangering safety and efficiency on the lines. However, coordination and fragmentation issues are most often the fault of Network Rail. In fact, train companies are generally very responsive and open to working together. For example, during times of disruption, train operators have agreed to mechanisms to accept one another's tickets. Additionally, inter-available fares allowing passengers to change between operators would be retained, as is currently the case with most off-peak and anytime fares.

On the East Coast mainline where two open access operators compete head to head with monopoly franchise operator LNER, passengers can choose between the inter-available (use all three operators) or a cheaper flexible buy on the day specific train company ticket. There is already an established methodology that apportions inter-available ticket revenue between operators.

1. Abolish the current monopoly franchise system for long distance rail routes and replace with an Open Access system

The current monopoly franchise system has failed to deliver a high quality and affordable service. The monopoly provider system should be replaced with a competitive system of Open Access licensed operators on the same line of route. There are some obvious routes where such a progressive model would add significant value:

- East Coast Mainline from London to NE. England and Edinburgh
- West Coast Mainline from London to NW. England and Glasgow
- Great Western Mainline from London to Bristol, S. Wales and SW. England
- Midland Mainline from London to East Midland and S. Yorkshire
- A number of existing and new cross country routes that could be tapped to include fast growing towns and cities such as Cambridge, Milton Keynes, and Coventry.
    1. Glasgow to Bristol/SW England via West Coast and Birmingham
    2. Cardiff to Edinburgh via Shrewsbury
    3. Cambridge to Bristol via Birmingham
    4. Cambridge to Glasgow via Leeds

2. In the meantime, the creation a level playing field between Open Access and monopoly franchise operators by:

1. **Abolishing the Not Primarily Abstractive (NPA) test, which limits which tracks Open Access operators can use.**
2. **Introducing parity between the track access charges for monopoly franchise operators and and the open access operators.**

While ideally Open Access would be introduced to long-distance routes across the country, in the meantime there are steps that the government can take to deliver a level playing field between Open Access and monopoly franchise operators. The first step would be to abolish the Not Primarily Abstractive (NPA) test which acts as a major barrier to competition by placing obstacles to protect monopoly operator revenue. The second step would be to address the unequal track access charges between the monopoly franchise operators and and the open access operators. As it stands, open access operators pay a lower track access charge (an effective subsidy), to compensate for the lower value routes and highly restricted destinations that they can access. The lack of routes accessible to Open Access operators is the key reason that places like Newcastle, Leeds, Bristol, and Manchester do not benefit from competition which leads to lower prices and poor quality service. If Open Access were expanded, it would no longer be necessary for the Open Access pay lower track access charges as they could access the profitable routes.

3. Reverse auctions to allocate operators and decide the subsidy level for less profitable stations

A reverse auction is one in which: instead of buyers competing to obtain something from the seller, sellers bid for the right to provide something to the buyer. The sellers' proposed prices start at one level, then over the period of the auction, they fall as sellers try to undercut each other in order to win the business.

Such auctions are now used commonly in national and local government services to find the lowest bidder to provide a public service. For example, both the British and American renewable energy market utilised the reverse auction model with great success.[16] Often, the reverse auction is an 'e-auction' in which the suppliers compete in real time and often at great speed, sometimes just an hour or so. The auctions end when no lower bids are being submitted.

Well managed e-auctions deliver better value for taxpayers' money than traditional government tendering. In a typical tendering process, suppliers get only one opportunity to bid and the agency that is seeking a supplier chooses the lowest compliant bid. In a reverse auction, by contrast, suppliers get multiple opportunities to respond to, and hopefully undercut, bids placed by their competitors.

Accordingly, e-auctions have saved government agencies money on such items as school transport, office equipment, energy, information and communications technology, hospital food and medical supplies. Reverse auctions also promote transparency since sellers - namely the government agency that is seeking to procure the service - and even the public can see precisely what each potential supplier is bidding. They also enable smaller businesses to enter the market and win government contracts.

In an entirely free-market it is possible, however, that certain stations are cut out of routes. Therefore there needs to be an mechanism where protection is given for the less profitable intermediate stops.

16 Luiz T.A. Maurer and Luiz A. Barroso, "Electricity Auctions: An overview of efficient practices," World Bank, 2011, p. 159.

CONCLUSION

The privatisation of rail has led to unprecedented investment, passenger numbers, and efficiency. However, Britain's railways still lack competition. Competition delivers consumer choice and value for money. This is the norm in nearly all sectors, except rail.

Competition is not a panacea for all lines and should not be ideologically driven. It would only be adopted where there is a clear case that doing so and would be in the interest of both passengers and taxpayers. The alternative - renationalisation - will not bring fares down but simply add to costs and result in depreciating service levels.

An injection of competition into British railways is very much needed: abolishing the current monopoly franchise system for long distance rail routes and replacing it with an Open Access system would be the best possible way to provide that injection.

A improvement that could be made in the short-term would be to create a level playing field between Open Access and monopoly franchise operators by scrapping the Not Primarily Abstractive (NPA) test and introducing parity in the track access charges.

Only competition will fix Britain's long-distance rail routes.

APPENDIX 1: COMPARING TICKET PRICES BETWEEN OPEN ACCESS LINES AND MONOPOLY FRANCHISE OPERATORS

Table 1. 200 mile journey to/from London: walk on standard class, peak

Destination	Competition	Operator	Distance	Cost
Leeds	No	LNER	186 miles	£133
Swansea	No	GWR	190 miles	£137
Manchester	No	Virgin	183 miles	£175
York	Yes (Open access)	Grand Central	188 miles	£89
York	Yes	LNER	188 miles	£133
Up to 51% cheaper with competition				

Table 2. 200 mile journey to/from London: walk on standard class, off-peak

Destination	Competition	Operator	Distance	Cost
Leeds	No	LNER	Distance	£113
Swansea	No	GWR	186 miles	£70
Manchester	No	Virgin	190 miles	£89
York	Yes (Open access)	Grand Central	183 miles	£54
York	Yes	LNER	188 miles	£113
Up to 52% cheaper with competition				

Table 3. 150 mile journey to/from London: walk on standard class, peak

Destination	Competition	Operator	Distance	Cost
Sheffield	No	EMT	158 miles	£108
Tiverton Parkway	No	GWR	157 miles	£133
Crewe	No	Virgin	158 miles	£135
Doncaster	Yes (Open access)	Hull Trains	156 miles	£60
Doncaster	Yes (Open access)	Grand Central	156 miles	£83
Doncaster	Yes	LNER	156 miles	£99
		Up to 55% cheaper with competition		

Table 4. 150 mile journey to/from London: walk on standard class, off-peak

Destination	Competition	Operator	Distance	Cost
Sheffield	No	EMT	158 miles	£79
Tiverton Parkway	No	GWR	157 miles	£73
Crewe	No	Virgin	158 miles	£81
Doncaster	Yes (Open access)	Hull Trains	156 miles	£60
Doncaster	Yes (Open access)	Grand Central	156 miles	£45
Doncaster	Yes	LNER	156 miles	£76
		Up to 45% cheaper with competition		

Table 5. 100 mile journey to/from London: walk on standard class, peak

Destination	Competition	Operator	Distance	Cost
Loughborough	No	EMT	111 miles	91
Grantham	Yes	LNER	106 miles	£63
Grantham	Yes (Open access)	Hull Trains	106 miles	£41
Up to 35% cheaper with competition				

Table 6. 100 mile journey to/from London: walk on standard class, off-peak

Destination	Competition	Operator	Distance	Cost
Loughborough	No	EMT	111 miles	£65
Grantham	Yes	LNER	106 miles	£54
Grantham	Yes (Open access)	Hull Trains	106 miles	£41
Up to 35% cheaper with competition				

Table 7. Accidental competition to Birmingham: walk on standard class, peak

Destination	Competition	Operator	Distance	Cost
Loughborough	No	EMT	111 miles	£91
Birmingham	Yes	Virgin	115 miles (approx.)	£89
Birmingham	Yes	Chiltern	115 miles (approx.)	£49
Birmingham	Yes	West Midlands	115 miles (approx.)	£50
Up to 46% cheaper with competition				