# Developments in rail passenger competition in Britain

Chris Nash

Institute for Transport Studies, University of Leeds and Masaryk University, Brno

C.A.Nash@its.leeds.ac.uk

New Mobility - High-Speed Transport Systems and Transport-Related Human Behaviour
CZ.02.1.01/0.0/0.0/16_026/0008430

EUROPEAN UNION
European Structural and Investment Funds
Operational Programme Research, Development and Education

MINISTRY OF EDUCATION, YOUTH AND SPORTS

## Outline

1. Position pre covid
2. Williams review
3. Perceived problems
4. Proposed solutions
5. Role of open access competition
6. Conclusions

# Rail industry structure pre covid

UNIVERSITY OF LEEDS

1. Vertically separated state owned infrastructure manager (Network Rail)
2. 7+ year franchises to private train operating companies (so competition for the market)
3. Some on track competition where franchises overlap (London –Cambridge, London – Birmingham etc),
4. Limited open access competition where ‘not primarily abstractive’

ITS

# Franchise specification

- Minimum frequency between key station pairs by time of day
- Maximum journey times
- Characteristics of rolling stock
- Number of seats to and from key stations in the peak
- Some fares regulated (season tickets; off peak returns)

Besides subsidy required or premium offered, bids include a series of plans:

- Franchise management (including alliances)
- Train service and performance (including timetables and staff and rolling stock diagrams; rolling stock to be used)
- Revenue (including fares)
- Customer experience and stations (including information systems and station facilities)
- Page limit 1000 pages!

## Award of franchise

UNIVERSITY OF LEEDS

- Key factor is the subsidy required or the premium offered for each year
- Scores attached by a panel of experts to each of the specified plans
- Weighted and added to NPV of cash flow
- Plans then contractualised in the franchise agreement
- In practice rolling stock to be used seems a key quality factor (incentive for wasteful replacement of rolling stock with new vehicles?)

ITS

## Williams Review

UNIVERSITY OF LEEDS

- Established September 2018 to report Autumn 2019
- Keith Williams, former Chief Executive British Airways as independent chair
- Expert challenge panel, including Dick Fearn, former Chief Executive Officer of Irish Rail
- To recommend the most appropriate organisational and commercial frameworks
- To be comprehensive and bold, challenging received wisdom

ITS

## Problems 1. Franchise Failure

UNIVERSITY OF LEEDS

- Over ambitious estimates of revenue leading to franchise failures
- ECML (GNER, National Express, Virgin)
- Other franchises – Northern, SW Trains, Transpennine
- Post covid no-one could take revenue risk
- Emergency measures moved all TOCs on to management contracts with government taking cost and revenue risk

ITS

## Problems2. Timetabling

Inefficient timetables with overcommitment of capacity

- e.g. Manchester hub (Transpennine, Northern, Freight)

Max 12 trains per hour instead of 14.

Unworkable timetables in the face of short term problems

(Thameslink; Northern)

Last minute changes in timetables

- Uncertainty regarding completion of infrastructure work.

New timetables unworkable (e.g. driver knowledge)

Delays and cancellations doubled – 10% of trains cancelled

# Problem 3. Cost increases

UNIVERSITY OF LEEDS

- Train Operating Company Real Unit Cost Changes 1998-2015)

| | Per train-km | Per vehicle-km* |
|---|---|---|
| • Staff | +44% | +34% |
| • Rolling stock lease payments | -20% | -26% |
| • Other | +46% | +35% |
| • Total | +25% | +16% |

- (excluding payments to Network Rail)

- Source: Nash and Smith (2020)

ITS

## McNulty Review2011 recommendations

UNIVERSITY OF LEEDS

- Big problem misalignment of incentives between infrastructure manager and train operating companies
- Should achieve a 30% reduction in costs by 2018/9
- Rail Delivery Group to oversee
- Longer (at least 15 year) less highly specified franchises carrying more risk re revenue and infrastructure costs (since reversed by the Brown review of 2013)
- Decentralisation of Network Rail, with closer links with train operators (alliances) (Shaw review of 2016 confirmed this)

ITS

## Williams Shapps Plan for Rail 2021 solutions

UNIVERSITY OF LEEDS

1. Need for a ‘guiding mind’ –new rail authority to take charge of infrastructure and operations

Great British Railways (GBR) takes control of franchising from DfT and infrastructure from Network Rail

2. Move to gross cost concessions instead of net cost franchises

Result – GBR will take control of the timetable and infrastructure.

Competition will largely be concentrated on costs (may still be some revenue sharing, especially on more profitable routes)

ITS

## Open access competition

- Current open access competitors are:

- First Hull Trains (London-Hull; forthcoming London-Edinburgh service)

- DB Grand Central (London-Sunderland; London-Bradford; London-Blackpool cancelled)

- Rail Charter Services. Skipton-Carlisle

Note that to the extent that they compete with existing operators, they are competing with private companies who have won a franchise competition

## Open access competition Ctd

UNIVERSITY OF LEEDS

- Competition and Markets Authority (2016) strongly advocates extension; Rail Regulator seems sympathetic.
- But Department for Transport Opposed.

\- Only paid marginal cost for use of infrastructure (but Regulator has now introduced a mark-up for new open access services)

\- Damage to finances of franchisees

\- Shortage of capacity (need to invest £1.2b in East Coast Main Line to achieve planned timetable of franchisee)

\- It seems likely that Great British Railways will take the same view as DfT

ITS

## Conclusions

UNIVERSITY OF LEEDS

1. Proposal should tackle the problems of franchise failure (removing most revenue risk) and timetabling (concentrated on GBR)
2. Should tackle cost issue by concentrating attention of bidders on costs and by concentrating service and infrastructure planning in the same body
3. But could more open access competition help control costs?
4. Will lack of competition result in poorer quality services and less innovation?

New Mobility - High-Speed Transport Systems and Transport-Related Human Behaviour
CZ.02.1.01/0.0/0.0/16_026/0008430

EUROPEAN UNION
European Structural and Investment Funds
Operational Programme Research,
Development and Education

MINISTRY OF EDUCATION,
YOUTH AND SPORTS

ITS