

## Competition in passenger rail services in Great Britain

Transport Focus welcomes the opportunity to comment on the above consultation. At this stage in the process we have not commented on the specific options outlined in the consultation document but have focussed instead on the outputs to, and impact on, passengers arising from any increase in direct competition. This raises a number of questions / issues that we feel must be addressed in order to develop our thinking on the specific options.

### What do Passengers want?

We believe that the best starting point is to look at what rail passengers want and then to map the impact of increased on-rail competition against this.

#### *Priorities for improvement*

In 2014 we asked 3,500 passengers across the country to rank a series of train and station categories in order of their perceived priority for improvement<sup>1</sup>. As well as getting the rank order of priorities, the research can also be turned into an index score in order to get a sense of relativity between each item – i.e. by how much more, or less, important is one factor compared to another.

The table below shows the relative scores, at a national level, for the top ten priorities (out of a list of 31).

Passenger Priorities for Improvement (top 10 – in order of priority)	Rank Great Britain Total	Index Scores Great Britain Total
Price of train tickets offers better value for money	1	494
Passengers always able to get a seat on the train	2	367
Trains sufficiently frequent at the times I wish to travel	3	264
More trains arrive on time than happens now	4	178
Train company keeps passengers informed about delays	5	163
Less frequent major unplanned disruptions to your journey	6	161
Fewer trains cancelled than happens now	7	136
Accurate and timely information available at stations	8	132
Journey time is reduced	9	105
Free Wi-Fi available on the train	10	97
Sample size: 3559		

<sup>1</sup> Rail passengers' priorities for improvement. Passenger Focus. October 2014

The priorities are shown as an index averaged on 100. In this case 100 would be the average score should all criteria be ranked equally important. So for example 150 = 50% more important than average, 300 = three times as important as average, 50 = half as important as average

From the index scores in particular we can see that value for money is not only the top priority for improvement but is around five times as important as the average priority.

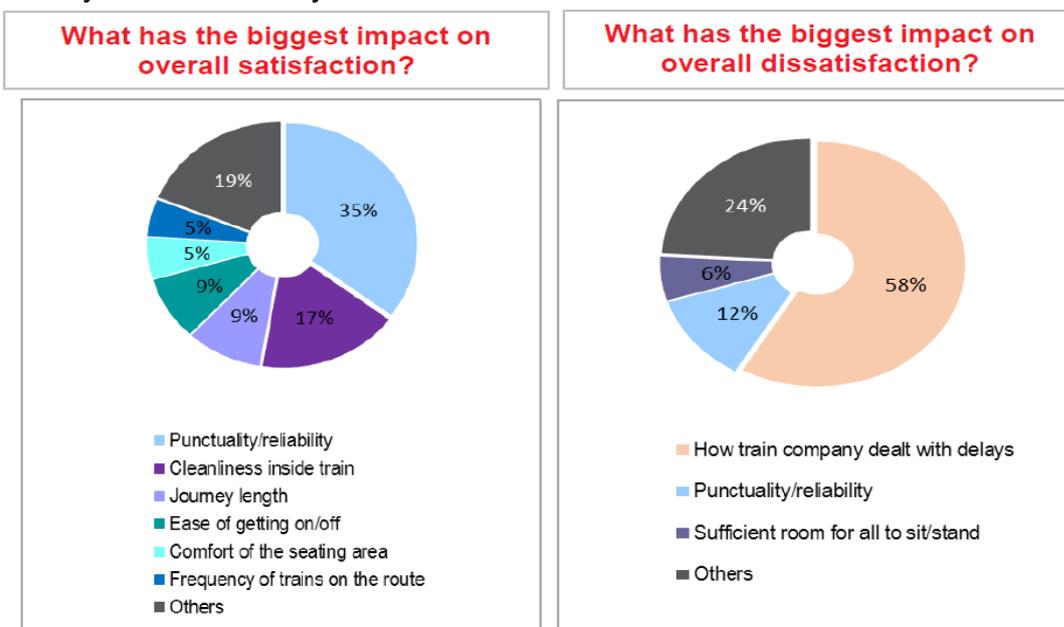
While assessments of value obviously take into account ‘what you get for your money’ we know from previous research<sup>2</sup> that the cost (i.e. ‘what you pay’) is a very significant factor<sup>3</sup>. Hence anything that lowered fares would be attractive to passengers.

The next tranche of aspirations cover what might be termed the ‘core product’ – i.e. reliable performance, improved service frequency and more capacity. We can also see elements of service quality featuring in the top-ten in the form of information provision and Wi-Fi on the train.

*Passenger satisfaction*

Transport Focus consults over 50,000<sup>4</sup> passengers a year to produce the National Rail Passenger Survey (NRPS) - a network-wide picture of passengers’ satisfaction with rail travel. By using a stepwise regression analysis we can identify those factors that correlate most highly with overall satisfaction and dissatisfaction.

An analysis of these ‘key drivers of satisfaction’ is set out below.



<sup>2</sup> Fares and Ticketing Study - Appendix A - Understanding drivers of satisfaction. Passenger Focus. 2009

<sup>3</sup> Fares and Ticketing Study. Passenger Focus. 2009

<sup>4</sup> National Rail Passenger Survey (NRPS). Passenger Focus

We again see performance featuring highly – this time as the main driver of satisfaction. It is interesting to see the cleanliness of the inside of the train also being one of the main drivers of overall satisfaction. How delays are managed is the main driver of dissatisfaction and we know that one of the main causes of this is the provision (or lack) of information.

### **The impact of increased on-rail competition**

The consultation document argues that competition could bring a number of benefits:

- It will have a positive impact on fares – where competition exists, fares are lower or have increased by less.

We can see from our research above that passengers want to receive better value for money and so anything that reduces the price they pay will be welcome.

- Choice  
Open access has shown that it can open up new through services. While this may have been a virtual prerequisite of the existing ‘not primarily abstractive’ test for granting access rights, it still means that that areas which didn’t previously have through services to London now receive them. Passengers like through services. It is also interesting to see franchised operators following suit and offering their own through services as a result.
- Satisfaction  
Existing open-access operators score highly in Transport Focus’s own National Rail Passenger Survey (NRPS) research. This isn’t perhaps exclusively down to competitive pressures – smaller operations are often able to offer a more personal touch – but it is a fact that open-access operators record consistently high levels of passenger satisfaction.

Hence, as a general rule we believe competition can (and does) bring benefits for rail passengers. It creates choice and, through this, has a positive impact on fares and quality of service.

However, as the consultation document also acknowledges, there are several pre-conditions that would need to be met before any significant change in competition could be achieved:

- That nothing could really happen before 2023 when the current round of franchises expires; and even then that it would be aimed primarily at intercity routes.

- That much depends on additional capacity being provided (i.e. as a result of HS2 or other route modernisation/electrification work) – it cannot be a case of trying to cram more trains onto the existing network.
- That new rolling stock will also have been introduced, resulting in more units being ‘spare’.

We believe these are key constraints. Without them we do not think there is scope for any significant expansion in on-rail competition.

However, even if these are met there are still risks arising from untrammelled competition which could easily lead to potential dis-benefits for passengers. For instance:

- Complexity  
Our research shows some passengers struggling with the complexity of the existing fare structure<sup>5</sup> – it could be argued that introducing even more choice into the mix would simply increase this confusion. We do not fully accept this argument, believing that complexity and choice need not be mutually exclusive.

However, for this to be the case, much more would need to be done by the industry to simplify information at the point of delivery – back-office systems can be as complicated as needs be, as long as the passenger interface is clear. So any moves to increase competition would need to be accompanied by pressure to address passengers’ concerns about complexity.

- The loss of flexibility  
In the current system there always has to be an inter-available fare. This is essentially a through fare that allows passengers to use any operator’s services between two points. We know from research<sup>6</sup> that passengers like this facility and value the flexibility it offers. However, having a single universal price can clearly deter operators from competing on price.

Allowing each operator to set its own fares may generate lower fares but it risks trading off this saving for a reduction in flexibility. One possible alternative is to use smart-ticketing to allocate fares. The inter-available fare (which gives passengers the flexibility they want) could be retained but passengers be required to ‘tap in’ when they board the train. The fare would then go to the company the passenger actually used rather than being shared between those whom they might possibly have used as at present. This would provide an incentive for operators to compete on quality – i.e. ‘choose my train because...’

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<sup>5</sup> Fares and Ticketing Study. Passenger Focus. 2009

<sup>6</sup> Rail ticket retailing: the passenger perspective. ORR. 2015

This would require smart ticketing to be rolled out more widely but as the consultation is looking at 2023 onwards this should be feasible.

- Loss of co-ordination

One of the strengths of rail is the concept of it being a national network. We know from research that passengers like the sense of someone being in control and of there being some co-ordinating mind at work, especially during times of disruption. We can also see from the table of priorities above that the ‘core product’ (punctuality, reliability, frequency and getting a seat) is also a high priority for improvement.

Competition must not reduce the extent to which operators share information or work together to maximise benefits across the network (e.g. to manage services and inform passengers when there is disruption). Nor must competition distort the efficient allocation of services/capacity. The granting of new track-access rights must not significantly frustrate the industry’s subsequent ability to develop a timetable that maximises capacity and utility to passengers.

The important thing is that the overall service on a route (including all the trains of all operators) meets passengers’ needs to the greatest possible extent.

- Operator of last resort

Passengers seek reliability and a service they can depend on. The speed of departure of the Wrexham and Shropshire open-access services indicates just how fragile such operations can be. With a franchise there is an ‘operator of last resort’ which will maintain services in the event of anything untoward; open access services can just disappear.

Passengers often build their lives around rail services – so if there is to be a higher ratio of open access then greater consideration needs to be given to how passengers are protected in such circumstances.

- Passengers want a say

The franchising process enables passengers and other bodies to comment on the specification and the proposed service levels in advance of the operation beginning. We know this matters to passengers<sup>7</sup>. It will be important that any new system for assessing access applications factors in an opportunity for public scrutiny and engagement.

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<sup>7</sup> Giving passengers a voice in rail services. Passenger Focus. 2013

- Regulatory levers

A franchise agreement lays down a series of requirements and creates a number of regulatory levers with which to ensure delivery. Open-access operators have no franchise agreement. So any increase in open access will need to consider how some of these protections are transferred into licence agreements or other commitments. For example, franchised operators are required to participate in the NRPS passenger satisfaction research – there is no such obligation on open-access operators. While Hull Trains and Grand Central *are* surveyed, this is currently a voluntary arrangement.

This is perhaps understandable given the scale of current arrangements but if open access is to expand and is to be based on a much wider assessment of costs and benefits, then can the chief measure of passenger quality (i.e. satisfaction) remain on a voluntary footing?

Similar principles apply to other performance-monitoring requirements set out in franchising. It will be important to ensure that any expansion of open access does not diminish accountability and transparency.

- Public Service Obligations

Last, but certainly not least, is the impact on non-profitable services. We know from our research on the Northern rail franchise that passengers value the public service aspect of rail – i.e. the role of rail in linking villages and providing non-commercial services<sup>8</sup>.

Some of the Department of Transport's ability to fund these services must undoubtedly come from the franchise premiums generated from the intercity franchises. As the consultation points out franchise premiums generate around £1.9bn while franchise subsidies total £2bn.

While the consultation does try to address this we would want to see more detail (and receive more certainty) on how this public-funding element could be safeguarded.

To summarise, Transport Focus is supportive of the CMA's desire to increase competition on the railway subject to this being done within a framework that protects passengers.

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<sup>8</sup> Passenger views of Northern and TransPennine rail franchises. Passenger Focus. 2012

We believe that any move towards greater competition must address the issues we have outlined above. In doing so it will be important that the impact on passengers is properly considered – it cannot simply be an economic or financial assessment.

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