Transport Select Committee Inquiry into Franchising – June 2016

1. The Associated Society of Locomotive Engineers and Firemen (ASLEF) is the UK's largest train driver's union representing approximately 20,000 members in train operating companies and freight companies as well as London Underground and light rail systems.

2. ASLEF believes that the failures of rail franchising have never been clearer or greater than the present time. Not only have two decades of profiteering by the private companies starved the system of money which should have been reinvested in rail operations but the structural failings of the franchise system are now so great that the very legitimacy of the model itself must now be called into question.

3. The McNulty report published in 2011 explained that fragmentation has led to a lack of leadership in the rail industry. The report also suggested that fragmentation is the primary barrier to efficiency. Unfortunately, the report went on to suggest greater fragmentation. ASLEF agrees that fragmentation is the major barrier to efficiency. Nonetheless it is an intrinsic part of franchising as services are split up in order to create franchises. In addition to fragmentation the short termism of franchising has resulted in highly negative outcomes with companies unlikely and unwilling to invest when they know that a contract could be ended within a year or two.

4. The Department for Transport aspires to transferr risk from the public sector to the private sector. The ending of the cap and collar approach was a step in the right direction. Yet there will never truly be a genuine transfer

of risk while franchises are essentially guaranteed by the government. This safety net leads to companies overbidding for franchises, missing targets or simply giving up if they are not making enough money leaving taxpayers to pay the bill. This has happened several times, particularly on the East Coast mainline. Indeed there is a real risk of this happening once again. Virgin Stagecoach East Coast has released sparse details of its performance and growth targets and it's becoming increasingly clear they are underperforming. This puts at risk the pledge of Virgin Stagecoach East Coast to pay the government premiums of £3.3bn over eight years. Having predicted revenue growth of 8-12% a year in its bid, it has only accomplished 4.9%. Many in the industry have expressed concerns that Stagecoach and Virgin had significantly overbid. It's becoming clear that this is the case and we may once again see the franchise coming to an abrupt end.

5. ASLEF would also point out that certain franchises operate a level of risk sharing whereby operators can make overambitious bids for franchises in order to win them yet obtain reassurances that their revenue will be supported by the taxpayer.

6. One of the fundamental flaws of the franchising model is that it has created what are essentially private monopolies. The ideology which underpinned privatisation was that competition would increase efficiency, reduce tax payer subsidy, and reduce fares whilst also improving services. ASLEF does not believe that this has happened and we don't believe any form of competition is genuinely achievable this on the rail network due to the public service and complicated nature of the railway. Real competition is almost non-existent within our network, as we have competition "for the market" rather than "in the market." In essence, this means that the only competition is every 7 to 15 years when tendering for the franchise itself. Following this we are left with a series of private sector monopolies with almost no genuine competition.

7. The Competition and Markets Authority recently proposed an increase in open access operators to help drive competition. The government supports these measures and the Secretary of State for Transport has said he will The problem, however, is that there are simply no sensible, safe and productive ways to create competition on a network with limited capacity, that performs such an important social function and is so safety critical.

8. ASLEF fundamentally rejects the notion that there should be any profit motive on the railway. Privatisation has led to fragmentation and inefficiencies on the railway. The CMA proposals look to amend an already flawed system which could in fact make the situation worse. To drive real efficiency we must end the franchising system and bring the entire network back in to public ownership.

9. The CMA noted that "we are not suggesting options for commuter services, where capacity constraints and the particular desire of passengers to take the first train seem to us at this stage to pose additional challenges for introducing greater on-rail competition." This again shows a lack of understanding of the UK rail network. Intercity services often run on the same track as commuter services, and in fact, some intercity franchises also run commuter services. For example, the West Coast Mainline currently facilitates intercity services run by Virgin Trains, but is also used by the London Midland franchise . London Midland provides many commuter services into the Home Counties. They also provide intercity services from London to Birmingham and as far as Crewe. How will the CMA proposals affect these services? It is impossible to divide out the network neatly into these categories.

10. Throughout the consultation on this matter, the point was made that none of the proposals can work without an increase in capacity. "There is an opportunity for there to be much greater on-rail competition in the future, if

governments desire it. The addition of new [network] capacity, including HS2, and the introduction of new signalling technology that allows much more dense use of network capacity, will open up new route paths that could allow greater on-rail competition between operators.” This is a huge assumption to base these fundamental changes upon. Firstly, rail use continues to increase. Any potential increase in capacity will therefore be predicated upon catching up with our already stretched core services. It cannot be made available for an experiment in franchising. Secondly, the increase in capacity promised by new signalling technology is far from guaranteed or proven. Promises of extra capacity due to signalling innovation have been made and broken before. West Coast Mainline upgrades were supposed to incorporate moving block signalling. This was abandoned early on. This would have enabled trains to run as fast at 140 miles an hour and increased capacity. The failure of the West Coast Main Line upgrade to incorporate in-cab signalling meant that this increase has thus far proved impossible. ASLEF would therefore urge caution when assuming any significant increases in capacity due to signalling technology.

11. We must also not assume that all freed capacity should go to passenger services. Rail Freight, in particular on the intermodal side, has been a real railway success story, with all forecasts showing continued growth. This should be welcomed. This reduces CO2 emissions, road congestion and decreases road fatalities. Therefore support for rail freight should continue. Without free paths being allocated to freight, growth will be compromised. Once again, allocating more paths on the basis of amending the broken franchise system, rather than allocating it purely where it is needed for passenger or freight services is a backward step.

12. ASLEF rejects the notion that there will suddenly be far more free capacity from 2023 to enable these changes to take place. This is a big assumption

that may never be a reality. It would be dangerous to pursue such changes based upon such guess work.

13. It should also be noted that there is a lack of rolling stock in the UK. Increasing the amount of operators on our network will increase costs in two ways. Firstly, it will reduce economies of scale. Secondly it will increase competition for stock, whilst supply remains low. This will in turn increase the costs of leasing rolling stock.

14. Competition is an important driver of efficiency, productivity and innovation in many parts of our economy. But it must also be recognised that it has limits and is simply not possible in certain industries. The railway is extremely complex and is an essential public service. There is no natural way to create competition and run the railway. Franchising created a competition for the market, not in the market. This has failed. No amount of tinkering with the current system will change that.

15. Not only is the franchise system flawed in how it operates our railway it is extremely expensive to administer. ASLEF alongside our sister unions RMT, TSSA and Unite, commissioned the Rebuilding Rail report in 2012. The report explains “The cost of bidding for each franchise has been estimated as £3 – 5 million per TOC, and the cost of DfT managing the franchising process is put at £2.5 million per franchise awarded, giving a typical cost of a franchise award with just three bidders of £11.5-17.5 million. There are also substantial startup costs for each new franchise, put by TfL in evidence to the Transport Select Committee at £2 – 5 million”.

16. The other major finding of the report was that franchising prevents any genuine private sector investment in our network. Roger Ford, Industry & Technology Editor at Modern Railways stated, “They’re not investing. Nor are they really innovating. Not all that much. Most of Chiltern’s investment has been funded on the Network Rail RAB and Chiltern built it. There are

some parkway stations that they have built on their own land. But most of Evergreen 3, the new one, is being funded by Network Rail from the regulatory asset base."

17. Additionally John Stittle, Professor of Accounting at the University of Essex explained "Look at East Coast Main Line…the electrification and improvements were all under BR in its dying days and the TOCs have not come up with any new ideas. They're still running HST diesels that were introduced in the 1970s out of King's Cross. I know they've got the 225s, but the idea behind them was initiated by British Rail. They were going to have tilting trains on that line but they never bothered investing in them."

18. There must be significant questions over the DfT's ability to manage so many franchise competitions over the next two years considering the staggering cuts to its budgets. Whilst the Chancellor may have protested some of the capital projects, in his autumn statement last year he announced a 37 per cent cut to its operating budget. Within these cuts, the department will see a 12 per cent reduction in administration costs. If the department was ill equipped to deal with the West Coast refranchise debacle in 2012 before these cuts, it's hard to see how it will be able to cope with the huge amount of competitions on a far reduced budget. The DfT's cuts to day to day spending were more than any other department.

19. The failure of creating markets through franchises has not only cost passengers and the taxpayer but is increasingly putting off bidders too. The number of bidders has reduced to the point where the South West Trains franchise received just two bids. The complexity of the network and the amount of infrastructure work being undertaken makes it increasingly unattractive for private companies who prioritise profits. ASLEF does not believe that if companies are unwilling to bid for franchises, the taxpayer should be finding ways of making the franchise more attractive. The bidders should be there to service the public, not the other way round.

20. Part of the problem with fewer companies being interested in franchise bids is the danger of the local monopolies created by the franchise system, becoming larger regional monopolies as operators come from a smaller pool of companies. This is exemplified by the Competition and Markets Authority decision to investigate the award of the Northern Rail franchise to Arriva who already run overlapping services with their CrossCountry franchise and many of the local bus routes. There is a real danger that as bidding for franchises becomes less attractive, this becomes increasingly prominent and makes the problem of monopolies which the franchise already creates, an even bigger one.

21. In conclusion, ASLEF believes the franchise system is fundamentally flawed and is beyond repair. From the beginning it has been unattractive and costly to passengers and the taxpayer. It is now even becoming unattractive to operators. The railway needs long term strategic planning and must be considered as a holistic entity. This is impossible under the current structure.

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