Transport 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 all the evidence shows that rail privatisation has been a failure. Much of this is not just the profiteering of the private companies that run the operators, but the structural failings of the franchise system.

3. The McNulty report explains that fragmentation has led to a lack of leadership in the industry. The report also suggests that fragmentation is the first barrier to efficiency. Unfortunately, the report then goes on to suggest greater fragmentation. However ASLEF agrees that this is a major barrier to efficiency. However it is an intrinsic part of franchising. Services are arbitrarily broken up in order for the companies to bid on various franchises. As well as the fragmentation it causes, another issue is short termism. Companies are unlikely to invest when they know that they could be just a few years away from losing services.

4. The Department for Transport has a policy of transferring risk from the public sector top the private sector. The ending of the cap and collar approach was a step in the right direction. However ultimately, there will never truly be a genuine transfer of risk whilst franchises who realise that they have overbid, they have missed targets or they are simply not making enough money, can throw the keys in and cut their losses, leaving the taxpayer to pick up the pieces. This has happened several times, in

particular on the East Coast mainline. Indeed there is a real risk of this happening once again. Stagecoach have released the barest of detail about its performance and growth targets and it's becoming increasingly clear they are underperforming. This puts at risk the pledge of Virgin East Coast to pay the government premiums of £3.3bn. Having predicted revenue growth of 8-12% a year in its bid, it has only accomplished 4.9%. Many in the industry 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. Certain franchises also maintain risk sharing, meaning that operators can make overambitious bids for franchises in order to win them, but have certain reassurances that their revenue will be supported by the taxpayer.

6. One of the fundamental flaws with the franchise model is the creation of private monopolies. At the time of privatisation, the sale of the railways was justified to the taxpayers on the basis that competition would increase efficiency, reduce tax payer subsidy, and reduce fares whilst also improving services. ASLEF does not believe that any form of competition would achieve this on the rail network due to the public service and complicated nature of the railway. However, 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. 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 problem, however, is that there simply is no sensible, safe and productive way 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 the fragmentation and inefficiency of the railway. These proposals look to tinker with a flawed system and 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 service from London to Birmingham and as far as Crewe. How will the 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 needed to catch 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 stunted. Once again, allocating more paths on the basis of tinkering with 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 that will 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, its extremely expensive to administer in itself. 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, Senior Lecturer in Accounting, University of Essex stated 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 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 stung 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 do 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 deciding to investigate the award of 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. ASLEF therefore believes the franchise system is fundamentally flawed and must not simply be tinkered with. 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 in a holistic fashion. This is impossible under the current structure.

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