



Schedule 8: the ATOC view

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The context

- Schedule 8 cannot be viewed in isolation from the wider industry reform
- Any changes must:
 - Support local accountability within Network Rail.
 - Reinforce the view that the success of one party means success for the other.
 - Encourage joint working in planning, investment decisions, and implementation.
 - Incentivise TOCs and Network Rail to do the “right thing” ie the bottom line incentives ensure that sensible actions are taken.
 - Must be fit for purpose for 15 year plus franchises.

What is the performance regime for?

- PR13 provides opportunity to review operation of performance regime
- Punctuality and reliability key driver of passenger satisfaction – therefore industry needs to be incentivised to meet this needs
- TOCs focused on end-user relationship with customers:
 - Some franchises still based on Passenger's Charter compensation arrangements
 - More recent implementation of Delay/Repay arrangements
 - Possible future changes to franchise agreements
- Track Access Agreements contain performance regimes for both delay (S8) and engineering disruption (S4)
- Need to ensure incentives are clear and transparent across the industry



The challenge of industry reform

- McNulty lays down challenge to deliver whole-industry cost reductions and improve services to passengers
- Initial Industry Plan will be published in September 2011, including view on performance for CP5
- New opportunities through alliancing, joint ventures and Network Rail devolution
- VfM study clearly identifies need to ensure that interfaces, incentives and contractual arrangements are simple, fit-for-purpose and deliver clear outcomes
- Any changes to performance regime therefore need to be aligned to wider changes

Issues for discussion: 1

- Current regime: franchises let at different times have different characteristics/TAAAs – at present changes to regulatory regime compensated through Clause 18.1/Schedule 9 arrangements with funders
 - Franchise reform may scale down NNLNNG provisions
 - Need to recognise that TOCs have low operating margins and therefore changes to risk profile may have disproportionate impact
 - Ideally Schedule 8 would be back-to-back with passenger compensation arrangements

Issues for discussion: 2

- Would realignment provide better incentives?
 - Could lagged S8 payments encourage TOCs to work with NR to deliver JPIPs and smooth cashflow?
 - Possible kinked or tapered S8 payments at high levels of performance – potential to align with capacity allocation and journey time improvements
 - Might segmenting and calibrating S8 by market type (e.g. Long-distance/commuter) be better aligned to passenger requirements? Or would it complicate and create new, perverse incentives on TOCs and NR?
 - Does performance regime need to be linked to possessions disruption (S4) to reflect passenger impact of delay and itinerary changes?

Issues for discussion: 3

- How does S8 operate within reformed industry?
 - Does it reflect joint ventures/alliances?
 - Need for geographic consistency across route boundaries – avoidance of perverse incentives or gaming
 - Breaking down from national benchmarking and payment rates to NR route level – but TOC (and FOCs) do not operate in one route?
 - Can performance regimes (both S4 and S8) be modified or suspended for “line of sight” application?
- Are there benefits from simplicity rather than complexity? How far does disaggregation create opportunities for better outcomes and where do diminishing returns fit in?

Conclusions

- ATOC welcomes discussion on reviewing the performance regimes going forward
- Need to reflect both financial position of TOCs and the requirements and priorities of passengers
- Industry reform and NR devolution/ORR separate price control will provide opportunities for better local alignment
- Incentives necessary to ensure whole industry works to minimise delay impacts – any changes will need to demonstrate affordability and outcome-focus
- Integrate S8 review with wider PR13 analysis of charging and access arrangements.