



Passenger Focus response to
Office of Rail Regulation consultation
“Periodic review 2013:
consultation on incentives”

February 2012

Passenger Focus – who we are and what we do

We are an independent public body set up by Government to protect the interests of Britain's rail passengers, England's bus and tram passengers outside London and England's coach passengers on scheduled domestic services. We are a non-departmental public body sponsored by the Department for Transport (DfT).

Our mission is to get the best deal for passengers. With a strong emphasis on evidence-based campaigning and research, we ensure that we know what is happening on the ground.

We use our knowledge to influence decisions on behalf of passengers and we work with the industry, passenger groups and government to secure journey improvements.

1. Introduction

Passenger Focus welcomes the Office of Rail Regulation's (ORR) intention to focus Periodic Review 2013 (PR13) on achieving the following outcomes, in particular passenger satisfaction:

- (a) Passenger satisfaction
- (b) Freight customer satisfaction
- (c) Economic growth
- (d) Connectivity
- (e) Environmental sustainability

In this response Passenger Focus had drawn on its research to comment in those areas where the consultation questions appear most relevant to passengers' interests.

Overall, our message to ORR is that incentives should focus on improving the key drivers of passenger satisfaction, and on those things passengers tell us they most want to see improved. These are set out below.

Drivers of overall passenger satisfaction¹

Punctuality and reliability
Cleanliness of the inside of the train
Length of time the journey is scheduled to take
Ease of being able to get on and off the train

Passengers' priorities for improvement²

Value for money for the price of the ticket
Punctuality and reliability
Frequency
Ability to get a seat on the train
Passenger information if delays occur

¹ National Passenger Survey, Passenger Focus, Autumn 2011

² Passengers' priorities for improvements in rail services, Passenger Focus, October 2010

2. Response to the consultation document

Chapter 3 – understanding the Periodic Review 2013 objective

In response to Q3.1 and Q3.2, Passenger Focus welcomes the Office of Rail Regulation's (ORR) intention to focus Periodic Review 2013 (PR13) on achieving the following outcomes, in particular passenger satisfaction:

- (a) Passenger satisfaction
- (b) Freight customer satisfaction
- (c) Economic growth
- (d) Connectivity
- (e) Environmental sustainability

The National Passenger Survey (NPS) shows that the principal driver of overall passenger satisfaction – by a considerable margin – is how punctual and reliable the train service is. The issue is also high on passengers' list of priorities for improvement, second only to value for money – itself influenced heavily by punctuality. The evidence is strong that the most significant thing ORR can do to achieve improved passenger satisfaction through PR13 is to incentivise the industry to deliver better punctuality and reliability.

The rail industry's Initial Industry Plan (IIP) has proposed that in Control Period 5 (CP5) focus should be on improving the punctuality and reliability of those services currently performing least well – and on improving the industry's performance on the worst days. Passenger Focus supports this proposal. However, we believe there must remain a strong incentive on the industry to seek improvements in punctuality and reliability more generally. ORR must guard against CP5 being about bringing the poor performers to up average, to the exclusion of challenging the average to become good.

Greater transparency about punctuality and reliability will benefit passengers because it will help focus the industry's efforts in a more targeted way than might otherwise be the case. Transparency will, for instance, prevent poor performance in one area being disguised – from internal as well as external scrutiny – within an otherwise acceptable average figure. It is also right in principle that passengers, in their capacity as both farepayers and taxpayers, should be able to see the track record of their service if they wish. ORR should ensure that in CP5 there is considerably greater transparency about punctuality and reliability than currently exists.

Visibility of 'right time' punctuality information, as distinct from the Public Performance Measures (PPM), is a key area. Passenger Focus has demonstrated, through analysis of NPS data, the importance of 'right time' arrival³ in determining passenger satisfaction⁴. This analysis mapped passenger satisfaction with punctuality against the actual delay experienced by 12,000 NPS respondents (using rail industry 'bugle'⁵ data for the train on which they were travelling) and showed that:

- passenger satisfaction with punctuality declines on average by between one and three percentage points per minute of delay

³ 'right time' arrival meaning a train arriving at precisely the time printed in the timetable rather than during a 'grace period' of up to five or 10 minutes late

⁴ Improving Punctuality for Passengers, Passenger Focus, January 2011

<http://www.passengerfocus.org.uk/news-andpublications/document-search/document.asp?dsid=4966>

⁵ Bugle is a rail industry database containing historic train running information

- commuter satisfaction with punctuality declines on average by around five percentage points per minute of delay.

While the rail industry may struggle with the notion that commuters become aware of delay from the very first minute, the sample size was large and the linear relationship between 'right time' arrival and satisfaction with punctuality was strong.

Passenger Focus recognises the challenges in moving away from Public Performance Measures (PPM) as the headline measure of punctuality, however imperfect it is, but in our response to the IIP we said: *“Despite its clear role in driving passenger satisfaction, the IIP does not propose a trajectory to improve ‘right time’ punctuality over the course of CP5, either as a formal regulatory metric or as an internal operational target. This appears to be incompatible with progress towards the industry’s stated ambition of 90% customer satisfaction in the longer term. Passenger Focus fully understands that getting every train to arrive ‘right time’ every day would be next door to impossible. But we are keen to engage in debate about how the industry can give greater focus to ‘right time’ punctuality in CP5, including timekeeping at intermediate stations as well as at a train’s destination.”*

Requiring greater transparency of punctuality data will provide its own incentives on the rail industry. However in answer to Q3.4, we believe there is merit in ORR formally monitoring the proportion of trains arriving 'right time' at key intermediate stations and at destination, irrespective of whether the High Level Output Specification (HLOS) sets targets in this area. These data are, we understand, collected automatically by industry systems and should not be a significant additional burden. Were ORR to do this, Passenger Focus believes it will send a strong signal to the industry that 'right time' performance matters. Monitoring should be disaggregated at least to the extent that it is proposed PPM is disaggregated going forward, but Passenger Focus believes the data should in any case be in the public domain to the level of a particular train.

In respect of Schedule 8 specifically, Passenger Focus feels that ORR should test whether in practice the financial pain felt by the party causing delay is sufficient incentive to ensure action to prevent a recurrence. Second, that ORR should investigate the suggestion at the incentives workshop on 9 January 2012 by some train operators that current Schedule 8 benchmarks make it possible for Network Rail to cease experiencing financial pain/earn bonus payments despite unexceptional levels of performance. Would setting the benchmark significantly higher ensure that Network Rail remains focused on continuous improvement in a way that current Schedule 8 benchmarks may not?

Chapter 4 – aligning Network Rail and train operators’ incentives to increase efficiency

It is clearly desirable that Network Rail and train operators have incentives to work together to reduce the costs of running the railway. It is in passengers’ interests, whether as farepayers or taxpayers, that the rail industry’s costs are tackled and in principle we support the proposed efficiency sharing arrangements.

Passenger Focus’s comment here is not about the mechanics of the arrangements, but about what constitutes efficiency. In incentivising efficiency, the ORR must guard against the industry having incentives that, while presented as efficiency, actually reduce the quality of service offered to passengers. How, for example, will ORR be sure that more 'efficient' cleaning arrangements at a Network Rail managed station is efficiency, rather than agreement that the station will be less clean? There would be numerous similar examples.

Chapter 5 – Possessions and performance regimes

Rail passengers want to travel by train and not a replacement bus. Research indicates that passengers would rather spend additional time travelling by train on a diverted route than catch a replacement bus. Therefore in respect of Schedule 4, Passenger Focus believes it must create an incentive on Network Rail and train operators to collaborate in planning engineering works with the least disruption to passengers, balanced against the overall cost of delivering a project. Passenger Focus cannot judge the extent to which Schedule 4 does this successfully, however the 'push back' on Network Rail to keep routes open and to facilitate through running via diversionary routes appears to have come largely from the long-distance operators. Whether true or not, we hear it said that this is because earnings from ticket sales can exceed what they would receive in Schedule 4 payments. Whether that would be the case for a London and South East or Regional operator in respect of weekend possessions is not clear.

The intention to update Schedule 4 so that the sums flowing between Network Rail and train operators are an accurate representation of the revenue lost is clearly sensible. However, there is a risk that those operators who were previously being under-compensated no longer have an incentive to challenge Network Rail to provide them with train paths. ORR should consider whether the principle of full compensation removes, by definition, the incentive on a train company to challenge disruptive possessions. We would also ask ORR to consider if Network Rail's incentive to minimise disruption is weakened because the fund from which Schedule 4 payments are made is generated by a levy on train operators. Would there be greater incentive on Network Rail to minimise disruption if Schedule 4 costs impacted more conventionally on its bottom line?

The scarcity of resources within train companies may be leading to suboptimal outcomes from a passenger perspective, particularly on secondary routes. Some train companies have said to us, privately, that they have insufficient resource when faced with a large volume of engineering work at the same time to always challenge Network Rail's rationale for 'doing it that way' and/or that they have insufficient resource to develop a train plan making use of single line working or a diversionary route – and so do not push for it. Network Rail has also said that train companies do not always challenge them about whether single line working or diversionary routes might be possible.

Efforts by the rail industry to manage the major engineering works at Reading in 2010 and 2011 in as least disruptive way as possible, including innovative use of diversionary routes and good passenger communication were notable. Very few passenger complaints resulted. One thing we understand made Reading different is that funds were provided for a small team at First Great Western to focus on minimising the inconvenience to and communicating with passengers. With smaller scale projects, including routine renewals this does not happen – the staff time allocated to minimising the impact on and communicating with passengers appears to come, if it comes, from a train operator's existing, often fully-committed resource base. Does CP5 offer the opportunity to extend this approach to the way all enhancements and renewals are planned and delivered?

The notification discount is raised in 5.42 of the consultation document and Passenger Focus has two points to make. First, that passengers are still disrupted – perhaps needing to use a replacement bus – irrespective of how far in advance the amended timetable was in the public domain. Second, that even on those parts of the railway with a significant volume of advance purchase sales, passengers will still

arrive on the day to find themselves disrupted. To them it makes no difference how far in advance the train company was notified.

In summary regarding possessions, Passenger Focus encourages ORR to consider how Schedule 4 can be developed to give Network Rail and train operators a strong incentive, and not just on the core routes, to realise the industry's stated intention that passengers will be transferred to a replacement bus only if there is no practical alternative.

Our comments about Schedule 8 are covered in the section on Chapter 3, above.

Alignment of incentives in extreme weather conditions

This is an important issue where there is a danger of perverse incentives working against passengers' interest. The industry must not be incentivised to "aim low" whenever poor weather is forecast, but neither is it helpful to passengers if the industry promises to deliver a full service when it is physically impossible. The risk of attempting to deliver a full timetable and in the process causing fleet damage resulting in two months of short-formations must also be considered. The interaction between Schedule 4 and Schedule 8 incentives in these circumstances is not something on which we are in a position to comment. However, what would not be in passengers' interests is if Restrictions of Use, whether agreed jointly, requested by a train operator or imposed by Network Rail, remove or lessen any party's financial incentive to find solutions which enhance the railway's capability to cope with extreme weather. This is particularly important given that global warming is expected to increase the volatility of our weather. ORR should also consider transparency and credibility in this area. It feels wrong to passengers that the industry is able to declare a temporary timetable at short notice adding additional running time, record a respectable if not better-than-normal PPM, even though they were late for work.

Chapter 8 – Network Rail's cost of capital and financing

Passenger Focus does not offer detailed comments about Chapter 8. However passengers will be entitled to ask how they will benefit from a system in which capital is assumed to cost more than it does, resulting in funding bodies receiving a rebate for the sum they have effectively been overcharged. ORR must also be wary of creating a regime where, even at the margins, business cases for enhancements fail because of a regime that artificially inflates Network Rail's cost of capital. In summary, we encourage ORR to consider whether it is in passengers' interests that Network Rail's financing costs are higher than necessary given the need to address Sir Roy McNulty's efficiency gap.

Chapter 10 – Other incentives

Understandably, the focus in terms of energy efficiency within the consultation is on incentives to improve traction efficiency. However ORR may wish to consider the opportunity to improve the railway's financial and environmental performance through incentivising greater energy efficiency within the station estate. For example, a number of local authorities are embarking on major capital expenditure to replace conventional street lighting with LED installations, realising long-term energy and maintenance cost reductions. Incentives to improve the heat efficiency of station and other railway buildings may also be worth considering.