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Dear Nicola

The future shape and financing of Network Rail

Thank you for inviting comments on your scoping report, there's clearly been a huge amount of work so far.

Transport Focus is happy to contribute but, as you can imagine, we come at it from the perspective of the passenger. As such we're much more focussed on outputs to passengers rather than the complex internal structures and processes required to deliver these. This approach makes it hard to stick to the report format and the specific questions you ask without repeating ourselves so we have set out our vision for passengers below. We then provide some specific comments to some of your questions.

Putting passengers at the heart of the industry.
For some time now we have pushed the concept of putting passengers at the heart of the rail industry. We acknowledge, of course, the role of freight but as this is outside our remit we will just focus on passenger services. The railway exists to serve its customers so we feel it is right that it structures itself in a way that best delivers these services to its customers. We have argued this with rail franchising (through Richard Brown's report in 2013), and more recently with the 'Bowe' review.

We also believe these principles apply to Network Rail. We note the comments in your report about train companies (TOCs) and freight companies (FOCs) being Network Rail's customers. However, we are concerned at the absence of any real accountability to passengers. The report assumes that the interest of TOCs and passengers are sufficiently entwined to allow the TOC to speak for passengers.

There is clearly some synergy - both parties want a punctual railway and for engineering work to be minimised for instance - but we think it is wrong to argue that a TOC can be a complete proxy for the passenger voice. A TOC's view of its own commercial interest may conflict with the best outcomes for passengers – for example it may be easier for a TOC to provide a rail replacement bus during engineering work while our research shows a clear preference for the more complicated, and possibly more expensive, use of a diversionary route[1].

We believe that there is no substitute for involving those who actually use services in the planning of those services. This view is strengthened by the fact that passengers are funding an ever increasing proportion of the railway - some 65% of the railways annual income is now via the fare box. This begs the question of why the main funder of the railway has no formal relationship with the infrastructure provider.

To this end we advocate:

- Focussing Network Rail's incentives on delivering the type of railway that passengers want. Incentives can influence behaviour - which makes it all the more important that the targets/incentives encourage the outputs and behaviours that passengers want to see in the first place. We have a wealth of research and data identifying these needs and aspirations which we would be happy to share[2].

  Currently Transport Focus does feed passengers' aspirations and priorities into the HLOS / Periodic Review process and the route planning process. This helps to ensure that taxpayer money is focussed on the things that passenger want.

  Having done so it is hard to see a direct role for passengers in then choosing the exact projects that get selected as part of the control period process. Passenger engagement is best at determining the priorities that the 'experts' then work on. For example, having chosen punctuality as a key requirement it is then hard to ask passengers whether they want scheme A in London or scheme B in Manchester.

  Once individual schemes have been chosen, however, there is scope for Network Rail/ the industry to engage on delivery. For example, each major project ought to include 'passenger plans' for:

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[1] Rail passengers' experiences and priorities during engineering works. Transport Focus. 2012

[2] Rail passenger priorities for improvement. October 2014.
Passengers' relationship with the rail industry (Trust). August 2014.
National Rail Passenger Survey and drivers of passenger satisfaction.

- Consultation on delivery. With some schemes there is something tangible for passenger to engage with – stations being the obvious example - while some are much harder (e.g. electrification). Where there is scope for direct engagement the process should encourage/allow it and set out who will be responsible for doing it.

- Disruption. The extent of disruption to services, the consideration of alternatives and how passengers will be informed. The reference point for this is our research on disruption at Reading/Bath in 2010 and 2015[3] which showed that higher awareness of disruption leads to greater acceptance of the alternatives.

- Designing metrics and monitoring systems that make sense to passengers and drive behaviours that passengers want to see. For example:

  - Hard targets for punctuality and cancellations are required. But these need to be devised in a way that best captures and reflects passengers' experiences.

    In 2010 we looked at passengers' experience of delay and how that corresponded to official PPM figures. The work explored in detail the correlation between passenger satisfaction with punctuality as measured by the NRPS for a three to four year period and actual train performance recorded by the train company over the same period. An initial study was conducted on London commuter services with (the then) National Express East Anglia, with three further studies in subsequent years carried out on Northern Rail regional commuter services (into and from Manchester) and on longer distance journeys with CrossCountry and East Coast. Just recently we've also refreshed the work for Greater Anglia. [I'd be happy to send you these reports if you'd like to explore this angle further].

    The research found that passengers notice/experience delays before the official PPM threshold for delays. On average, passenger satisfaction with punctuality reduces by between two and three percentage points with every minute of delay, with this increasing up to 5 percentage points per minute. So a commuter train that is 4 mins late may technically be on time but passenger satisfaction will have dropped significantly.

[3] Planned Rail Engineering work – the passenger perspective. Transport Focus. December 2015

This confirms our suspicions that PPM does not fully reflect passengers' own experience of delays. The closer the railway is managed to right-time rather than PPM the closer it will reflect passenger's perceptions. It also shows that there is a value in focussing on reducing small sub-threshold delays – for instance, reducing lateness on a train from 4 minutes to 2 minutes may not have an impact on PPM scores but it will on satisfaction (i.e. there is a payback/dividend from doing so).

In short, passenger-centric targets can generate passenger-centric behaviours.

- Targets for service quality
  This was at the core of our submission to the Brown review of franchising. We believe that it is not just a case of 'what' the railway does but of 'how' it does it. Our strong preference is to base this qualitative measure on what passengers say - the best judge of quality being those who have used the services in question.

  These are now a feature of franchise agreements but there is scope for more alignment within Network Rail. For us the crucial elements are that the targets reflect passenger priorities and that the measure reflects passenger experiences.

- Managing Delays/network availability
  We have a growing body of research on managing delays and disruption – again we'd be happy to provide more details if you think it would be helpful. Managing delays is the main driver of passenger satisfaction and the provision of good information is the best way of minimising frustrations arising from delays. Hence, targets that incentivise more communication and engagement around engineering work will potentially lead to happier (or at the least less dissatisfied) passengers.

- Transparency
  Making these metrics easily available to passengers generates greater transparency which in turn helps to breed accountability. Joint research[4] with ORR established that passengers want more information in the public domain. Even when they admit that they will be unlikely to read it themselves they see the value in it being available as it helps keep the operator on its toes. The more the information can be broken down to individual journey – i.e. the 'my journey' concept the more engaged passengers will be.

[4] Putting rail information in the public domain. Transport Focus and ORR. May 2011

Network Rail has been one of the driving forces behind greater transparency of performance data – for example, making right-time data available on its website - but there is still much more that could be done. Creating incentives on Network Rail to do so will help accelerate this process.

Greater engagement with users is something that we advocated to the Bowe review. We are pleased that she agreed and concluded that user engagement was of fundamental importance. While acknowledging that passengers views are picked up in the HLOS process she went on to say, "...there is less evidence that passenger and user views are fed into the planning of how enhancements should be delivered, as distinct from what those enhancements should be. In most cases, the delivery of enhancements involves disruption to existing services, either via short term possessions of the network, longer term closures and diversions or, as at London Bridge during the Thameslink works, extensive modifications to service patterns"

"The failure to engage effectively with users in this planning of delivery has had two impacts. First, it can be seen as contributing to cost escalation, via inefficient planning of possessions and the associated performance payments required to operators through their track access agreements with Network Rail. And second, it may contribute to passenger dissatisfaction on the occasions when things do go wrong."

Needless to say we agree. We think this creates a very powerful argument for why passengers need to be seen as a customer of Network Rail and why any review of Network Rail structure needs to build in such mechanisms from the outset.

As it can sometimes be easier to visualise these concepts we have also attached a flow diagram that sets out the planning, implementation and monitoring phases and the potential for passenger input in each area. This is attached.

Specific comments on issues raised within the report

Network Rail's core activities

It seems entirely reasonable that the infrastructure provider is responsible for maintaining and renewing the infrastructure and that major enhancement projects are contracted out (it being hard to see how Network Rail could gear up to deliver major enhancement programmes in-house).

We have less of a view of the 'system operator' question. There could well be some potential conflicts between Network Rail's role as 'industry referee' and the way it enters into alliances with individual franchisees, not least when looking at track access applications. However, we don't have a particular view on whether there is sufficient detriment to balance the inevitable disruption/confusion that such a reorganisation would create. We would need to reserve judgement until we could see firm plans for such an organisation and how it would integrate with the infrastructure provider before commenting further – the key issue being to demonstrate / explain how this will make things better for passengers.

Network Rail's Governance/Accountability

We have largely covered this in the section above. Our main issue is with the absence of any direct relationship with, and hence the lack of any accountability with, passengers.

Does Network Rail's structure work?

The report argues that government's expectations of Network Rail ought to be aligned with those of the train operators exercising day-to-day customer pressure; and that it should be possible for Network Rail to simultaneously deliver the government's HLOS priorities and allow TOCs and FOCs to deliver on passenger and freight customers' reasonable requirements.

As mentioned above we feel this misses the point that passengers are funders of the railway as well and that the TOC voice is not always a proxy for passengers. To re-state our point: why should the main funder of the railway have no formal relationship with the infrastructure provider?

We have set out above how we feel Network Rail can be made much more accountable to passengers

Devolution/decentralisation

Passengers tend to be more focused on the outputs that matter to them – how punctual their service is, how many seats are available and whether they are kept informed when there are delays - rather than the structures adopted by Network rail and government(s) to deliver these.

We do not feel that structure / ownership is the sole factor determining success. For example, London overground, c2c and Chiltern all record high levels of passenger satisfaction and yet are all provided under different models (a concession, a traditional franchise and a longer-term franchise respectively).

There appear to us to be other key features that affect delivery and which need to be taken into account when assessing the different models of devolution:

- *Investment*
  Money spent to make the infrastructure more reliable and on rolling stock to transform the travelling experience is reflected in higher passenger satisfaction. Put simply, there is a passenger dividend from investment.

  Hence one of the considerations when reviewing devolution must be the ability of relevant parties to raise funds for investment – not just in terms of a one-off injection but sustained investment over time. History has shown that running/specifying a railway requires deep-pockets and the financial stability to withstand fluctuations in economic conditions.

- *Management*
  Investment must also be backed up with good management. From our perspective this means management that puts the passenger at the heart of the process and which has the skills, abilities and experience to deliver improvements.

  We accept that this is something that it is hard to assess/quantify in advance – it being more of the 'you recognise it when you see it' variety. Nonetheless it will be important to take into account the skills, abilities and experience of the people taking on a function.

- *Integration*
  Devolution proposals will also need to set out the degree of interaction with the rest of the rail network. Passengers value the concept of a national rail network and a seamless delivery of service. Proposals for decentralisation will need to show that it is still easy to make a journey from one region to another.

- *Balancing strategic needs against local needs*
  Proposals will also need to establish a mechanism for dealing with the 'strategic vs local' issues. In an ideal world there would be sufficient capacity for local and strategic aspirations to be met but with demand already being high - and forecast to continue growing – there will inevitably be clashes. It will be important that decisions on decentralisation clearly specify a mechanism for dealing with disputes. Where you have, for instance, longer-distance and local services sharing a line there must be absolute clarity on who makes the decisions and who is responsible/accountable.

- *Future-proofing: facilitating future enhancements*
  One of the benefits of regional devolution is the potential to better link future services and investment with other local plans, e.g. housing, education, regeneration and economic development. There are clearly strong passenger benefits in doing so.

However, there are also times when a global overview or strategy is required. For example, when planning engineering work to ensure that all key routes are not closed at the same time; or as happened when planning for the 2012 London Olympics.

Another example of particular interest to passengers is the provision of information. Our research on delays and disruption found too many instances of passengers receiving inaccurate or conflicting information. Passengers wanted consistent information irrespective of where they got it and were baffled that staff do not all have the same information. Good industry-wide systems are essential to create a joined-up railway.

It will be important that decentralisation proposals do not inhibit the ability of the industry to act in the general good at such times.

- *Accountability: listening to the passenger*
  As we have already discussed it is important that structures build in accountability and consultation, and that there are qualitative measures to assess performance. We are advocates of benchmarking service quality – which we do via NRPS passenger satisfaction. Being able to compare performance across operators and sectors/routes as well as over a period of time has real benefit to passengers. There is a genuine reputational effect in doing so – everyone wishes to be the best at something, no one likes to be the worst. You lose this ability if there is no consistency between the devolved operations or if decentralisation results in less transparency.

It is hard to be precise about the impacts of devolution on passengers as much will depend on how any proposals meet/deliver the points above. Therefore we would re-emphasise the importance of focussing on outputs rather than on structures/inputs. Hence we deliberately do not recommend a particular model of devolution. For us the over-riding issue/question is the impact decentralisation will have on passengers rather than whether it should be based on physical, political or market geographies

We would argue that any changes need to be assessed against a 'passenger test' which incorporates three core questions:

- *What benefits will it bring to passengers and how will these improve the delivery of services?*
- *Will it create any dis-benefits and what effect will these have on passengers?*
- *Will it inhibit/prevent development of future benefits?*

If proposals pass these tests and if they make services better they will generate public support.

While devolution presents opportunities it also presents challenges for representative bodies. Making each Network Rail route a more autonomous body means considerably more stakeholder activity and engagement. This creates a real challenge in terms of resources. While not making a specific plea for ourselves here it will be important that any proposals for devolution/decentralisation acknowledge that there are costs outside the immediate industry.

The planning process
We would reiterate our comments above, and the conclusions from the Bowe review, about engaging passengers in the planning process

Financing and funding the company
We recognise the importance of continued, sustainable investment. We do not wish a return to stop-start funding and we also want the supply chain to have enough confidence to invest and recruit.

The review makes it clear that alternative funding mechanisms are being considered. We agree that finance follows structure - in the sense that the best structure is identified and then funding mechanisms are looked at rather than vice versa. We have set out how we believe passengers can and should be at the heart of this new structure so will not repeat this again here.

As mentioned we have a wealth of data on passengers' needs and aspirations and we would be happy to run you and your team through this in more detail if you feel it would be helpful. We'd also be more than willing to elaborate on our passenger principles/tests for any new structure.

Good luck with your report.

Anthony Smith
Chief Executive

(p.s. happy, of course, to talk more!)