

Agenda

Advancing economics in business

Passenger power!

Passengers may spend a large proportion of their time and money on rail transport, but they are not always involved in decisions about the railways or kept informed about developments. Anthony Smith, Chief Executive of Passenger Focus, argues that rail passengers must be given a greater voice in the priorities for the railways

Imagine. Peter Fahy commutes every day from Fleet in Hampshire, in the south-east of England, to London Waterloo. He travels with South West Trains ten times a week. Assuming that he works around 45 weeks a year, allowing for leave and sickness, he uses the service about 450 times a year. His rail-only annual season ticket costs £3,520. Peter has just taken part in an online poll about the possible extension of the franchise for another three years. Who could be better placed to judge whether the train company should keep the franchise?

Far-fetched? Perhaps, but in the current debates about the future of rail franchising one thing is clear—the voice of the passenger should get a boost. Any new system has to work for passengers, taxpayers, the government and the private sector. Keeping all parties happy is going to be difficult unless the new system is radically refocused on the needs and voice of what is now the rail industry's principal source of funding: the passenger.

For too long, rail and bus passengers have been the passive recipients of major decisions made on their behalf behind closed doors. The voice of the user and main funder of Britain's railways should be radically boosted in a process that needs to be opened up to scrutiny. The shift in funding of the railway from the taxpayer to the passenger makes this a priority.

Passengers are now the main funders of Britain's railways

While you can argue about what financing is included and what is not, it is clear that the journey towards the railway becoming funded principally by its users has been a rapid one. The stated government intention to

shift to a 75% passenger/25% taxpayer split started in 2007. Mainly due to spiralling revenues, fuelled by continuing increases in passenger numbers, we are already, only six years later, in a position where we passengers are putting in nearly two pounds for every taxpayer pound.

So why is central government still making most of the major decisions about the railway? Why do devolved governments aspire to take over much of this role? As Local Economic Partnerships are given increasing responsibilities, alliances between train companies and Network Rail¹ areas take root, and the Rail Delivery Group (which brings together Network Rail and the main transport groups) assumes more leadership, it is clear that the 'passenger universe' is changing. Old assumptions about who controls the power and purse strings are changing fast. This is, in itself, not a bad thing. Long gone are the days when a decision at HQ led to change across the country. However, how the passenger voice is heard and represented is becoming more fractured and, potentially, weaker.

Just when passenger power should be growing, are the interests of the operator in danger of getting back in control? Surely it is we passengers, not the proxies of elected representatives, who should be driving this industry—and the private sector and Network Rail that should be responding? Should the franchising authority include a minimum number of passenger representatives and/or be formally required to seek and heed the views of users of the services? Some large-scale strategic decisions will always need to be made by government because of the political ramifications—HS2 and international links, for example—but many other decisions could be better made in a different place.

The views in this article are those of the author. Passenger Focus is the independent, statutory consumer watchdog for Britain's rail passengers, and for bus, coach and tram passengers in England (outside London). It represents passengers and uses research and other evidence to address their concerns. Passenger Focus aims to help transport organisations make better investment and operational decisions. See www.passengerfocus.org.

Where are we?

The current situation is so far from this. Passenger Focus has recently finished research on what, if any, involvement passengers want in the decision-making processes in the rail and bus industries. The results are fascinating.² The media coverage of the West Coast franchise problems³ has clearly sensitised rail passengers to a degree not seen before. Totally understandably, most passengers do not think about this day to day—but they are clearly now thinking about it a bit more.

What passengers said in the research was that they feel that the rail industry remains a total information void. No one really tries to communicate with them. Of course, into the void creep suspicion and lack of trust. Passengers, many of whom rely heavily on the railways to make their lives work, would like to be consulted and want to have more of a say. This can be done.

The results of our research are unequivocal. Passengers are often unaware that a franchise is being negotiated in the first place—for some, the first they knew about this was when station announcements referred to the new company or the train livery changes. They did not feel that enough was being done to involve them in the process, and there was a very definite desire to 'have more of a say', in two main areas:

- priorities for the new franchise—influencing what goes into the franchise specification;
- how well the operator is doing at delivering the promises made in its franchise bid.

This is a very simple message. Passengers want a chance to influence what services are being purchased on their behalf and then they want to hold the operator to account for what it actually delivers. Some passengers pay little attention to the company that operates their train service, and it was telling in this research that many East Coast and Greater Anglia passengers could not accurately remember the names of previous (quite recent) operators. Ultimately, it seemed to matter little to passengers who operated the service; they were far more concerned with the quality of that service. Nor were passengers unduly concerned with the structure of the railway or questions of ownership. What mattered, again, was performance and delivery.

Bus passengers feel even more in the dark about the structure of the industry. The fact that the industry is privately run with limited local government involvement comes as a shock. Passengers like the certainty of some sort of agreement between the private sector and government and want to see them working together for passenger benefit.

Boosting the passenger voice in the short term

The government commitment to re-building passengers' views into the heart of the process, and to giving passengers an enhanced role in deciding whether a future new operator can get a franchise extension, will be welcomed by passengers. It is crucial that effective passenger consultation and input take place in the process of potentially extending existing franchises. Some of these decisions will affect passengers' daily travel for a long time—for example, CrossCountry will potentially get a 43-month extension. If current contract extensions are simply presented as a commercial 'done deal', they will not command passenger confidence. To achieve this boost to the passenger voice requires three things, as follows.

First, it requires good, meaningful consultation to find out what passengers want from their train company. This is not easy; distilling individual passenger aspirations into a coherent set of priorities takes real effort, but I think it is worthwhile.

Clearly, in order to comment, passengers need to know that such a consultation is under way in the first place. Passengers suggested a mixture of posters at stations and on trains, emails to passengers, and surveys. If this consultation can also be extended to include people who do not use rail then so much the better. Passengers were relatively pragmatic when it came to the actual decision on who was to 'win' a franchise—they recognised that the commercial nature of such bids meant that they are unlikely to see, and hence judge, all the detail in advance. This makes it all the more important that past performance, quality and deliverability play a bigger part when assessing bids.

Second, it requires the winner of a franchise competition to set out clearly what it has promised to deliver over the length of the franchise. Passengers wanted to know why a bidder had been awarded the franchise, and what its investment plans and passenger-facing commitments were. This could cover traditional 'hard targets' for aspects such as punctuality and cancellations, but also 'softer' commitments for passenger satisfaction.

Finally, it requires proper accountability mechanisms. Once a company has asked passengers what they want and set out its 'passenger promise', passengers want to be involved in assessing delivery. This is in terms of the train company both providing regular progress reports to passengers, and actively gathering passenger opinions on performance—the best judges of a service being those who actually use it.

I look forward to playing a part in all this. The existing research on passenger priorities creates a good starting point when specifying franchises and there

is plenty of scope to enhance the use of the National Passenger Survey in setting franchise targets and then in monitoring satisfaction with delivery.⁴

I want the world and I want it now!

I think another, potentially far more radical, approach could be to make franchise extensions contingent on two things:

- a published ‘opinion’ from passenger representatives on the performance of the train company, and its plans for the final years of the franchise. The opinion or rating would be delivered to the government, which would have to say why it accepts or rejects the opinion or rating;
- a well-publicised, well-organised passenger ‘vote’, potentially with the question: ‘Do you think company X should be allowed to keep operating this franchise?’ Passengers would need access to plenty of information about the company and its performance, as well as the scope to deliver improvements in the next contract period, but it would marvellously align the interests of the passenger, train company and the government.

National Rail: a passenger/rail industry joint venture?

In the longer term it is hard to see rail franchising as an activity staying within the UK Department for Transport. The capacity and capability needed for these major procurement exercises will be difficult to build in this era of central government restraint. Passengers need someone on their side who can match the skills, experience and knowledge of private sector bidding teams.

The government has toyed with the idea of setting up a government company (GoCo) to handle defence procurement. It was recently announced that the Highways Agency will be turned into a GoCo to deliver the government’s five-year spending plans for the strategic road network—so it is not impossible to

imagine that rail franchise procurement could be delivered by a GoCo in future.

However, given that we passengers are the main funders of this activity, why should this be a government company? Could the organisation be a not-for-dividend mutual, owned by and accountable to its main shareholders—the passengers themselves? Given the projections of revenue for the railway, the industry will be subsidy-free by around 2026—this strengthens this argument even more.

The government might need to keep some sort of casting vote or golden share to ensure that the taxpayer interest remains well represented, but it could finally get out of the detail of running the railway. The new company could help to deliver the objectives that the government requires in return for the subsidy it provides, but even decisions about fare levels could be set free from government—the industry could become more like a normal regulated utility industry. The final move might be to create a mutual organisation in which the industry also plays a part—a true joint venture.

Managing the different pressure and accountabilities within such an organisation would be far from easy. Tough decisions would have to be made, but the best transparency would help this. Under such a structure, trials and pilots on ownership, devolution, open access, franchise lengths and types could all take place.

Passenger power!

The time has come to put passenger needs clearly and squarely at the heart of all rail industry decision-making. Passengers in many parts of the country are now the main funders of rail, and that balance should argue for much greater engagement, consistent delivery and transparency on the part of the train companies, Network Rail, government in all its forms, and the Office of Rail Regulation (ORR). The ORR is also thinking radically about an industry where subsidy becomes the exception rather than the norm.⁵ However, whatever structures are set up in future, the final accountability should all come back to one place: the passenger.

Anthony Smith

¹ Network Rail is the body that owns and operates Britain's rail infrastructure.

² The results are available on the Passenger Focus website. See Dark, J. (2013), 'Giving Passengers a Greater Say', *Passenger Transport*, June 21st, <http://www.passengerfocus.org.uk/research/publications/june-2013-passenger-transport-giving-passengers-a-greater-say>.

³ See, for example, BBC (2013), 'West Coast Mainline Franchise Fiasco "to Cost at least £50m"', February 26th, available at: <http://www.bbc.co.uk/news/uk-politics-21577826>.

⁴ See, for example, Passenger Focus (2012), 'Northern and TransPennine Franchises – Passenger Research', November, available at: <http://www.passengerfocus.org.uk/research/publications/passenger-views-of-northern-and-transpennine-rail-franchises>.

⁵ Office of Rail Regulation (2013), 'Opportunities & Challenges for the Railway: ORR's Long-term Regulatory Statement', July, available at: <http://www.rail-reg.gov.uk/server/show/ConWebDoc.11196>.

If you have any questions regarding the issues raised in this article, please contact the editor, Dr Leonardo Mautino: tel +44 (0) 1865 253 000 or email l_mautino@oxera.com

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