

## RDG PR18 working group

### Note of meeting held on 11 July 2016 at RDG's offices

**Attendees:** Bill Davidson (RDG) (chair); Oliver Mulvey (DfT); Chris Simms (Abellio); Maggie Simpson (Rail Freight Group); Daniel Lafferty (Transport Scotland); Lindsay Durham (Freightliner); Russell Evans (FirstGroup); Richard McClean (Arriva); Steve Price (ATOC); Jonathan Hulme (Network Rail); Chris Hemsley (ORR); Paul Darby (ORR)

**Apologies/not present:** Emily Bulman (ORR); Dan Moore (DfT); Martin Baynham-Knight (Keolis); Simon Tew (Welsh Government); Mike Hewitson (Transport Focus); Nigel Jones (DB Cargo); Peter Swatridge (Network Rail)

---

### Route-level regulation – summary of points made

1. One aim of the meeting was to air the draft RDG response to the ORR PR18 initial consultation document and to refer to the associated ORR working papers.
2. Also to note that updated remit and governance document for the group has been circulated – reference also made to financial framework aspects of PR18.
3. Reference made to the new Network Rail (NR) virtual freight route (VFR) [also embraces Cross Country and sleeper services] – noted that new MD of the route (Paul McMahon) expected to be in post around September 2016 when a substantive update should be available.
4. Comment - for PR18/CP6 relationship between routes and train operator customers will be vital element – how will the routes engage with TOCs/FOCs? Noted that FOC/NR dialogue in particular is planned.
5. Comment - need to know what route regulation and financial management actually means and how money/targets will be divided – how can a regulatory response be worked out at this stage? NR/operator deals may already have been done by the time ORR comes to address the position. Same questions in relation to system operator (SO).
6. Query – where will the technical authority/digital railway activity reside – with SO? There will need to be an effective relationship between central provision departments and routes as their customers. Comment – NR are considering these issues – but not clear that thinking is being disseminated at this stage.
7. Regulator stance will need to be flexible and reflect NR business strategy – joint NR/ORR paper considering strategy might be called for.

## FINAL - AGREED

8. Comment – there will need to be effective governance of relationship between train operators and NR's organisation – terms of reference for the fora that will allow engagement on the route business plans feeding into NR strategic business plan (SBP). There is adequate time available, but sense of urgency needed.
9. Train operators input on route level factors likely to be on operational rather than regulatory aspects at this stage.
10. ORR slides provided lead into discussion of route level issues – charts reflect ORR understanding of present NR business model – but noted that flexibility required in respect of possible changes.
11. Comment – system operator activity broader than indicated in ORR diagram – but as noted, understanding is evolving – VFR also needs to be represented.
12. References to information availability relevant to determination and incentives design for CP6, and to deriving efficient cost levels. Should be less need to seek international benchmarks – comment that these were of limited help at PR13. However, benchmarking work likely to act as a starting point for review of apparent differences – may not entail detailed econometrics.
13. Comment – hope that route based regulation will lead to enhanced relationships between NR and its directly dependent customers – something referred to in the Shaw report.
14. Comment – NR had already started a route devolution process – regulatory measures should underpin and formalise this. Route scorecards should be relevant. Need, however, to note historical variations between routes.
15. Query – what methodologies will be available for the collection of route level cost data? ORR will provide guidance to NRR in respect of SBP, for onward dissemination to routes. Comment – NR already provide route level financial information under CP5 RAGs. There has been work by NR on activity based costing approaches. Comment – train operators become concerned if/when cost and balance allocations to routes impact on access charges and route outputs.
16. Comment – work to achieve Scotland route devolution took around 18 months. For PR18, work-in –progress position could be acceptable as long as an unfinished approach is not used for new charges regime.
17. ORR not looking at business plan 'fast tracking' regime per se – but need to find ways to motivate routes to produce high quality/transparent information – possibly prospect of less regulatory scrutiny for best routes. Quality of stakeholder engagement could also be a factor as in other regulated sectors. Comment – behavioural (qualitative) factors put forward by routes important, as well as

## FINAL - AGREED

quantitative output factors. Not for ORR to say what should be contained in business plans – rather guidance on what features of a good plan should be. Some outline information already given in ORR routes working paper.

18. Good plans could be produced even where there are disagreements on approach with stakeholders (and there may be disagreements between responding train operators) – key thing is the quality of the engagement.
19. Comment - train operator franchise length and changeover points could be relevant in respect of engagement and motivation.
20. Comment – VFR either needs its own business plan or to be reflected in geographical route plans.
21. There will be business plans for the SO (with at least some specified outputs) and for NR central service provision. There will be a consolidated NR SBP, not least to ensure whole business is within funding constraints.
22. Comment – VFR should not just be an add-on to SO activity (esp bearing in mind Cross Country is in VFR) – ‘inter-city’ route in future?
23. Consideration should also be given to second tier stakeholders who may also have contractual relationships with NR.
24. Consideration should be given to an arbitration process between routes – eg if neighbouring routes want to do things in different ways. Boundary issues will be exposed by intra route operations – example of Scotland border Carstairs funding mentioned. It shouldn’t fall on train operators to sort things out and must not boil down to which route MD shouts loudest. Consideration should be given to statements of operating principles/MOUs. NR may have the good of the overall system at heart, but this needs to be backed up with a framework. Comment that whilst train operator needs will usually align with long term needs of the system, franchise length factors might sometimes be relevant.
25. Policy design needs to guard against duplication of costs/bureaucracy at route level – industry not traditionally good at stopping doing things. However, appears inevitable that some extra resourcing will be required
26. Comment – route regulation should allow management at route level to be held to account for delivery of outputs versus plans.
27. Comment on ORR indicative PR18 process chart - needs to capture need for iterative engagement on policy development between routes and train operators.
28. Comment – NR business plan will represent a snapshot of business at a point in time. Need to think about how many waypoint versions of consolidated plan NR

## FINAL - AGREED

provides. Concern about publishing unfinished drafts – but any adjustments applied to route plans by NR management at centre will need to be transparent (without ‘airing dirty laundry’). Route MDs need to feel they have stake in plan. Need to consider how these factors interact with NR’s overall acceptance/rejection of settlement proposal.

29. Comment – routes will need guidance on basis for NR central service provision. Route plans will need to be clear on rationale for any significant divergence from guidance and on trade off factors applied. Issue of succession of route MDs needs to be considered.
30. ORR guidance on plans should be available in next few months and will include references to customer engagement. Comment – needs to tie in with development of route scorecards.
31. Query – How ‘virtual’ will the costs associated with the VFR be? There could be issues with basis for cost allocations and ability for VFR and routes to influence costs. In any case, the other routes need to incorporate VFR requirement into their thinking. These are issues that need to be considered once new VFR MR in post.
32. Comment – at the end of the day, it is the customer experience that counts as driven by route outputs and consistency of delivery, including during engineering works. Query – does this mean train operators not worried about NR’s spending levels? Comment – main concern of operators is ‘delivery of the timetable’, so they can run a train when tickets have been sold (or get good notice if they can’t).
33. Comment – freight operators might be more conscious of costs re justifying advantage of rail versus other modes – so they do focus of value for money from NR.
34. Comment - routes should be able to address cost efficiency on maintenance and renewal activity. On enhancements, train operators do place reliance in business planning on delivery of projects and associated possession timetables – noting that there are interactions between enhancements and maintenance/renewal activities.
35. Comment – there is already quite a lot of train passenger research, eg on how much value passengers attribute to delays. If a route wants to do something innovative but with associated risk, should it seek customer views? In general terms, train operators are in a good position to represent passenger views, but if route identified eg a cost versus possession time choice it might need to consult. This should be a continual process, not just in advance of periodic reviews.
36. Query – if there are prescriptive government requirements in HLOS, could this undermine concept of customer driven business plans? Comment – there is no certainty at this stage on what the shareholder (government) review of NR’s SBP will cover. Consideration is being given to what should be in HLOS/SoFA in the new

(post-reclassification etc) world. The current political backdrop is relevant – but HLOS for PR18 might look more like PR08 than PR13 – setting out high level requirements and referring to rolled forward enhancement projects. New enhancements might be managed through the investment framework approach – but no ministerial approvals in place yet. The scope for big investment programmes is likely to be limited. Some factors will be set out in DfT response to ORR initial consultation publication.

## **Forthcoming meetings**

- 15 July financial framework workshop at ORR
- 18 July – Short run variable charges
- Working group meeting on 4 August just ahead of deadline for responses to ORR initial consultation.