

## **Note of key stakeholder issues raised at PR13 workshop on Network Rail's Strategic Business Plan for 2014-19**

**Held at One Kemble Street, London on 13 February 2013**

Network Rail attendees: Paul Plummer; Calvin Lloyd; Charles Robarts; Richard Eccles; Martin Arter; Dave Ward; Martin Frobisher; Ben Edwards; John Schofield.

ORR attendees: John Larkinson; Michael Beswick; Colin Greenslade; Paul Hadley (part); Richard Coates (part); Graham Richards (part); Carl Hetherington (part).

### **Introduction**

1. This note sets out the main issues raised by stakeholders at the SBP workshop held on 13 February 2013. As agreed at the workshop, in the interests of enabling an unconstrained discussion, this note does not attribute comments to any stakeholders. The views expressed in this note are not necessarily those of ORR or Network Rail unless directly attributed.

2. The purpose of this workshop was for:
- Network Rail to explain its strategic business plan in more detail to stakeholders;
  - stakeholders to ask Network Rail and ORR questions on the SBP; and
  - ORR to understand stakeholders' views on the SBP and understand how else they could support ORR's assessment/challenge of the SBP ahead of its draft determination.

### **Network Rail's overall strategy**

3. Network Rail was asked to explain how it would address the suggestion taken from a number of its SBP route plans that its safety culture was at a low level of maturity. Network Rail accepted this point and noted that there were currently thousands of safety rules that needed to be followed. Network Rail was working to simplify these. It highlighted the recent issue of its 'life-saving rules' (see <http://safety.networkrail.co.uk/Information-Centre/Lifesaving-Rules>) which identified the core risks associated with working on the railway and set out what people were supposed to do to improve safety and how they could achieve this.

### **Overview of proposed outputs**

4. A stakeholder expressed concern that the proposed increase in capacity set out in the HLOS for Birmingham was inadequate (10% over CP5 against an existing background growth of 5-6%); overcrowding was already causing stagnation in some areas and there was evidence that passengers were switching to cars. It was suggested that Birmingham had been treated unequally to Manchester and Leeds where more capacity solutions had been proposed, particularly when the case for Birmingham was perhaps stronger than for those areas. It was noted that this issue was driven to a significant extent by the metrics in the HLOS specification, which Network Rail was obliged to follow.

5. ORR noted that this was an issue for the HLOS, not the draft determination. Nonetheless, both ORR and Network Rail expressed the view that funding for improvements

did not necessarily stop with the CP5 determination. New projects could be funded through ORR's 'investment framework' during a control period, as had happened for example with electrification works in CP4. Also the industry might collectively be able to find other ways of delivering improvements outside of the SBP. But, ultimately of course, someone would have to fund such projects.

6. It was noted by some stakeholders that the current franchising situation had caused difficulties with developing the SBP as the uncertainty had meant that it could not reflect the new franchises that were expected to have been awarded by now. Operators were encouraged to engage with Network Rail to develop proposals to improve their services and the network in spite of this.

7. It was suggested that ORR's PR13 determination should include a change mechanism permitting trade-offs between cost, capacity and journey time. ORR noted that it had consulted on this issue in August 2012. Its understanding was that overall the industry wanted a provision for trade-offs to be triggered in very specific circumstances, such as if a later franchise agreement turned out to be inconsistent with a HLOS output. However, there was a lack of clarity about what such a mechanism should look like. More thinking needed to be done on this as it would be important not to implement mechanisms that might drive perverse behaviours. ORR was considering a mechanism for specific circumstances.

8. The lack of Network Rail targets or measures in the SBP relating to passenger satisfaction scores and station accessibility was questioned, particularly as the Brown report had recommended that a metric be included in future franchise agreements. It was noted that there was also no correlation between PPM, right time information and passenger satisfaction. It was suggested that there should be a comment in the SBP about improving TOCs' satisfaction with Network Rail.

9. Network Rail recognised that the industry needed to be driven by the needs of the user and the satisfaction of the funder and taxpayer, but noted that this was different from being measured against a specific target or metric. It expressed concern that specific measurement might have a perverse effect and end up stifling discussion and innovation across the railway. Passenger satisfaction scores already formed part of Network Rail's performance reward system for its staff. The SBP was predominantly aimed at providing railway enhancements and improving growth, focusing on raising the most underperforming parts of the network to a core industry level, although it is important that Network Rail and TOCs continue to consider how scores can be improved.

10. ORR said that it had decided not to set a passenger satisfaction target, but noted that it was vital not to lose sight of passenger satisfaction. To this end, ORR had had discussions with some stakeholders about a proposed CP5 scorecard to measure Network Rail / wider industry performance in this respect and was considering including something on this in the draft determination.

11. Network Rail was asked how realistic its freight growth target of 22% was in light of what RFG had said. Network Rail explained that the plan was developed locally by talking to operators and customers. In comparison with the CP4 plan which was centrally modelled, this SBP had been developed through the devolved routes with freight customers and with a

focus on local schemes. On the issue of freight performance, ORR said that it would like to set a freight performance target but it recognised the debate over what an appropriate measure would be for this and it was still being considered.

12. It was noted that Network Rail's presentation slides listed the Scottish level crossing fund under safety. It was noted that the Scottish HLOS specified a fund specifically for the closure of level crossings, not the mitigation of safety risk at level crossings. Network Rail said it recognised the difference between Scotland and the rest of Great Britain in this respect. ORR said that it was confident that a process was in place to deliver what the Scottish HLOS envisaged in respect of the level crossing fund.

13. Concern was also raised about how the Scottish HLOS requirement to keep at least one route open between Scotland and England at all times could be assured. ORR explained that agreement would need to be reached between Network Rail, ORR, DfT and Transport Scotland on what the HLOS requirement precisely meant and how and when certain key routes would be kept open. This would need to be clarified prior to the publication of the draft determination.

#### **Expenditure on support, operations, maintenance and renewals**

14. It was asked whether ORR had reviewed its benchmarking information as part of PR13 and whether Network Rail had looked at this. This was raised in the context of data issues with certain international benchmarking information. ORR noted the data issues with some top down benchmarking information and said that at the beginning of PR13, ORR had made clear that it would be putting less emphasis on top down benchmarking and would be looking more at bottom-up benchmarking. Network Rail had undertaken more bottom-up analysis as part of its SBP. ORR's draft determination would set out how it had used benchmarking and the relevant studies would be published. ORR also noted that its original PR08 estimate of around 35% efficiency over ten years was not very far from the total of the projected CP4 outturn and Network Rail's proposed efficiency savings for CP5.

15. Network Rail was asked whether its asset plan included the cost of bringing maintenance depots up to date and delivering the service required by TOCs. ORR recognised the importance of depots and it planned to set an output or indicator around depot condition. Network Rail indicated that part of its discussion with customers about the SBP included an assumption that funding for new depots would flow from DfT to TOCs largely because the industry published the Rolling Stock Strategy on 12 February 2013. As rolling stock would largely be funded through franchise arrangements it was difficult for Network Rail to predict the need for depot requirements.

16. It was also asked how Network Rail was taking into account the more intensive use of rolling stock in terms of depot capacity and capability. One operator noted that there was inadequate specialist equipment at its depots to properly service its fleet. Network Rail said that devolution would help address this by facilitating a more customer focused discussion – and alliances would also help to drive the most efficient overall decisions on how depots were managed and maintained.

17. ORR was asked to think further about the incentives for depot investment, and some anecdotal examples of perverse incentives were raised. It was also mentioned that Network Rail switched off the traction electricity to some depots overnight which undermined their operating efficiency. ORR said that periodic reviews tended to focus on depot condition and other areas were not picked up; it noted that Network Rail and train operators had a significant role in relation to depots. ORR had done some work on how depots were organised outside of the periodic review but acknowledged the concerns raised and would take this issue away to consider further.

18. In terms of efficiency savings on track works, one stakeholder suggested that there was little more to obtain from the supply chain, and the savings during CP5 would need to come from Network Rail. Network Rail considered that engagement with the supply chain was key and delivering challenging efficiency savings could only come from greater collaboration. Network Rail was asked what would happen if those savings could not be achieved. Network Rail explained that it was required to deliver the HLOS outputs as efficiently as possible and the fact that this may be difficult did not excuse it from this requirement. In the event that costs were significantly higher, then there would need to be discussions with key parties on how to resolve this. ORR advised that achieving the efficiency target it sets was not a regulated output, but if Network Rail failed to meet its efficiency target at the end of CP4, then Network Rail would be required to deliver the remaining efficiency in addition to CP5 targets.

19. A stakeholder said that Network Rail's engagement with it on the Rail Operating Centre (ROC) strategy had been minimal and it remained to be convinced of the benefits. In response, Network Rail invited the stakeholder to the East Midlands ROC at Derby to discuss the benefits of the ROC further. The Derby ROC was the most advanced and would be fully populated with signallers within CP4, delivering reductions in headcount and improvements in reliability. These benefits could be repeated elsewhere.

20. Network Rail was asked whether there was still an inconsistency between making investment decisions on the basis of whole life costs and not doing things at the most optimal time because of a short term cost-efficiency requirement. If so, how could this be resolved? Network Rail said it did not consider that there was a conflict between efficiency and sustainability – if it wasn't sustainable then it wasn't efficient, but recognised that it needed to get better at making whole life decisions. It considered it should be funded to make longer term decisions, to make things cheaper and drive efficiency. There would of course be a short term pressure to save money. ORR noted that the proposed funds could provide a means for delivering the additional improvements at the same time renewal schemes were carried out.

### **Enhancement projects**

21. In terms of committed schemes, a question was raised in respect of the Western Route Plan and electrification projects with high BCRs not being taken forward and the fact that no further electrification was planned for CP6 on Western. Network Rail pointed out that it was currently in the process of producing a second electrification RUS, which would be aligned with the rolling stock strategy, on which it had received good input and support from all three governments. It was pointed out that all electrification projects were due to be

completed by 2019 and Network Rail was asked how any would be funded should these run into CP6. Network Rail said it hoped to persuade government that funding should be made available by presenting sound business cases.

22. In terms of Network Rail's passenger journey improvement (PJI) fund, one stakeholder questioned whether this would include plans to improve line speed. Network Rail considered this could be a good use of the fund but evaluation would need to be carried out to understand implications before any decision was made. Other stakeholders raised questions relating to resilience issues in the far south west, where Network Rail had recently spend a lot of money recovering assets, and whether this fund could be used in this regard. Network Rail explained that it was important to distinguish between PJI (which was more likely to reduce journey time and fund other related improvements) and performance issues.

23. ORR explained that it would not be listing specific schemes to be covered by the funds in the draft or final determination. Instead, it would be looking to ensure appropriate governance arrangements were put in place to oversee the efficient allocation and use of the funds. So, stakeholders should not become concerned if they do not see their schemes listed now. Network Rail noted the importance of recognising that other good ideas for the funds were likely to emerge over the course of CP5 so it would be sensible to spread the allocation of fund money across CP5.

24. Concern was expressed about the reduction in the Network Rail Discretionary fund (NRDF) compared to CP4, particularly in relation to schemes in the south west. It was felt that such reductions were more likely to have a detrimental impact on rural areas which tended to miss out on the bigger investments and so were more reliant upon such funds. Network Rail considered that it was likely it would seek additional money for the funds in CP5, as the benefits from the funds and its own increased efficiency would make the cost effectiveness of such investments increasingly evident.

25. In terms of station improvements it was noted that the Access for All funds were only half that provided in CP4. ORR explained that the size of the funds were set in the HLOS, and noted the financial constraints faced by the governments. It noted that there were composite funds and there was some flexibility in the HLOS for how these should be split. ORR noted the importance of the governance in this respect – i.e. should the allocation of composite funds be fixed or should the governance provide some flexibility.

26. In terms of the Electric Spine proposals, a question was asked about the non-inclusion of Birmingham to Nuneaton. Network Rail said that there would be the opportunity for refining the schemes and DfT expected efficient delivery of the scheme. ORR said that these schemes were in the early stages of development and the full scope and costs were not yet known. However, ORR would need to include at least a provisional cost in the draft determination to ensure that CP5 access charges reflected the funding requirement. This was a difficult issue – if ORR put a firm figure on the funding Network Rail should have for these projects then it would need to include a high risk buffer to reflect the uncertainty. It was important to ensure that the final arrangements placed effective incentives on Network Rail to deliver efficiently.

27. Network Rail was asked whether an optimism bias had been included in the costings for projects in Scotland to reflect worst case scenarios. Network Rail confirmed that an optimism bias had been included at the outset but this would be replaced by a more sophisticated qualitative risk assessment as each scheme progresses

28. In terms of Schedule 8 payments, a stakeholder asked whether a way had been found to reduce compensation costs due when enhancements were being delivered – to ensure that schemes were cost effective and remove a perverse incentive. Another stakeholder noted that the alliancing approach used for the Paisley Canal electrification scheme addressed this issue and had reduced costs overall. ORR said it wished to make clear that the Schedule 8 regime was not permanently hardwired – ORR has encouraged negotiated bespoke arrangements between parties to provide better alignment of incentives in cases like this, and continues to do so.

### **Deliverability**

29. It was asked how Network Rail would ensure that the components used on the railway as would last for 30 years or longer, in contrast to the failures that occur currently. It was suggested that there was a high specification of what each component should do but less thought put into ensuring that these would be durable and reliable. Network Rail explained that whole life reliability and R&D was key to delivering the plan. It confirmed the need to incentivise and engage suppliers during the first design phase, so that they understood reliability issues and what the equipment need to deliver, and also to involve those who would be using the equipment.

30. In terms of access, it was felt that progress on enabling trains to run whilst engineering work was being undertaken had been painfully slow and needed to be addressed. For example, it should not be necessary to shut a four track railway to work on a single line.

31. Network Rail noted that it needed to make the most of time now to ensure that the CP3/CP4 lessons were learnt when developing the delivery plan for CP5. ORR noted that there had been a failure to reach industry agreement when the CP4 delivery plan was published in PR08 and it had to be refined. So, to get to a position where there was a published CP5 delivery plan on 1 April 2014, it would be necessary for stakeholders to have a draft early on for comment. ORR and Network Rail would need to discuss this further.

32. A slide was noted which suggested that there was an issue to be resolved in respect of supervisory staff for electrification work. A stakeholder raised a concern that there was also an issue about the people who would be erecting the electrification equipment – this had already been an issue in relation to the work at Rugby. Network Rail noted this and asked stakeholders to advise it of further potential such gaps to be addressed.

33. A concern was raised that there was a shortage of railway engineers, and the industry currently tried to fit in with the limited available resource (and as a result was not able to carry out work at the optimal time). Given this was already an issue, the greater volume of work to be delivered in CP5 raised concerns over efficient delivery. Network Rail acknowledged that the industry needed to improve in this area.

34. It was suggested that the National Delivery Service (NDS) should be paid for through the outputs of the projects that NDS would be supporting, and a concern about potential double counting of cost was raised. Network Rail acknowledged that some things could be delivered more efficiently through a national service and the way this should be charged was an issue for further consideration.

### **The role of the industry**

35. A concern was raised that, by trying to reduce cost and improve performance, more responsibility for delivering schemes would be placed with contractors, pushing the trade-off with safety too far. It was noted that the industry was not yet in a position to judge accurately these trade-offs.

36. Network Rail acknowledged that there were risks in the SBP e.g. in delivering performance and efficiency. However, Network Rail was comfortable that it could manage these. If however a significant challenge arose in due course, it might be appropriate to reconsider this. ORR said that for this periodic review it had a combined economic and safety team reviewing the SBP which was exposing issues early on much more effectively than in the previous review.

37. A concern relating to route availability was raised in respect of the RNAP and the 'unless impracticable' caveat. It considered that introducing more cross-overs could facilitate greater network availability during possessions. Network Rail said that, whilst there would be opportunities to do this, the rail system would never be entirely flexible and there would always be situations where routes needed to be closed. It would take a long-time to improve network availability through re-signalling schemes. However, the industry needed to be better at communicating to customers when the railway would be closed.

### **Wrap-up**

38. ORR thanked those present for attending and invited written comments by 19 February 2013.

### **Close**