

Network Rail's Efficient Enhancement Expenditure

Review of CP5 proposed funds

Report

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Executive Summary

CP4

1. In their High Level Output Specifications (HLOS) for Control Period 4 (CP4) from 1 April 2009 to 31 March 2014, the Secretary of State for Transport and the Scottish Ministers set out what they required the railway to achieve, including their proposals to make a number of funds available to achieve specific requirements.
2. Subsequently:
 - Network Rail responded with its Strategic Business Plan (SBP) saying how it would deliver these requirements
 - The Office of Rail Regulation (ORR) published its CP4 determinations of the outputs required and the funding available
 - Network Rail produced its CP4 Delivery Plan, which it has since updated each year to reflect developments
 - ORR monitors the CP4 funds through its role in their governance and through detailed reviews by the Independent Reporters

CP5

3. ORR's Periodic Review 2013 (PR13) will establish access charges, outputs and the associated regulatory framework for Network Rail for Control Period 5 (CP5) from 1 April 2014 to 31 March 2019.
4. In advance of PR13, the Railways Act 2005 requires the Secretary of State and the Scottish Ministers to set out, in the High Level Output Specifications (HLOSs) which will be produced by 31 July 2012; "information about what [he wants/they want] to be achieved" by railway activities. To inform the production of the HLOSs, ORR will provide "Advice to Ministers" on 15 March 2012.

This study

5. On 29 September 2011 the rail industry published its Initial Industry Plan (IIP) setting out proposals for the industry during CP5 including further funds.
6. On 25 November 2011, to help inform its Advice to Ministers, ORR asked us to provide advice on:
 - How transparent the CP4 funds are as seen from the outside, and what can readily be established by an interested party.
 - Using this information, how well the CP4 funds have been spent, and any relevant lessons for CP5.
7. ORR asked us to adopt a "common sense" definition of "transparency", which we took to be:

"Can a reasonably informed interested party rapidly identify, from published information, any or all of: the objectives of the funds; the parties managing the process; how decisions have been made; the costs incurred; the expected benefits; and progress towards the objectives?"

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CP5 proposed funds

8. The IIP proposals for CP5 included approximately £2.7 billion (2011/12 prices) of funds to deliver a range of enhancements with objectives including capacity, journey time, performance, accessibility and improved stations. Many of these funds repeat, extend, or can be mapped to one of nine CP4 funds totalling £1.8 billion (2011/12 prices).

CP4 funds

9. Most of the CP4 funds can be linked to specific statements in the CP4 HLOS, although requirements and objectives may subsequently have been modified by the CP4 Strategic Business Plan (SBP), ORR's Determinations, and the CP4 Delivery Plan. We attempted:

- To identify the objectives of the funds set out in the CP4 HLOS requirements
- To identify the extent to which they have been achieved so far
- To examine the funds against criteria of transparency, clarity, eligibility, governance, localism and outcome

Transparency

10. Despite being formal statements under the Railways Act 2005, the HLOSs do not always clearly identify the purpose of the CP4 funds, for reasons including reference to other documents, statements of the funds available but not the purpose to which they should be put, and subjective terms such as "improve" and "attractiveness".
11. Transparency may exist at the detailed level of the processes for identification, development, governance and decision-making of individual funds. Detailed information at this level, however, did not enable us, and would not enable other parties, quickly to form a view of the objectives of each fund and how it is performing against them.

Clarity

12. Clarity in the funds' objectives was not possible without clarity in the initial HLOS, which was sometimes lacking. The National Stations Improvement Programme (NSIP) lacks a clear and objective output measure, and the Network Rail Discretionary Fund (NRDF) must necessarily appraise different schemes against different criteria. In some cases the industry has set out clearly how it has interpreted the HLOS, but it does not always do so. The industry could do more to define measures to quantify and monitor progress towards objectives.

Eligibility

13. We saw no reason to doubt that eligibility criteria are accessible to those who need to be aware of them. Some schemes might be eligible for more than one fund, but this did not mean that there would be any difficulties in practice in identifying the appropriate contribution of each fund to each scheme.

Governance

14. Governance was generally reported on positively by ORR's Independent Reporters, but more extensive study would be needed to be sure that the process best met the requirements of the stakeholders.

15. Governance arrangements may need review, modification or reworking following the Localism Act 2011, changes to arrangements at stations, Network Rail's proposed devolution to operating routes, and any other changes proposed or mandated in the forthcoming industry Command Paper.
16. Consulting or informing additional or external stakeholders, while superficially desirable, imposes costs.

Localism

17. We did not examine the implications of the consultation paper on Rail Decentralisation, which was published after our work was substantially complete.
18. Localism may mean that "local" bodies, whether inside or outside the industry, may not only be consulted and informed but also become fundholders and hence responsible or accountable. While there will be value in such local involvement, there will also be a cost.
19. Unless specified otherwise by funders, localism will not override the regulatory presumption that funds must be spent in the most economically efficient way.

Outcome

20. We found a lack of readily-identifiable and concise updates on the outputs of the funds. We were unable to form a clear view on the extent to which funds had met the HLOS requirements or their objectives.

Implications for CP5 proposed funds

21. To maximise transparency, it would be desirable for the CP5 HLOSs not only to set out clearly what each fund is intended to achieve but also to require that it be measured and monitored. It may also help to improve efficiency if, where they are able to do so, Ministers describe, at an indicative level, expected requirements over the longer term.
22. Elsewhere in the transport industry there are examples of reporting progress on expenditure and outputs against targets in multi-year programmes. We concluded that it should be possible to make transparent the progress of the CP5 funds towards HLOS requirements, including not only expenditure against budget but also expected benefits.
23. Any devolution of responsibility for CP5 funds to Network Rail operating routes, or to other local bodies, may increase complexity:
 - Before CP5, Ministers will need to specify their requirements, and ORR will need to determine efficient costs, at a more disaggregate level
 - During CP5, governance may be more dispersed, and industry stakeholders may need to become involved in a larger number of governance processes
 - During CP5, disaggregate information on local delivery will need to be reported consistently and consolidated to enable progress to be monitored by ORR and visible to interested parties
24. Alliancing between Network Rail and train operators may also complicate the governance and regulation of funds, particularly where the most economically efficient solution may be either infrastructure- or operations-led.

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Journey Time Improvement Fund

25. Ministers may value, and wish to buy, improvements in journey time, but as yet the industry has not put forward a robust business case for them. In principle, it might be helpful for Ministers to set out indicative long term objectives for journey time improvements, only a limited proportion of which would form part of the CP5 HLOS.

Strategic Freight Network

26. Whatever the effects of devolution and localism, the governance of the SFN will need to be structured so that it is cost-effective for the principal freight stakeholders to attend and participate.

NSIP and Scottish Stations Fund

27. Governance of NSIP may need to be modified if Station Facilities Owners (SFOs) become the primary agents for the delivery of the NSIP HLOS requirements. We note that NSIP and Scottish Stations Fund projects may be largely independent of railway operations and of each other and have few synergies. This suggests that they may not need to be included as part of the industry's regulatory settlement and could instead be commissioned from time to time as Government or other funds permit.
28. The consultation paper on Rail Decentralisation, which was published after our work was substantially complete, noted that consideration is being given to whether to continue NSIP into CP5 through the HLOS process.

Performance Fund

29. The Treasury's Autumn Statement announced additional funding to improve resilience in extreme or winter weather, but it may be technically difficult to demonstrate that additional expenditure to do so is efficient. We suggest that, as a first step towards consideration of such a fund, ORR review any models the industry proposes to use to identify and appraise initiatives, whether capital- or operations-based. Performance Fund targets might, in principle, be set by operating route rather than primarily by business sector as in CP4.

National Rail Discretionary Fund and Scottish Small Projects fund

30. There may be a case for increasing both the total funding and available and the maximum size of eligible scheme.

In-fill Electrification

31. By analogy with in-fill freight schemes, it may be appropriate to make explicit provision for the funding of in-fill electrification schemes. We note that the industry has not proposed any such fund and that it would be for Ministers to decide whether they wished to provide one.

CONTROL SHEET

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2	10 February 2012	Revised draft following further meetings
3	14 February 2012	Minor corrections and creation of an Executive Summary only version
4	1 March 2012	Revised to reflect ORR comments
5	13 March 2012	Revised to reflect DfT comments

REVIEW

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