Response to:

Department for Transport

The Hendy Report Consultation

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The Rail Delivery Group Response to the Hendy Report Consultation

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Introduction

The Rail Delivery Group (RDG) was established in May 2011. It brings together Network Rail and passenger and freight train operating companies to lead and enable improvements in the railway. The purpose of the RDG is to enable Network Rail and passenger and freight train operating companies to succeed by delivering better services for their customers. Ultimately this benefits taxpayers and the economy. We aim to meet the needs of:

- Our Members, by enabling them to deliver better outcomes for customers and the country;
- Government and regulators, by developing strategy, informing policy and confronting difficult decisions on choices, and
- Rail and non-rail users, by improving customer experience and building public trust.
Introduction

The Rail Delivery Group (RDG) is pleased to respond to the DfT consultation on the report from Sir Peter Hendy to the Secretary of State for Transport on the re-planning of Network Rail’s investment programme.

This RDG response provides industry comments on the general re-planning approach and highlights risk around decisions on reduced investment so that these risks may be managed. Individual industry members will provide comment on the prioritisation of specific projects as appropriate.

Timescale and scope of the re-planning process

Network Rail’s CP5 investment programme was aimed at delivering real benefits for passengers and freight customers through more capacity, and faster and more reliable journeys. For a variety of reasons, the costs and timescales of a number of significant enhancement projects increased beyond expectation. Sir Peter Hendy was appointed Chair of Network Rail and asked to review the enhancement programme to see what can be delivered in an affordable and timely way. The re-planning process had to be completed within a compressed timescale and so inevitably could not cover everything. For example there was limited opportunity to review alternative options and different ways of achieving the desired outcomes. The re-plan also excluded enhancements in Scotland as there was no cost overrun on these and they are covered by a separate funding settlement.

The re-plan had to focus on what could be delivered within available funding constraints and, in this context, the RDG considers that the proposed re-plan represents a largely pragmatic and fair outcome. However, the RDG wishes to highlight that, as a consequence of this re-planning exercise, some of the expected CP5 franchise outcomes (i.e. timetable changes, frequency and journey time improvements, greater capacity on trains), will be delayed as a result of the infrastructure delays. There will therefore, inevitably, be a delay in the delivery of passenger and freight benefits as well as revenue to the industry.

Proposed means of meeting the funding gap

The Hendy Report estimated that the revised enhancement programme for CP5 would cost £2.5 billion more than the amount assumed in the final determination. To meet this funding gap, Network Rail is proposing to sell about £1.8 billion of non-core assets, such as retail units at managed stations, depots and spare capacity on the telecoms network. The DfT has also agreed to increase Network Rail’s borrowing limit by £0.7 billion. RDG’s train operating members would like to be properly consulted on details of the proposed asset sales as these become available to avoid the possible disposal of property that could have future operational use and the RDG will work to ensure Network Rail and train operators consider this matter more fully. The asset sales will also require ORR consent in accordance with the network licence.

Ring fenced funds

The RDG acknowledges that there is insufficient funding to do everything originally specified requiring reduced spending on ring fenced funds in CP5. If any additional funding does become available, or if
any further re-phasing of schemes allow other funding to be brought back into the control period, then an effective way to do this is through Funds, such as the Discretionary Fund, that are managed through an industry governance process. This means of funding is flexible and allows relatively small investments to be made to improve outputs efficiently as they can be directed through the industry party best able to deliver the benefit. Another benefit is that Funds can provide a means of leveraging small scale third party investment into the rail industry that would not otherwise happen. The industry would also like to see the concept and funding of ring fenced funds retained in CP6.

In its consultation, the DfT commented that the decision on funding for the East Coast Main Line (ECML) connectivity fund may need to be re-considered in the light of ORR decisions on open access paths on the route. The RDG supports the connectivity fund because of the overall benefit it provides to such an important part of the network. The connectivity fund was included in the Government’s 2012 output specification with the objective of improving capacity and reducing journey times on the ECML, including suitable efficient capacity for the crossing flows of passenger and freight traffic at Peterborough. The governance group of the fund (which includes the DfT) has always sought to consider the ECML as a mixed-traffic and multi-user system, to allow all requirements and to support the long term planning for one of the key UK rail routes that includes the early deployment of the European Train Control System (ETCS).

The ETCS cab fitment fund is another area where some reduction in funding in CP5 is seen as necessary to manage the overall affordability challenge. No other regulated funding supports cab fitment. RDG is concerned that this could have longer term implications:– later ETCS lineside deployments resulting in increased cost or reduced opportunities to realise greater capacity and performance benefits. The opportunity in CP5 to partially de-risk a key element of the franchise process will also be diminished.

Proposals for managing the affordability challenge include a proposal to suspend investment for strategic R&D and Innovation funds for years 3, 4 and 5 of the CP5. RDG is concerned that the negative impact of suspending these funds will substantially outweigh savings and that the lost impact will not readily be recovered. Suspending investment would result in opportunity costs spanning delayed efficiencies from technology deployment to lost leverage of substantial funding from European collaboration opportunities. No other regulated funding supports the long term development of technology-based capability. The funds are complementary to improve railway outcomes as a whole system. RDG would therefore request that a full business case is undertaken to see if these funds can be restored. If these funds are not restored, there are six primary areas that would be negatively impacted:

- Constrained future efficiency and capability for NR and the wider rail industry in CP6 and beyond;
- Reduced support for high value industrial capabilities, core to the future UK economy;
- Reduced opportunity for value to be created by partners’ and collaborators’ including universities and SMEs;
- Lost opportunity to leverage large scale collaborative funding;
- Damage to Britain’s reputation as a committed international leader in railway technology, and
- Undermining trust in strategic R&D making it more expensive and more difficult in future.

The Hendy Review also reduced the CP6 Development Fund from £57m to £32m. Even before the fund was reduced, it would have been necessary for further funding to be identified and made available to progress the continued development of possible future enhancement projects that would form the next tranche of priorities for funders and customers. Further funding is required in order to progress
these priority schemes if they are to be sufficiently developed to inform the choices and options facing funders over the next few years.

The National Stations Improvement Programme (NSIP) is another fund where some reduction in funding in CP5 is now planned. One of the specific projects within this fund relates to investment of £3.9m on GPS train location systems and the NSIP board intends to prioritise it within CP5 funds. There is strong industry support for the GPS train location project because of the timetabling and performance benefits expected to accrue from it due to better understanding of Sectional Running Times, better positioning information and more accurate station departure board information. RDG therefore supports the need to prioritise the GPS train location project.

The Access for All programme is also a fund where some reduction in CP5 funding is now planned. It is not yet known which stations will have planned accessibility work deferred, but clearly it will impact on disabled passengers and will raise concerns from disability advocacy organisations.

Renewals and Performance Considerations

The Hendy Report referred to Network Rail’s updated business plan which concluded that its core business could be managed within the borrowing limit that was set for CP5. There were increased costs in some core activities but these were offset by a reduction in renewals activity which Network Rail concluded could be managed safely and without creating a backlog that could not be caught up in subsequent control periods.

The RDG supports the need for sustainable asset management (i.e. that does not result in an overall deterioration in the reliability and serviceability of the network) and notes the Network Rail conclusion that the new plan does not create a renewals backlog that cannot be caught up in subsequent control periods. However, there has been no separate industry assessment of asset sustainability beyond the work done by Network Rail.

RDG considers it is important that funders recognise the implication that additional funding on renewals and maintenance will be required in CP6 to avoid a return to the period of unsustainable asset management that occurred at the end of the last century.

The RDG notes that performance and other impacts were not explicitly considered as part of the re-planning process. The rail industry body that leads on performance is the National Task Force and it is concerned that the risks and future impact on performance from re-planning the investment programme (both renewals and enhancements) are unknown and is seeking clarity on this matter. Network Rail, in collaboration with train operators and the NTF, will now assess the impact of the re-plan exercise on its performance plans. It is likely there will be performance impacts as a result of the extended timescales for delivery of the enhancements programme and the deferral of renewals activity into CP6 which will need to be assessed as part of the ongoing performance planning process. It is also important to understand the potentially disruptive impact on train operations from delivering the investment programme over a longer period.

Industry engagement in the process

Train and freight operators were informed about progress on the Hendy review through route meetings in August and September 2015 and also through existing industry processes such as the RDG’s Planning Oversight Group (POG). These sessions concentrated on the enhancements
programme, as opposed to renewals or any impact on performance. At these meetings, Network Rail set out high-level criteria being used to assess prioritisation and shared a number of options. This included sharing information on which schemes were likely to be completed in CP5, started in CP5 but completed in CP6 and those that would not be started until CP6. As a result, the emphasis of the industry engagement in the review was the sharing of information rather than formal consultation.

Following publication of the Hendy Report in November 2015, Network Rail then issued a draft of its updated Enhancement Delivery Plan (EDP) in January that contained specific details of the proposed changes to projects and to delivery milestones. Some project details were shared with POG ahead of publication. The draft updated EDP provides the basis for more direct engagement with train operators over the next few months as they review the project by project details in the document with Network Rail route teams through the Route Investment Review Groups and other governance groups. The final stage in the process will then be to go through formal change control to seek ORR agreement to the updated EDP. The RDG recognises that these discussions and the change control process may lead to some further revisions to those proposed in the Hendy Report.

It is clearly essential that there is transparency between Network Rail Routes and train operators at the local level. This is important so that the effect of any changes in the timing or scope of infrastructure upgrades on performance or franchise deliverables can be understood and any necessary actions can be taken to mitigate the potential impact on end users, funders or efficiency. It appears that there is good engagement between some Routes and their operators, but not for all Routes, and that there is opportunity for other Routes to adopt a similarly transparent approach. It is equally important for multi-Route operators that there is effective engagement across the network as a whole.