Rail Delivery Group

National Rail

BRITAIN RUNS ON RAIL

Rail Delivery Group

Response to

ORR's consultation on improving Network Rail's renewals efficiency

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Organisation: Rail Delivery Group

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Business representative organisation

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

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Introduction

1. This document outlines the key points from RDG's members in response to the ORR's consultation on improving Network Rail's renewals efficiency.

2. All our industry members recognise that efficiency has not been achieved as forecast in CP5. We also agree with the ORR that renewals efficiency is an issue not just for Network Rail but also for the ORR, wider industry and governments. The industry is transforming to provide a means for much closer and deeper collaboration at a local level between Network Rail Routes and train operators. This is vital for improving efficiency but such a major transformation will take time for the benefits to be fully realised.

3. We confirm that we are content for this response to be published on the ORR website.

Background context - Growing demand and rail's contribution to the economy

4. The benefits to the wider economy from rail are huge. To illustrate this, a report commissioned by the RDG on the contribution of rail to the UK economy[1] found that:

    - The rail sector created benefits for rail passengers and freight users worth £14.3bn in 2014.
    - Travel on rail instead of roads reduces road congestion and enables companies to locate closer to one another. These two benefits made the UK economy more productive by up to £11.3bn in 2014.

5. Demand for rail services has grown significantly in recent years. In 2016/17 there were 1.73bn passenger journeys by rail, double the level 20 years ago and 9% more than at the start of CP5.

6. The reasons for highlighting the above are to demonstrate the importance of having a sustainable and properly funded railway and to provide the context for how the potential for efficiency should be assessed. This is explained further in the following sections.

Sustainable funding

7. Adequate funding for operations, maintenance and renewals is essential if the network is to be reliable and sustainable and in order to enable long-term stability or improvements in performance and capacity. The adequacy of Network Rail's overall funding is also important to provide certainty to allow medium-term planning of workbanks and to provide suppliers with confidence to invest in people, skills and technology all of which are critical to improving efficiency. Lumpiness and change in the renewal programme is also an issue as it makes it harder for suppliers to maintain resources to respond to the rail industry's demands. This does not help facilitate efficiency because it can increase the cost of contracts.

8. Five-year control periods are well established in rail and other sectors and we support their continuation. This is because they:

    a. provide certainty of funding over a reasonable length of time;
    b. better reflect the long-term nature of the industry in terms of asset management, and enhancement and renewal planning. Processes should encourage continuity in planning and avoid disconnects that can occur when there is uncertainty on short-term funding;
    c. support stability in access charges, allowing train operators to plan their businesses with a greater degree of certainty; and

[1] https://www.raildeliverygroup.com/about-us/publications.html?task=file.download&id=469762650

d. support the drive for securing investment in skills, innovation and efficiency from suppliers.

9. However, for investments such as renewals, we believe there would be significant efficiency benefits by providing even more certainty to smooth the impact of a new funding settlement. One way to do this would be for ORR to determine the renewals funding for the first two years of CP6 well before the start of the control period rather than waiting for this to be fixed in the ORR's final determination. This would enable better planning for major renewal schemes and reduce the risk of a slow and inefficient start to CP6.

10. There has been uncertainty about the additional funding required to support early stage development and implementation of new signalling technology (e.g. ETCS) and the plans for a digital railway. This does not support the development of a clear and deliverable strategy to move to new technology, causes changes to plans for conventional signalling renewals and hence leads to inefficiency.

11. Network Rail's funding should include a sufficient allowance for risk and uncertainty. This is essential given the funding arrangements for Network Rail which is likely to include a hard budget constraint. During CP6, it is possible that events will happen that could lead Network Rail to incur additional costs. Some of these events are impossible to predict up to six years ahead and so there will always be a degree of uncertainty in the CP6 plan. Funding for risk and uncertainty provides flexibility so that small variations in costs during CP6 do not result in significant and disruptive re-planning of activities that can affect the successful delivery of efficiencies in CP6.

12. It is essential that the efficiency targets built into funding settlements in CP6 are realistic and achievable and encourage decisions that deliver best value for money and the right choices for the railway. If they are not achievable, this will mean it is likely that Network Rail will have to defer work in order to live within a hard budget constraint. Deferring work brings significant performance risks and also results in changes to workbanks and possessions. In turn, these create inefficiency and so represent a downward spiral, leading to poorer outcomes for rail users and the taxpayer.

13. In setting the efficiency targets for CP6, the ORR should take into account that where supply chain capacity has been reduced due to a reduction in volumes in CP5, it will need to be ramped up again once volumes increase in CP6. This is likely to be costly, particularly in specialist areas where resource is already constrained.

Efficiency assessment

14. We largely agree with the ORR's view of the main factors that have driven renewal costs in the early years of CP5. However, efficiency in renewals is hard to measure and there are some considerations and benefits from the renewal work that are not fully reflected in the ORR assessment. We discuss some examples below:

    a. The growth in demand (e.g. through more trains, longer trains and faster trains) has a big impact on renewal requirements and means that a more holistic approach is needed when assessing efficiency.

    b. Like-for-like replacement of an asset is often not the best solution, either in terms of performance or value for money, because the requirements of the infrastructure may have changed since it was first installed and/or because technology has moved on. Also, in some cases, legislation will have moved on, imposing additional requirements. These factors mean that it is more important to consider overall value for money when assessing efficiency rather than a simple unit cost of the renewal.

    c. Small scale improvements as part of a renewal (e.g. additional renewal scope such as higher speed S&C replacement rather than like-for-like) that have support from operators should not be considered as inefficiency. This is something that the framework should help achieve rather than being resisted. At present, ORR's measure of efficiency could have the unintended consequence of dis-incentivising such improvements.

d. When Network Rail is planning the best way to undertake renewals work, it considers not only the cost of the work, but also takes into account Schedule 4 costs (a proxy for the impact on train operator revenues). Thus, Network Rail takes a wider view in minimising overall cost when planning work, whereas the ORR efficiency assessment is based on the direct cost of the renewals only and does not consider broader end user impacts.

15. Renewals often present once in a generation opportunities to do significant work in an area and, with a growing demand on the network, the industry considers these opportunities should be taken. Network improvements and, for example, the introduction of faster trains, may have taken place since the infrastructure to be renewed was first installed. As a result, it is sometimes necessary to replace the asset to a higher specification just to maintain current performance.

16. The focus of renewal work should be on doing the right work within the money available to deliver the optimal balance of reliability and capability of today's railway whilst not prejudicing future condition/sustainability for tomorrow's railway. The focus should not be to achieve the ORR assumed volumes.

Access planning

17. Optimising the access required to carry out renewal work will be key to achieving greater renewals efficiency in CP6.

18. But gaining access to the network to carry out renewal work is complex and requires a trade-off between competing demands. There is a trade-off between long possessions that are more efficient for engineering work versus shorter possessions that are less disruptive for passengers and freight users.

19. There is also a balance required between access for renewal work and that for the major enhancement programmes. In recent years, because of the size and importance of the enhancement programme, it has benefited from many of the major access periods at Christmas and other holidays, leaving fewer opportunities for efficient access for renewals.

20. There is also a balance to be struck between the quantity of work to be delivered in a possession, to maximise efficiency, and the risk of overruns that can have a significant impact on customers and the reputation of the industry.

21. It is not realistic to have detailed renewal plans for the whole control period set a year before the start of CP6. However, it is important to agree access plans at least a year ahead as this is important for efficiency and for operators to plan their businesses, and once planned should not be changed if at all possible.

22. Access was identified early in CP5 as a key area where better cross-industry collaboration could unlock efficiency savings. A key finding from cross-industry work carried out early in CP5 was the importance of involving operators and the supply chain early in the definition and evaluation of possible access options. Greater industry co-operation will be a key element in improving efficiency in CP6 and in providing increased transparency of access decisions (e.g. where the right option for the industry might be a higher construction cost).

23. Access to the track to deliver works has a significant influence on renewals efficiency. Network Rail has six ongoing workstreams, building on the Industry Access Programme (IAP) initiatives started earlier in CP5, to address this issue. It includes working with franchise specifiers to better reflect access needs in franchise competitions and contracts with train operators. Network Rail works with train operators to identify how best to package works and access, to balance the need to run trains and undertake engineering work. For example, in the Tunbridge Wells area, Network Rail and Southeastern worked together to extend engineering access early in the week, enabling reduced access towards the weekend so that there was less disruption at the times when demand was highest. This enabled Network Rail to eliminate a maintenance backlog and increase revenue for Southeastern.

24. Network Rail's access planning workstreams mentioned above cover the following areas:

    - improved access agreements;
    - safer and faster access;
    - blockades versus multi-night / weekend work;
    - right-time starts;
    - contingency;
    - fixed access windows.

25. Local collaboration between Routes and operators is important for improved access planning. A good example of where this worked well was the Reading project. Although this was an enhancement and not a renewal project, the principles that were followed provide a useful lesson on how the industry believes this can be taken forward more widely as route devolution becomes established. The original access arrangement proposed by Network Rail for Reading was for a series of nine weekend all line blocks, as this was the normal preferred possession strategy at the time. However, given the scale of the project, and the complication that after each weekend the full railway would not be available, Great Western and Network Rail looked at alternatives and identified that the work could be completed in one nine-day blockade and that this was achievable over Christmas. This approach saved £10m. A number of mitigations were put in place including ensuring that some trains could continue to serve London using alternative stations and diversionary routes reducing the amount of bus replacement needed. Working together on the approach and on activities such as customer communication, the work was successfully executed. It gave the project team the confidence to repeat the approach, shortening the overall project by a year. Although this is an example from a few years ago, the approach has continued to be used on Great Western.

26. Another example of good local collaboration is where Greater Anglia have recently agreed changes to Sunday services on the Felixstowe branch to allow upgrades that support extra freight capacity, and indirectly reduce the likelihood of passenger service disruption at busier times. Network Rail and train operators would be happy to provide further examples of effective collaboration.

27. The purpose of giving the examples mentioned above is to show that good local collaboration on access planning leads to more overall industry efficient outcomes. We recognise that this local collaboration is not yet as widespread or effective as we would like, but we are certain that Network Rail's Transformation Programme and route devolution will lead to improvements and better joint local working. The key principle is the importance of early and effective planning and collaboration between Routes and operators to bring track and train closer together.

28. It is also important that funders, franchise specifiers and the ORR are supportive of the industry in tackling access issues, particularly where optimising access requires adjustments to services or bespoke negotiations on compensation.

29. We support the ORR recommendation in paragraph 34 about the need for better data and analysis on the availability of access, possession productivity and scope of work delivered. This will give a clearer understanding of true efficiency, where improvement opportunities are and whether they are achieved. We would like to assist with the work to develop the most suitable leading indicators described in paragraph 35 of the ORR consultation document.

Incentives for network rationalisation

30. In some cases, there is a good business case, with support from operators, to remove redundant switches and crossings or other infrastructure that results in a saving in ongoing maintenance and renewal costs. The upfront cost of removing assets can be significant, but we would not want there to be a dis-incentive - either due to lack of funding or because of how efficiency is assessed - in carrying out this type of beneficial investment. It is also, currently, difficult to achieve network optimisation as part of network change.

31. There should also be a mechanism that incentivises train operators to work with Routes to identify where infrastructure savings can be made. The Route Efficiency Benefit Sharing mechanism (REBS) was introduced by the ORR to do this. However, as industry members have previously

noted, the current scheme has not worked. This is because it covers a very wide set of costs that operators have little knowledge or understanding of, the risk of downside payments is too high and the baseline is set too far in advance. The industry is discussing an option for a more bespoke arrangement that could be agreed between operators and a Network Rail Route on a project by project basis.

Efficiency plans

32. The ORR consultation is largely backward looking at what have been the causes of renewals inefficiency in CP5, but the industry is clear that it needs to learn from CP5 and build on some of the initiatives (e.g. on access planning) already started, to focus on changes that drive improvements in planning and delivery of renewals.

33. Route devolution will help get better Route/TOC/FOC engagement at a local level and help to produce better plans with greater levels of transparency and understanding across the industry. Through better TOC/FOC input, those plans should be better informed by customer needs. Devolution is also creating a strong network system operator that will play a crucial role in the access planning process. These changes are not easy to establish and will need time to become fully effective. We believe that better local collaboration will help improve planning, by getting operators and Network Rail working together to a greater extent than occurs today to consider the optimal solution for the access needed to deliver a renewal efficiently.

34. Network Rail's transformation and devolution to the Routes enables local efficiency plans to be developed with operators in a more coordinated and effective way, balancing the needs of passengers and freight users (through a strong TOC/FOC voice) with the need to maintain and renew the network in as efficient a way as possible.

35. Network Rail will set out its efficiency plans for CP6 when it publishes its Strategic Business Plans later this year and so until then we cannot describe specific details. However, some of the key areas of transformation and broad focus for renewal related improvements in future include the following:

    - Increased and better, more productive, use of access to the railway, including through improved local collaboration between Routes and operators to bring track and train closer together. See also the earlier section on Access Planning.
    - Locking down access requirements and workbank stability.
    - Increased use of remote condition monitoring equipment, including train borne devices on passenger service trains, that enable more asset information (and at lower cost) and better targeted interventions.
    - Faster and safer electrical isolations.
    - Rail milling plant that allows rails to be re-profiled to prolong asset life.