Rail Delivery Group

Response to

ORR's consultation on assessing Network Rail's efficiency and wider financial performance in CP6

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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. The RDG welcomes the opportunity to respond to ORR's consultation on assessing Network Rail's efficiency and wider financial performance in CP6. We confirm that we are content for this response to be published on the ORR website.

2. A key proposal in the ORR consultation is to improve the understanding of efficiency of Network Rail's Routes. We fully support this.

Discussion on the Proposals

3. We agree it is important to assess efficiency separately for each of Network Rail's Routes and to report this. Network Rail believes the best way to do this is to retain the financial performance measure (FPM) in Route scorecards, but some operators consider the FPM is too complex and hence less value to them. However, the industry agrees that the assessment should be supported by other analysis and information to provide a more rounded and forward-looking view rather than relying on a single approach. We also support the ORR proposal (paragraph 5.11) that Network Rail's internal budget would be a better baseline for assessing FPM rather than the ORR determination assumption.

4. Network Rail is considering improving its reporting in CP6 including the following proposals that we support:

   - greater analysis of causality to provide greater understanding of changes in cost;
   - better identification of exogenous factors the company faces;
   - more focus on efficiency plans for business units;
   - more discussion between the regulator and the Routes to establish appropriate supporting measures, based on the risks and issues that matter most in those areas.

5. We believe that as far as possible a whole industry approach should be considered when developing efficiency. 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 operate, maintain and renew the network in as efficient a way as possible.

6. The ORR consultation proposes a move away from technically precise measures that stakeholders felt were confusing, to a more rounded and forward-looking assessment; we support this. However, the document also refers to a wide range of detailed measures that appears to increase the complexity of the assessment.

7. We consider that the more rounded ORR assessment could include monitoring delivery compared to the initiatives, efficiency plans, activities and costs assumed in Network Rail's business plans.

8. Unit cost analysis could be a useful way of identifying areas of good practice between Routes and to help track delivery compared to assumptions in Network Rail's business plans. However, the ORR should be mindful of not placing too much reliance on unit costs because they can be misleading. This is because variations in unit costs do not necessarily

reflect efficiency, but instead are influenced by other factors. To illustrate this, renewal work is not uniform, as location and the availability and timing of access are major determinants of cost.

9. Similarly, it is also important to note that 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. Hence a higher unit cost is not necessarily inefficient.

10. Another potential issue about relying on unit costs relates to the adverse incentive effect this can have on Network Rail. For example, it can:

    - incentivise carrying out extra (potentially unnecessary) renewal work as part of a project to help to lower the unit rate;
    - incentivise selecting renewals with favourable unit rates (easier jobs or more favourable access);
    - incentivise renewal versus maintenance decisions which may not be the optimal whole life cost solution for assets.

11. The consultation document focuses on the efficiency assessment of Network Rail's operating Routes. However, we believe it is also important that there is a separate assessment of the System Operator (SO). The costs involved with the SO are relatively small and there is widespread support across the industry for increased funding for a well resourced SO function. Hence, we consider that the assessment should place greater emphasis on the outputs, such as providing a quality service, rather than an assessment that drives the lowest cost.

12. We are aware that ORR is proposing a change in indexation from using RPI to using CPI. We would not want this change to provide an additional efficiency burden on Network Rail, if for example, Network Rail's costs were more in line with RPI and income increased by a possibly lower index using CPI.

13. In the response to the autumn consultation on improving renewals efficiency, the industry stressed the importance of adequate and stable funding; i.e. efficiency targets should not be so stringent that they are not achievable as this leads to re-planning workbanks and inefficiency.