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Our ref:  
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Dear Paul

### **ORR Consultation: Network Rail's Strategic Business Plan**

Thank you for the opportunity to contribute to the ORR's consultation on Network Rail's Strategic Business Plan (SBP). We welcome the SBP as a further milestone in the Periodic Review process, as it sets out Network Rail's plans in greater detail than the ISBP of July 2006; and as a development process that the ORR has led and scrutinised.

Aspects of the SBP reflect Network Rail's commitment to move towards delivery of a world class railway system. This is a welcome shift in emphasis and we would look to the ORR to set challenging outputs that reflect these aims.

We have already responded on the technical consultation managed by Network Rail on the Structure of Costs and Charges. This response should be read in the light of that reply. We offer the following comments on your consultation document on the SBP – where appropriate noted against the relevant page or paragraph in the SBP :

#### **Overall strategy**

1. Scottish Ministers have clearly stated, through the HLOS, their expectation that Network Rail should contribute to achieving the three strategic outcomes from the National Transport Strategy and Scotland's Railways, including improving journey times and connections. This is reflected in a number of places within the SBP, but principally in the context of the additional enhancements that potentially could be taken forward under HLOS Tier 3, depending on available funds. Elsewhere journey times are either discussed in the context of more reliable timetabling, reduced emissions or through the deployment of different rolling stock. For example, there is no mention of reducing journey times under the "Vision for the rail industry" (p23), where we believe Scottish Ministers' reasonable requirements should have been reflected. It is our perception that Network Rail have responded to the performance and sustainability aspects required by DfT Ministers in considerably more detail than the journey time improvements specified by Scottish Ministers.

2. Improving performance is generally suggested to be achieved through more robust timetabling, including in some cases (p183) longer journey times. The latter is not an option in relation to the Scottish network - Ministers have clearly set out both in strategic terms in *Scotland's Railways* and specifying through the HLOS that the improvement of journey times is a top-level strategic outcome for Network Rail to deliver, therefore extending journey times in Scotland would not be an appropriate means of improving performance and would not meet either the Policy Context of the HLOS or the Tier 1 specification on the maintenance of network capability.

3. The SBP puts forward opportunities to simplify the timetable planning process through the rollout of the Integrated Timetable Planning System. There is no detailed explanation of the implications of this

process for the Scottish railway. Timetable planning systems can incorporate priorities within their algorithms and methodologies. We wish to be assured that the timetable planning process as applied in Scotland reflects our different priorities, especially with respect to improving journey times.

4. There do not appear to be any specific line speed improvements proposed for Scotland. Given the requirements of Ministers for maintained or improved journey times, and the overall direction of the SBP towards a risk-minimising approach to performance and timetabling, it is surprising that these were omitted.

5. We welcome the focus on reducing delay to freight trains by around 25%. We will continue to work with Network Rail and the rail industry to support opportunities for the expansion of freight services in Scotland, recognising that there are opportunities emerging with Tier 3 projects to expand capacity and extend the scope and viability of electrified freight traffic.

### **Performance improvements proposed by Network Rail**

6. We welcome Network Rail's declared view that the Scottish PPM target, as identified in the JPIP and used for developing the HLOS targets, will be met, including a moving annual average of 90.3% by the end of the current Control Period.

7. Network Rail have concluded that their asset management policy, maintenance plans and enhancement proposals will improve PPM by a further 1.6% by the end of CP4. We would wish to be reassured that the underpinning analysis of this is robust, as delivery of this improvement to performance would support commitments to overall improvements made by First ScotRail in their franchise.

8. Network Rail note that timetables will require revision as a result of the major infrastructure enhancements in the Central Belt. The SBP does not address any performance implications explicitly, and we assume that the opportunities for revision will not have a negative impact upon either performance or journey time.

9. In the SBP Network Rail argue that utilising longer trains to address traffic growth adversely affects PPM by 0.2%. **It is not clear that this is a universal, let alone inevitable, consequence of longer trains. There is no distinction made between England and Wales and Scotland and clarity will be needed as to whether this is based around disaggregated performance modelling universal or is an extrapolation from a high-level. Assurance is also needed that mitigating measures, other than journey time extension, have been considered to address this issue where it arises.**

### **Plans for enhancing capacity**

10. We are content that the SBP reflects the level of demand growth set out in Scottish Ministers' HLOS. It also considers how robust the network will be if this level of growth is exceeded, as it has been in some recent years. The supporting document on current passenger demand repeats in several places that 'some passengers on the Glasgow Queen Street to Edinburgh Waverley route have to stand for the entire 50 minute journey', which was originally included in the Scottish RUS on the basis that average loadings on the route at peak times are 69% and therefore this could occur. We are concerned at the validity of this assertion. Our own experience is that this does not happen except where a train is cancelled, there is significant service perturbation, or trains are run short-formed.

11. Scottish Ministers gave clear directions on the top priorities for Tier 3 projects in the HLOS. We would expect these priorities to be worked through feasibility, design and development stages during CP3 and, as far as possible, all delivered or in process of implementation during CP4, provided funds and industry resources permit. The currently assumed cost of Scottish enhancements in the SBP equate to around 5% of the England & Wales programme. However, we would expect the April SBP refresh to reflect additional costs for Tier 3 projects, such as Edinburgh-Glasgow electrification and Inverness-Perth improvement, as they become more defined and developed. In assessing the deliverability of the SBP it is important for the ORR to ensure that Network Rail are capable of delivering Scottish Ministers' outputs in CP4, and that equivalent importance is given to ensuring that both principal funders' priorities are accurately reflected.

## Proposals for managing safety

12. We welcome the overall approach to managing safety. The SBP contains appropriate detail and takes proper account of the RSSB strategic safety plan and working with industry partners in achieving the outcomes.

13. A correction is required on pages 22 and 34, which states that the Secretary of State for Transport's HLOS specifies a reduction in safety risk. Legislation such as the Health & Safety at Work Act specifies that the duty holder should maintain safety risk as low as reasonably practical, therefore it is incorrect to state that the HLOS specifies a 3% reduction in safety risk. The SBP should state that the HLOS has a target of reducing safety risk by 3% (as correctly stated on page 174 and page 177).

14. The SBP is silent with respect to the major changes to the approval of safety introduced in 2006 with the publication of The Railways and other Guided Transport (Safety) Regulations 2006 and The Railways (Interoperability) Regulations 2006. We would have expected Network Rail to set out how it intends to implement these regulations and address its changed responsibilities, as they change the role of Network Rail from an approvals authority responsible for reviewing imported risk from train operators and approving their operation, to a new role where Network Rail publishes the network capability to allow train operators themselves to determine the compatibility of their own rolling stock with the track capability. In this new regime Network Rail and train operators must cooperate to manage risk, with each organisation retaining responsibility and liability for its own undertaking.

## Approach to managing assets

15. We support the principle that the collective totality of assets should be managed on a minimum whole railway system, whole life cost basis. Network Rail need to clearly define "business risk" and more particularly how this differs from "rail industry risk", which is the position they are mandated to oversee. The definition of the former will govern whether or not there is a divergence between the policy set out on balancing of overall asset condition levels against the consequences of asset failure on the whole-life, whole-system cost of managing the assets.

16. We believe that the whole-life capability and functional requirement of any asset should be directed by the output of the industry, however further explanation is necessary on the weighting applied to the company-based business decision processes that will also be used in this assessment.

17. We note the aspiration to ensure compliance with ergonomics policy and also note that optimising operability and maintainability through the design of assets and asset systems will not always naturally occur concurrently.

18. We welcome the use of standard designs, products and techniques to continue the efficiencies that Network Rail are tasked with achieving, however this should not be used as a means to restrict technical innovation and progression that the industry should be seeking to embrace. The risks of diversification should not be used as the only key barrier to the identification, development and approval of new asset products. It is also important that the delivered unit costs of standard designs achieve real savings when compared with previous or other existing designs, otherwise the cost of development of a new set of standard designs will not be justified. Use of "off the shelf" designs in use on other railways or comparable applications should be considered, since access to larger supply bases may offer better efficiency opportunities than new Network Rail standard designs. Station designs may provide a good example of this, and lessons learnt about the high unit costs which emerged from the Modern Facilities at Stations programme illustrate the diseconomies which can emerge from adoption of new standard designs. In addition, new bespoke Network Rail designs should not be pursued where these duplicate, or conflict with, emerging standards through the Technical Standards for Interoperability process.

19. We would wish to know how Network Rail anticipate handling the management of asset obsolescence. We believe that the overall engineering maintenance strategy of measuring deterioration trend and arranging intervention on a planned basis before asset loss of functionality or capability is appropriate. However, in terms of Predict and Prevent (p61), there are references to innovations, but no targets as such.

20. The decision on timing of individual asset replacement should include consideration of replacement timing of other assets at a location. The economic justification for premature replacement or life extension will need to be clearly defined and should ensure that there will be no avoidable adverse impact on train service delivery.

21. We welcome the consultation process proposed for the definition of renewal and enhancement opportunities. Enhancement of assets or their management within their maintenance period should be considered against the rail industry risk and opportunity evaluation taking into account in the whole railway system. Railway access constraints, whilst needing to be considered in the asset and asset system design, should not be seen as the overriding factor restricting an innovative solution being achieved.

22. The asset management policy for telecoms gives rise to some particular concerns. There is little recognition of the role of telecoms in supporting TOC requirements, for example retailing systems; and the SBP does not recognise explicitly the potential for telecoms policy to support passenger voice and data communication requirements. World class railways increasingly facilitate consistent and reliable voice and data communications for passengers. Coverage for the passenger on the Scottish network remains very poor. In the context of a significant re-investment in communications equipment through the GSM-R and FTN projects, this lack of consideration of passenger needs is odd.

23. It is not clear how much of the proposed expenditure to complete the GSM-R and FTN projects is consistent with the efficient cost for this project determined in the review for CP3; and how much constitutes an increase because efficiency targets for delivery of these projects have not been met thus far. If an increase in overall funding is proposed, the opportunity should be taken to give proper consideration to meeting passenger requirements as part of this more expensive project.

24. It is suggested that the radio system which supports RETB will be decommissioned during CP4 (para 2.16, part 9 of the Asset Management document). In the absence of a proven efficient replacement for RETB, this is a concerning proposition, which would have a significant impact on the operation and economics of much of the Scottish rural network.

**25. Whatever the merits of individual asset policies, it is the sum total of their impacts that needs to be considered at this stage of the Periodic Review. We note with considerable concern that the total effect of the application of the asset management policies is an increase in proposed maintenance and renewal costs in Scotland. Given that asset condition and performance in Scotland are in many instances better than equivalent outputs elsewhere, and that performance levels have been improving within current levels of expenditure, it is surprising that an overall increase is proposed. It is not clear if the proposed expenditure levels take sufficient account of current asset conditions in Scotland, as distinct from generalised workload predictions from GB-wide models. This concern is related to and compounded by the absence of meaningful workbank details for Scotland, which we would expect to be available by this stage in the planning process (see also Deliverability below).**

### **Scope for improvement in efficiency and delivery**

26. Within the context of the wider SBP, we recognise that Network Rail have delivered significant improvements in efficiency during the current control period and look forward to the achievement of the regulatory outputs set in 2004 as a basis for moving forward. The transformation of the organisational culture is not complete and therefore further challenging targets will encourage the continuation of development of best practice and innovative ways of working.

**27. The SBP as a whole sets out in considerable detail Network Rail's plans for all aspects of its business (OMR and E) while suggesting that the level of efficiency gain achievable in CP4 is significantly lower than the estimates supplied by ORR to Ministers in February and May 2007, even at the lower end of the ORR range. We will look to the ORR to continue its challenge, scrutiny and understanding of Network Rail's assumptions, especially with respect to the volume and unit costs of Network Rail activity, both for the core OMR activities and for Scottish Ministers' major projects and the implementation of *Scotland's Railways*.**

28. The achievement of frontier shift should be a requirement for Network Rail. We recognise that there have been achievements in both stabilising the business and delivering efficiencies since the

company was established, but we believe that Network Rail should continue both to innovate in-house and to evaluate and implement international best practice to ensure that new technology, working practices and asset management are optimally integrated with the delivery of network outputs. This would be consistent with Network Rail's aspiration to take a leadership role.

29. In particular, we consider that Network Rail's project development timescales and levels of overhead offer significant opportunities for a step change in efficiency. Network Rail processes seem to have been optimised to secure central control as a means of risk minimisation. This was appropriate during the early stages of re-building capability within Network Rail. However, the price of this control has been extended development periods for even straightforward projects, and an expensive overhead. Our experience of Network Rail processes contrasts with that of dealing with TOCs and other rail industry suppliers where swifter and more responsive project structures are the norm. Transport Scotland is aware of evidence compiled by ATOC which asserts Network Rail costs for car park projects to be more than three times those of comparable projects delivered by TOCs. This is consistent with Transport Scotland's experience across a broad range of projects.

30. A further opportunity for process frontier shift is offered by a move from bespoke project planning for each new renewal or enhancement towards a recognition that much of this work comprises the same tasks, but in different locations. A move to a "production line" rather than bespoke approach would permit significant reduction in project set-up and preliminaries costs.

31. Network Rail's industry planning role requires it to work with funders and operators to maximise the benefits and value for money of the rail network. The SBP takes this into account and we anticipate that future development of Network Rail's business planning processes will deliver a more responsive and faster-thinking organisation.

### **Possessions strategy**

32. Transport Scotland has supported the industry-led initiative to examine the opportunities around engineering access to the network and welcomes its inclusion in the SBP. At present there are no specific projects allocated to delivering the Seven-Day Railway and we would anticipate that ORR will wish to determine whether associated outputs are also required and planned for to deliver Scottish Ministers' high-level requirements set out in our HLOS.

33. We welcome the recognition that disruptive possessions need to be planned: we note that there is no direct reference in the SBP to Ministers' requirements set out in the HLOS to ensure that at least one route from Central Scotland to London is planned to be available at all times, and anticipate that this will be included in further updates to the planning cycle. We welcome the improvements made to information both to operators and customers, but stress that this is an issue of continuous development to take into account new technology and changing customer requirements from the rail network.

34. As part of Network Rail's overall efficiency we anticipate that productive time during disruptive possessions will be maximised and that operational practices will be kept under review to ensure that maximum benefit is derived from engineering time. We believe that this supports greater availability of the network, and welcome ORR's and Network Rail's proposals to ensure that network availability is a KPI for CP4.

35. The Seven-Day Railway concept encompasses a wide range of initiatives. Transport Scotland anticipate that these will be appraised using standard techniques to determine which are applicable to particular routes and which deliver the best industry business case. In some cases, the maximum value for engineering access may not be achieved through the complete application of the concept, for example where diversionary routes exist between major markets and where longer possessions on one route may deliver better value, or where there is a significant seasonality to demand patterns and disruption can be confined to times of low passenger and freight demand.

36. We do not consider that the proposals as set out in the SBP are fully developed. In many cases there may be a clear commercial case for implementing initiatives currently defined under the Seven-Day Railway heading, in which case funders would not anticipate any additional call on expenditure. For example, the use of assets and staff every night of the week, rather than just in weekend blockades, should offer improvements in asset utilisation. **It is not clear why the net impact of a move to the Seven-Day Railway should be an increase in cost; and there does not appear to be sufficient**

**evidence in the SBP to justify this assertion.** If there is a whole-industry case that wider benefits would be delivered through changes to possessions strategy or technology, then we would anticipate that these would be assessed using standard appraisal methodologies.

### **Strategy for stations**

37. There remains a tension about whether Network Rail or the relevant TOC is best placed to carry out maintenance and enhancement activity at stations efficiently and economically and whether the balance of responsibility is right under current lease and future proposed leasing and charging arrangements. The SBP does not specifically address this issue.

38. It is the experience of Transport Scotland that comparable investments in station facilities are delivered significantly more efficiently by a TOC than Network Rail. This includes quotes received from TOC and Network Rail for the same work where TOC costs proved several times cheaper than Network Rail estimate. Typically, delivery timescales are faster through a TOC. The contractual basis of maintaining station standards through a TOC has proved effective, especially where reinforced by efficient quality inspection regimes. In the light of this experience, we do not consider that a case can be made for the transfer of any further responsibility for stations to Network Rail. Indeed, we would be interested in options to move responsibility from Network Rail to the TOC.

39. Related to this point, page 71 of the SBP states that up to 15 stations meet Network Rail's criteria for managed stations status. No supporting list is supplied and it would be appropriate for any stations that fall under Scottish Ministers' funding to be identified.

40. Parties external to the rail industry can find working with Network Rail very difficult. The SBP does not set out how Network Rail intend to improve that situation to streamline their strategy for stations where third parties are involved. We believe that behaviours should be appropriately incentivised to ensure best practice is rewarded.

41. Network Rail's internal approvals processes at local and national level seem to be causing difficulty in terms of clarity and delivery to reasonable timescales, both for Network Rail and other parties. The SBP provided an opportunity to demonstrate how those processes could be streamlined and made more fit for purpose.

42. For asset degradation, the discussion around the number of categories and appropriate levels of maintenance at both do not seem a back-to-back approach to our investment at stations and aims for the network (p69). Reference to "beginning to" establish a vision for world class station services (pg 70) is concerning in this regard

43. We would wish to see a better definition of "redundant" property (p69).

### **Needs of the railway customer and market beyond HLOS**

44. Since the TOCs, FOCs and Passenger Focus will be responding in their own rights to the SBP, we have not looked to replicate their agendas as we perceive them. Rather, we have referred to the Policy Context element of the Scottish HLOS, which highlights Scottish Ministers' aspirations for the rail service.

45. The SBP executive summary has a reference (pg 2) to rail being well placed to continue winning market share. Overall, there is little in the SBP that specifically targets the creation of more demand and growth beyond better performance and few targets actually set. The tone is much more of response to growth and accommodation of it, rather than driving it. For example, it is known that improvements to journey time typically increase rail market share, and the absence of such proposals is a concern.

46. Network Rail comment that their approach is always to operate in the best interests of passengers day-to-day rather than to follow metrics (p12) – this represents a challenge to the ORR to set appropriate targets and metrics for CP4 that minimise the potential conflict between service delivery and regulatory outputs.

47. Network Rail has commented on their role to consult with stakeholders and the importance of stakeholder satisfaction (p23). There is however little written on the feedback loop that must then exist to

test satisfaction in respect of the new processes to be introduced to drive service improvement. We would have expected, therefore, that this would have been considered as one of the areas to be addressed in Network Rail's policies and strategies set out on page 52. Additionally, further details on the performance management system to be adopted would have been helpful.

48. The ORR should seek clarity on the definition of what "making rail travel more accessible to all" in a social context means (p55) – is this restricted to purely physical accessibility of the rail infrastructure?

### **Deliverability of Business Plan**

49. In addition to the test of necessity of the proposed CP4 workplans, we require to be assured that the work planned in Scotland in CP4 is credibly deliverable. We do not consider that the SBP and supporting documents provide evidence to permit this assurance.

50. We have requested, but not yet seen to date, the detail of the particular renewals Network Rail intend to undertake in Scotland within the first two to three years of CP4. Given current development timescales inherent in the GRIP process, we would have expected material development work already to be underway for such projects. The absence of plans in sufficient detail suggests that the forecast work will not be delivered, unless lead-times are to be significantly reduced from current norms.

51. We wish to be assured that the proposed project programme for Tier 1 and Tier 2 outputs has been analysed for resource requirements, and that these requirements do not assume implausible or risky change rates for the development and supply of critical resources.

52. Further assurance would be provided by an analysis of work volume rates delivered to date in CP3, anticipated by the end of CP3 and implicit in CP4 funding proposals. We wish to be assured that workload growth rates implicit in this programme are plausible.

53. In the event that such analysis reveals resource limitations may constrain workload in CP4, we would wish to be consulted on choices between elements of Tier 1 work and Tier 2 outputs, having regard to the priority which Scottish Ministers attach to Tier 2 outputs.

I sincerely hope that these comments are seen as constructive and helpful. I or my staff would be very happy to discuss any queries that you may have concerning this reply. In the first instance, please contact Gillian McCole on 0141 272 7114 [chief.executive@transportscotland.gsi.gov.uk](mailto:chief.executive@transportscotland.gsi.gov.uk).

Yours sincerely



**MALCOLM REED**