consultancy engineering business environment

Network Rail's Strategic Business Plans for Control Period 6

ACE response

March 2018

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Consultation timeframe

ACE is disappointed by the short timeframe provided by the Office of Rail and Road (ORR) to respond to this important consultation on Network Rail's initial proposals for investing £47.9 billion in the rail network from 2019 to 2024. The consultation is seeking feedback on nearly 1800 pages of regulated plans published by Network Rail yet only provides 14 working days to respond.

We acknowledge the delay on the Statement of Fund Available (SoFA) for Control Period 6 (CP6) and the knock-on effect for Network Rail's planning. However, the reduced planning time along with challenges experienced in the current control period warrants an increase in industry engagement to help develop the final plans for CP6. The short timeframe does not allow industry to truly share its experience and feedback on proposals for the final CP6 plans. The short timeframe does not align with the UK Government's stated consultation principles, particularly given the scale of investment discussed in the plans.

We have decided to provide high-level feedback on Network Rail's summary of CP6 strategic business plans. We are not in a position to endorse the strategic business plans one way or another and can only offer our views on the high-level summary. Additionally, we have included feedback from two 'deep dives' of regulated plans for Infrastructure Projects (a national function) and the Anglia route. Feedback from these reviews may be applicable to other regulated plans.

Targeting rail investments to maximise benefits

The rail network is one of the UK's most valuable infrastructure assets, providing critical connections between the country's cities, towns and villages. These connections deliver a range of social and economic benefits for businesses and communities across the UK. The rail system is also an important part of the UK's global brand, given its iconic status around the world.

Given the unparalleled social and economic benefits, the UK rail network must be seen as a key growth enabler for regions across the country. Any investment in the UK rail network should have this as the primary consideration by focusing on how it can unlock growth, productivity and jobs across a region.

The rail network also acts as an important link between other transport modes. Intermodal transport connections are facilitated largely by the rail network with many of the country's major airports and ports being connected by rail. We must consider how rail investments can impact other transport modes and pursue options with the broadest benefits.

In order for benefits of the rail network to be fully realised, there needs to be a sufficient and sustainable funding programme in place that can deliver within proposed timeframes. Failure to deliver rail projects to time and budget has the potential to not only have a negative impact on the rail network but will also hinder most aspects of the UK economy. The importance of carefully considering how we invest in the UK's rail network cannot be underplayed.

Response to summary on Network Rail's CP6 plans

Network Rail's key responsibilities

ACE agrees with the key responsibilities outlined by Network Rail. These target all of the right areas and deliver on the needs of rail industry, wider businesses and the general public. Below are our key recommendations on Network Rail's responsibilities, most of which are also discussed in detail in our submission.

Responsibility	Recommendation
Safe network	Include targets on cyber security breaches, similar to the safety targets
Reliable railway	Work with TOCs on data sharing to improve passenger experiences
Efficient network	Embracing digital technology must be a core focus in CP6
Growing network	Highlight projects open to third party involvement in enhancements pipeline

Safety targets

Improvements in the last 50 years in terms of passenger and workforce safety have been positive. Network Rail should build on this success and further strengthen safety standards over CP6 by continuing to invest in enhancing safety for passengers, its workforce and the wider supply chain.

An area requiring more attention is trespassing. Trespassing incidents have risen by more than 30% since the start of Control Period 5 (CP5), and we recommend Network Rail implement new measures to tackle the problem. For example, Network Rail could do more by targeting investments to improve the security of the rail network in problem areas and informing the public about dangers of trespassing.

Asset reliability and sustainability

In order to improve asset reliability, ACE recommends Network Rail explore ways to capture more data. For example, where Wi-Fi is available on trains, Network Rail could request franchises to share this data to improve the reliability of the rail network by identifying failure trends and targeting maintenance investments in these areas. Network Rail's procurement approach should be focused on ensuring new assets or upgrades to existing assets can create data to inform investment decisions.

ACE is also concerned CP6 investment decisions are too dependent on Network Rail delivering on efficiency savings. An increase in rail infrastructure funding is welcomed, however we believe efficiency targets should be achievable to ensure CP6 plans are deliverable without any funding gaps towards the end of the control period.

Technology and digital railway strategy

Research and development (R&D) funding in the rail sector is very low compared to other sectors, and Network Rail must play a more proactive role in increasing R&D investment.

45% of Europe's congested railways are in the UK. Our solution in the past has been to build more infrastructure but this is no longer a viable option in many places. We need more capacity and more reliability, and to find it at lower cost than traditional methods. Reporting on the consensus of the industry as we find it, the view is that digital railway is the only way we can achieve this. In the next three control periods, 63% of signalling needs to be replaced or renewed. We must take the opportunity to install modern digital systems rather than replace with another generation of traffic lights, and the process of full transformation must commence in CP6.

There are many challenges and disruptors to the rail network in the UK and the rail industry does not have a divine right to survive. The Department for Transport (DfT) noted a 9.4% annual drop in season ticket sales between July and September last year, and ORR show season ticket journeys for the same quarter were at their lowest. Digital railways are about providing a connected, intelligent and integrated service to customers so they know where they are going, how they will get there and what their choices are. If the rail sector does not embrace these new technologies, customers will move to other forms of transport which are providing a better customer experience through modern practices. Every opportunity must be taken to invest in digital technology and digital readiness in CP6 and Network Rail's proposed digital funding pipeline is a step in the right direction.

Potential further investment

The Group Portfolio Fund is not a sustainable means of funding control periods in the future. ACE recommends Network Rail and the UK Government explore ways of increasing the probability of delivering on control period plans independent of support from this fund. Network Rail should be aiming for far greater efficiency to ensure the risk of overspending is reduced. This could be achieved through closer collaboration with industry and ensuring the rail supply chain is engaged and consulted early in the process.

There is also an opportunity to move away from the delivery of schemes and assets (and the hope they add up to a timetable change or a new rail service) to investments that optimally and efficiently deliver the capability. Such an approach would ensure the constituent parts, including people, are coordinated thus delivering revenue collecting services more quickly and with less waste. ACE recommends DfT consider piloting a capability investment approach.

Efficiency requirements and headwinds

Targets set out in the plan for delivering efficiency must be challenging but also achievable. The plan should discuss how the targets are structured noting the headwind of 2% may be required simply because the real terms efficiency target of 10% is too high.

ACE also believes there is a strong case to reinvest efficiencies back in the rail sector to help spread the benefits of savings from a more productive rail industry.

<u>Operations and maintenance efficiency</u>

Over the last two control periods, Network Rail has reduced operating and maintenance costs per passenger kilometre (pkm) by around 40%. A saturation point may have been reached in terms of a blanket efficiency target approach and we recommend the Government look at applying efficiency targets on individual schemes and assets, as this is a smarter and more targeted approach to finding savings.

<u>National functions efficiency</u>

ACE supports an approach to find efficiencies within Network Rail's national functions, particularly if this results in more funding on the ground for rail infrastructure projects. We note there are significant overheads charged by Network Rail and believe finding efficiencies in national functions would help to reduce these costs.

Importance of the supply chain

Network Rail's desire to be an industry client of choice is extremely positive. The commitment to regularly publish an integrated, coordinated CP6 procurement pipeline and engage early and regularly with industry stakeholders is supported by ACE.

Enhancements

ACE supports a longer-term approach to planning enhancements however we would like to see more detail on what this change will entail. A longer-term pipeline that looks at enhancements on a case-by-case basis should also provide further information about a project's funding status, if it is open to third party involvement and the preferred start date. Network Rail should also provide a definition on what "suitably developed" means.

Third party investment

Network Rail's 'open for business' commitment is positive in response to the Hansford Review. The commitment to introduce contestability, enable third parties to carry out projects and streamline third party funding opportunities will significantly improve the rail network if successfully implemented.

Network Rail should take practical steps to encourage third party investment, particularly from Train Operating Companies (TOCs). One way is through a government backed residual mechanism. For example, if a TOC who has a seven-year franchise was in a position to pay 7/40th of asset costs and remaining liability were passed on to the next franchise period, then third-party investment would be easier to justify. A similar mechanism in the past was the 'facility charge' and we recommend its reintroduction in CP6.

Network Rail should also consider redesigning internal processes to be friendlier to third party investors. Currently, third party investors must engage Network Rail Asset Protection resources to 'watch' works via a complex Asset Protection Agreement (APA). The APA generates a lot of paperwork, overheads and delays work. These APAs still need to be in place even when approved competent contractors are used. We recommend the Government should create incentives encouraging Network Rail to embrace third parties where possible. This would encourage a shift in practices to make the organisation a more desirable place for third party investors, particularly when competing against investment opportunities in other sectors.

Deep dive on regulated plans

ACE is not in a position to provide feedback on all regulated plans (close to 1800 pages) within the three-week timeframe for this consultation. ACE have therefore decided to conduct two 'deep dives' on the regulated plans produced by Network Rail. Feedback from these reviews may be relevant for other regulated plans.

Infrastructure Projects strategic plan

Network Rail's Infrastructure Projects Division (IP) should have a more ambitious vision. We believe IP should look beyond the UK's rail sector and strive to be better than similar organisations in other countries and for other infrastructure types, such as roads.

ACE notes there is no strategic objective for IP to deliver their work programme through a simpler and smarter approach. The plan implies that higher value works will continue to have overly bureaucratic processes and procedures by discussing the need to remove these from low risk/low value work. We believe there is a case to simplify and streamline all types of processes and procedures by ensuring they are adaptable, proportionate and result in logical decisions.

IP's plan is too focused on enhancements and should focus more on the renewals approach. As flagged in the SoFA, a significant focus of CP6 will be renewals and it is concerning that IP has flagged their process for allocating renewals work is less defined than enhancements and that there is currently an ongoing engagement process to improve this. ACE recommends IP outline its renewals approach in its CP6 plan to ensure it is appropriately 'stretch-tested' by governments and other stakeholders. The recent work by Ernst and Young recommending changes on how renewals are allocated between IP and routes and the report's findings being 'unsubstantiated' highlight why it is critical for Network Rail's renewals approach to be clear in the CP6 planning phase, as opposed to a deferable issue for the CP6 delivery phase.

When outlining the supply chain strategy for CP6, IP flags its approach has incorporated lessons learnt from CP5. It would be useful for IP to also state these lessons learnt and report progress on solutions throughout CP6.

The plan highlights how IP has engaged with small and medium-sized enterprises (SMEs) to ensure Network Rail's contracting strategy allows for appropriate relationships with SMEs. There is a strong case for Network Rail to have similar engagements with SMEs in the consulting engineering community and we are happy to help facilitate these for Network Rail.

The plan must do more to highlight passengers as the most important stakeholder for IP and Network Rail. IP's plan currently outlines route clients as their primary stakeholders and lists passengers as an external stakeholder. A whole-of-rail sector stakeholder matrix placing passengers at the heart will help create a more customer focused organisation. We believe a passenger focused approach would significantly change IP's stakeholder analysis in its plan and would include needs such as regular and clear communication about works (which not currently included).

The plan has outlined some significant changes internally for IP, primarily a significant headcount reduction at the start of CP6. While these changes may be required to reflect an increase in the number of projects being delivered by third parties and/or by routes, our concern is this isn't resulting in a decrease in the overheads charged by IP. Instead, the overheads charged by IP increases by 1% between the last year of CP5 and the start of CP6 (24% to 25%) and stays at this percentage before increasing to 26% for the last year of CP6. Overheads for IP should be reduced to reflect a reduction of around £250 million in corporate costs between the two periods.

Anglia route strategic plan

The Anglia route plan centres around increasing capacity in the region but does not adequately consider implications for passengers on the network. The plan highlights new schemes that are coming online, such as the Elizabeth Line and Thameslink and suggests that these will increase the capacity of the network. This is true in the sense that it allows more passengers to use Anglia's rail network, but it may also maintain levels of congestion, or increase in certain areas, if the necessary supporting infrastructure is not in place.

There are proposals in the plan that would help ease congestion through the implementation of new technology, however these are not yet funded. Additionally, increasing the capacity of a line to run more trains per hour could have detrimental impacts on rail services as it may afford more opportunities for delays and increase the stress on existing infrastructure. We know from Network Rail's own analysis that 70% of delays are caused by poor reaction to previous delays. Recovering with good information to drivers and other staff would provide a huge improvement. The number of trains currently working to timetable is very low and an effective Traffic Management System would help to transform this situation.

The plan explores increasing levels of East-West connectivity. More could be done in this respect by taking advantage of additional connection opportunities from better East-West connectivity. For example, with the Government's proposals to improve connections between Oxford-Milton Keynes-Cambridge, there may be an opportunity for further connections to Ipswich, Chelmsford and Colchester to drastically improve the economies in these areas. Exploring greater East-West connectivity also presents an opportunity to improve connections in the interior of the region between Cambridge, London and Ipswich, as well as being able to unlock productivity across the region.

It is problematic that currently one quarter of proposed projects in the plan are not fully funded. We would like to see greater detail on how Network Rail will secure funding for these projects. One of these projects includes the rollout of digital traffic management technology on the mainline, key branch lines, the North London line and the West Anglia line. This constitutes a significant part of the region which would benefit significantly from having funding secured for this project.

Finally, the benefits of the region's airports for commercial and leisure activities should be highlighted further. The route plan acknowledges the existence of both Stansted and Southend airports as commercial hubs, however the plan lacks detail on how these links can be improved further by the rail network.

About ACE

As the leading business association in the sector, ACE represents the interests of professional consultancy and engineering companies large and small in the UK. Many of our member companies have gained international recognition and acclaim and employ over 250,000 staff worldwide.

ACE members are at the heart of delivering, maintaining and upgrading our buildings, structures and infrastructure. They provide specialist services to a diverse range of sectors including water, transportation, housing and energy.

The ACE membership acts as the bridge between consultants, engineers and the wider construction sector who make an estimated contribution of £15bn to the nation's economy with the wider construction market contributing a further £90bn.

ACE's powerful representation and lobbying to governments, major clients, the media and other key stakeholders, enables it to promote the critical contribution that engineers and consultants make to the nation's developing infrastructure.

Through our publications, market intelligence, events and networking, business guidance and personal contact, we provide a cohesive approach and direction for our members and the wider industry. In recognising the dynamics of our industry, we support and encourage our members in all aspects of their business, helping them to optimise performance and embrace opportunity.

Our fundamental purposes are to promote the worth of our industry and to give voice to our members. We do so with passion and vision, support and commitment, integrity and professionalism.

Further information

For further details about this consultation response, please contact:

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