

RDG PR18 working group

Note of meeting held on 6 June 2016 at RDG's offices

Attendees: Bill Davidson (RDG) (chair); Nigel Jones (DB Cargo); Peter Swattridge (Network Rail); Oliver Mulvey (DfT); Chris Simms (Abellio); Richard McClean (Arriva); Steven McMahon (Transport Scotland); Steven Price (ATOC); Lindsay Durham (Freightliner); Russell Evans (FirstGroup) (by phone); Gareth Evans (Welsh Government) (by phone); Chris Hemsley (ORR); Emily Bulman (ORR); Joel Moffat (ORR)

Apologies/not present: Richard Gusanie (ORR); Dan Moore (DfT); Martin Baynham-Knight (Keolis); Maggie Simpson (Rail Freight Group); Simon Tew (Welsh Government); Mike Hewitson (Transport Focus)

Summary and actions from meeting on 19 May 2016

1. The group agreed that the note ORR wrote on the first meeting of this group, on 19 May 2016, accurately captured the key points of discussion and the actions arising.
2. It was agreed that the chair of the group will write a note to summarise points of agreement among the industry representatives of the group on the various topics discussed. These notes will help inform RDG's response to ORR's initial consultation document. ORR would continue to write a summary note for each meeting for this group.

Action: RDG to write a note to summarise the points of agreement and disagreement among industry representatives on topics discussed at these working group meetings.

3. One of the actions from the previous meeting was for ORR and RDG to produce terms of reference and matrix for this group and also the other working groups that have been set up to focus on other PR18 topics. RDG has circulated an initial draft terms of reference and matrix for all the PR18 groups for comment.

PR18 working paper: Implementing route-level regulation

4. ORR had circulated a draft of the PR18 working paper on implementing route-level regulation to members of the working group on 2 June 2016 for the purpose of this discussion. ORR talked through the working paper by focusing on two figures in the paper: the proposed framework for the Network Rail determination in PR18 and the high-level PR18 process for route-level regulation. Key points and views from the group's discussion on both these topics are explained below.

Proposed framework for Network Rail determination in PR18

5. The group raised several points that highlighted issues in implementing effective route-level incentives. The main issues raised in the group included:
 - As Network Rail remains a single entity, the current statutory framework may limit ORR's ability to introduce effective route-level incentives. The group agreed that this needed to be assessed at an early stage of the PR18 process.
 - There are outputs and targets that are not currently the responsibility of one part of Network Rail. Rather, both the centre and individual routes contribute to performance against targets. In principle, routes should in large part be responsible for the route-level outputs
 - A concern was raised that routes were unwilling to depart from guidance from Network Rail centre even when they thought that to do so might deliver the best outcome. It was mentioned that the devolution of responsibilities to the routes that has already happened had not led to this: there was currently little or no reward for innovation or trying to do things differently.
 - Network Rail has problems with staff retention, in particular managing directors of routes. Therefore it is important to consider whether any financial or reputational incentives placed on managing directors of routes under the route-level regulation framework in PR18 would be sufficient to offset the increase in responsibilities that route-level regulation and route settlements would place on them.
 - Although other industries have successfully introduced reputational incentives, such as league tables, to encourage firms to improve performance, it was suggested it may not work for the Network Rail routes. In some other industries customers are able to switch between different firms, but this is not the case for customers of Network Rail (though others, such as water and energy distribution, are analogous to Network Rail in this respect).
6. The proposed framework for the Network Rail determination, illustrated in Figure 2 in the working paper, the 'virtual freight route' is not included. As it is currently unclear what the roles and responsibilities of this route will be it was agreed Network Rail would lead a session on the 'virtual freight route'. Following that session, consideration could be given to how it fits in the proposed framework for the PR18 determination.
7. A comment was made that the working paper did not consider in enough detail how route-level regulation would facilitate better interaction between the routes, customers and end-users; rather, it focused on the proposed regulatory framework. This was an area that needed further thought.

8. Overall, it was agreed that there needed to be realistic expectations on what route-level settlements could achieve and the time it may take to deliver the intended objectives.

Action: Network Rail to lead an RDG session on the ‘virtual freight route’.

The high-level process for PR18 route-level regulation

9. On the ‘high-level output specification’ (HLOS) and ‘statement of funds available’ (SoFA), there were differing views on how prescriptive a government should be in these processes. These views were based on experiences in previous periodic reviews.
10. On enhancements, there was agreement in the group that how these are dealt with in relation to HLOS and SoFA should be agreed on at an early stage of the PR18 process. It was also pointed out that following the Shaw review it was possible that the UK Government may not be the only funder of future enhancements in England & Wales.
11. The group also discussed the level of engagement between the routes and customers during the HLOS and SoFA processes. It was suggested that there may be existing industry groups and meetings that could be used to facilitate this engagement. It was pointed out that RDG had already done an exercise to map out the different industry working groups that currently exist and their purposes. It was agreed that this work would be shared with the group.

Action: RDG to share with the group its work on mapping out the different industry groups that currently exist and what their purposes are.

12. In terms of engagement between customers and routes throughout the whole PR18 process, it was agreed that new processes would need to be established if there was going to be more emphasis on route-level regulation. The group commented that in some areas there was currently a lack of engagement between routes and customers. However, it was considered important to be conscious of the risk of creating an excessive number of meetings when setting up any new processes or groups. As a result, it was important for operators and the Network Rail routes to consider how they want to engage with each other during PR18.

Future meetings and suggested topics

13. The following topics are planned for the next four meetings:
 - 27 June 2016 – Schedule 4 and 8 purpose and priorities
 - 11 July 2016 – Route-level regulation
 - 18 July 2016 – Short-run variable cost charges