

**Bill Emery**  
**Chief Executive**  
Telephone 020 7282 2006  
Fax 020 7282 2118  
E-mail bill.emery@orr.gsi.gov.uk

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Dear Consultee

## **Enhancing Incentives for Continuous Improvements in Performance: A Consultation**

Our long-term vision for the GB rail industry, which I am sure that you share, is a successful partnership of Network Rail, operators, suppliers and funders, working together to meet the needs of passengers and freight customers, and delivering a safe, high performing, efficient and developing railway. We believe that ensuring an appropriate incentive framework is in place that aligns incentives for industry parties with the public interest is crucial if this vision is to be realised.

Network Rail has made significant improvements in safety, cost efficiency and operational performance in recent years, and the industry more widely has made considerable progress in working together. The current regulatory framework has facilitated this.

Nevertheless, considerable challenges remain. In particular, Network Rail still has a way to go on cost efficiency and parties need to work together to find innovative solutions to growing and developing the network. The regulatory framework must therefore provide an environment that enables the industry to build on the considerable progress it has made and to meet the challenges it faces.

As part of the 2008 Periodic Review, we are therefore undertaking a review of the incentives framework for Network Rail. The two fundamental questions that this aims to address are:

- How can train operators, particularly franchised operators, be encouraged to work more closely with Network Rail to reduce rail industry costs?

- How can Network Rail be encouraged to develop partnerships with train operators (franchised and open access passenger operators and freight operators) to meet the needs of customers and funders?

Our aim is to establish a robust incentive framework for Network Rail – and also, to a degree, for the wider industry - for the period 2009 to 2014, but the effects of that framework will extend beyond this. Our decisions need to be consistent with an appropriate strategy for the railway that reflects the expectations both of users and of those providing public funding.

We recognise that no fundamental changes to the industry structure or Network Rail's financial structure are envisaged. Nevertheless, we believe that there is benefit in exploring whether there are incremental changes that could be made that could improve the incentives facing Network Rail and its partners to achieve our vision for the industry and deliver real long-term benefits to funders and users. We believe that such amendments would be consistent with making the framework set out in the White Paper work effectively and, where appropriate, enable it to evolve.

We recognise that we only have certain levers to facilitate change and that other parties would have to be persuaded in respect of the desirability of changes where we do not have the levers, if these are deemed appropriate.

The attached paper sets out and consults on our thinking to date on the overarching issues surrounding the incentives framework for Network Rail.

We look forward to hearing your views on any of the issues raised in this paper and are happy to meet with stakeholders to discuss issues in detail.

Yours sincerely

**Bill Emery**

**Chief Executive**