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30 September 2019

Dear Carl

I am writing in response to your letter to Becky Lumlock of 19 June to provide an update on progress embedding Freight and National Passenger Operators (FNPO) structural changes to improve accountability, transparency and visibility for FNPO governance arrangements. I also provide an update on the related commitments set out in the FNPO settlement within the Final Determination for CP6.

Nick King joined Network Rail in July and since then he has met many of our customers, freight end users and wider stakeholders to understand the impact Network Rail has on their businesses. He is focused on being the champion for freight and national passenger operators within Network Rail and across the industry. While good progress has been made in the first few months of CP6 in respect of FNPO's governance arrangements, we recognise that we need to continue to improve and that is driving our work to create a structure that is strongly focused on putting passengers and freight users first.

**What progress have we made to improve accountability, transparency and visibility within our updated governance arrangements?**

As part of developing our CP6 Delivery Plan, we engaged with all our customers and stakeholders about FNPO's governance framework to provide transparency and an understanding of how FNPO would work with geographic routes and the System Operator (SO) in delivering for our national operators.

We engage with customers, end users and wider industry stakeholder across several forums enabling us to discuss current business performance, their priorities, and any changes to Network Rail's governance arrangements. These include the following:

- **Freight Operating Company (FOC) Level 1 & 2 meetings** where the FNPO leadership team and Customer Relationship Executive (CRE) team meet with customers to review current business performance and discuss future aspirations.

- **Freight End User (FEU) Meetings** where our Route Freight and Business Development team have 1:1 meetings meeting with FEUs, to consider performance, safety or network developments as they will impact specific sites or flows and so need 1:1 or tripartite arrangements, for example setting up the aviation fuel from Grain (BAA), Mendip contract transfer (Mendip Rail) and Felixstowe capacity work (HPUK), all good examples of FEU liaison which typify what the team does.
- **Rail Freight Group (RFG) Intermodal Forum** including key ports, combined transport operators, terminal developers, consultants, FOCs and Network Rail. This takes place three times per year.
- **RFG / MPA Construction Forum** including key construction sector end users, FOCs, Mineral Products Association (MPA) and Network Rail. This takes place three times per year.
- **Freight Transport Association (FTA) Rail Council** including FTA, FOCs, select end users and Network Rail which takes place twice per year.
- **Strategic Freight Network (SFN) Steering Group** including Regional Transport Agencies, FOCs, RfG, ORR and Network Rail. This takes place four to five times per year.
- **Freight Strategy Advisory Group** led by DfT including FOCs, various end users, ORR and Network Rail (with representation from both FNPO and System Operator). This takes place five to six times per year.
- **Network Rail / End User estate account meetings** including tenants and Network Rail (with representation from FNPO and Property). This takes place twice yearly for larger multi-site portfolio tenants.
- **Rail Delivery Group (RDG) Freight Board** including FOC MDs and Network Rail. This takes place every other month.
- **Freight Policy Group** including FOCs, ORR and Network Rail. This takes place every other month.
- **Freight Industry Performance Group** including FOCs, ORR and Network Rail. This takes place every other month.
- **Ad-hoc bi-lateral meetings with end users and prospective end users** concerning specific site or service developments (in commercial confidence).

The FNPO team takes the outputs from these meetings and works closely with other Network Rail teams to develop and progress initiatives that will support their business interests. National, regional, FNPO and customer scorecards are informed by our engagement above and the presence of freight and national passenger operator priorities on scorecards incentivises regions and routes to deliver for our customers.

The implementation of tranche 1 of the Putting Passengers First (PPF) programme created 14 geographic routes supported by five regions. A new Network Services directorate was created, incorporating Freight and National Passenger Operators as well as elements of Group Digital Railway and other national services. The way that Network Services engages with the wider business has evolved following tranche 1 to align to our new structure and to ensure that freight and national passenger operators interests continue to be strongly represented, including a thorough review of scorecard performance. Further changes may be made as we continue to review and update our operating model throughout PPF, but at this point in time, visibility and protection of customer interests is strengthened through:

- **Executive Leadership Team (ELT) meetings** which continue to be held periodically and are attended by Regional and National Function Managing Directors, including Nick King, and chaired by Andrew Haines, our Chief Executive. Through this meeting Nick King can influence the priorities of regions in relation to the needs of freight and national passenger operators.
- **The new Directorate Business Reviews** will be held quarterly from 2 October 2019 and will allow Andrew Haines to hold Nick King to account for functional performance and delivery against plan and creates further opportunities for Nick to ensure visibility of national operators' priorities and concerns.
- **The new Network Services Directorate meeting** which will focus on the specific Network Services performance objectives and improving organisational capability to increase the visibility of freight and national passenger operator priorities in the Regions and Routes. Network Services first Directorate meeting is being planned for November 2019 following Tranche 2 of PPF, when more parts of the wider Network Rail business move into Network Services.
- **FNPO Periodic Business Review (PBR)** where the FNPO leadership team reviews overall performance for freight and national passenger operators, scorecards, and any customer and network wide issues. Input to this review is supported by the Customer Relationship and Route Freight teams, based in the regions, including any concerns or key priorities of operators whose services cross geographical boundaries. Escalation is either picked up directly with relevant Regions and Routes or reported in the periodic ELT pack and can be discussed where appropriate.
- **Regional leadership team meetings.** The Scotland leadership team meeting is now attended by our Senior Freight Manager in Scotland which creates the opportunity for alignment between the needs of FNPO's customers and the business plans of regions. FNPO is in discussion with all Regional Managing Directors to consider if it is appropriate to replicate this approach across other Regions.
- **Route freight teams** are embedded in all regions to represent the needs of freight customers in each route. Route operational, safety, performance and business planning meetings are attended by our Route Freight teams and Service Delivery Managers who work closely to deliver the day to day service and schemes that deliver our CP6 plans and the requirements of FNPO's customers.

### **How have we engaged with stakeholders to ensure transparency and visibility of changes to FNPO's governance arrangements?**

As part of Network Rail's PPF Phase 1 'Go Live' communication plan we have engaged with our customers and freight end users about the organisational changes. FNPO has engaged with its customers through regular meetings and day to day dialogue to help our customers understand how to work with Network Rail so that they receive the best service.

Work will continue to review and develop how FNPO interacts with the various parts of Network Rail leading to an updated meetings and governance framework structure once we have completed Tranche 2 and 3 union consultation and safety validation. We will engage with our stakeholders to listen to their needs and to help them understand what is changing and have confidence in how their interests are represented. We will continue to provide updates to ORR through our regular engagement including at our next bilateral meeting in December 2019.

In the interim period between now and the publication of our annual report next year, we will give an update at the end of November 2019 and March 2020 on our governance framework for post implementation of tranche 2 and prior to go live on tranche 3.

The FNPO scorecard remains unchanged alongside the newly created regional scorecards and all FNPO customers have been engaged on the changes made to the national and regional scorecards, explaining where their measures sit within this scorecard structure and how they are monitored and reviewed within Network Rail.

### **What progress has FNPO made against its CP6 commitments in relation to governance, accountability, stakeholder influence and transparency?**

In Network Rail's response to ORR's Draft Determination we committed to several specific actions in relation to FNPO's governance, accountability, stakeholder influence and transparency. An update on progress against these is summarised below.

#### Governance and reporting framework

FNPO will publish and maintain its governance and reporting framework, so that our stakeholders understand the interfaces between the FNPO, geographic routes, the SO and other parts of Network Rail. We plan to publish the first version of in Spring 2020, following completion of the Network Services structure and design as part of preparation for Tranche 3.

#### Supervisory Boards

In line with previous communications to ORR we do not propose to create new Supervisory Boards until the implications of the Rail Review are better understood. Following discussions at our ORR Bilateral Meeting on 10 September, we have agreed to review the approach taken by System Operator for their Advisory Board and consider whether it is appropriate to implement elements of this approach. We plan to give an update on our findings at the ORR Bilateral meeting in December 2019.

#### Annual report on activities and achievements

We plan to publish our annual report after April 2020 setting out our 2019/20 achievements by customer and providing an overview of plans for 2020/21. We will work to ensure this is aligned to existing reporting.

#### Annual stakeholder survey

FNPO will carry out an annual stakeholder survey (and supporting 'pulse checks') to directly capture evidence of the quality of our stakeholder engagement. Each quarter, FNPO's Customer Relationship Team send a questionnaire survey (the FOC pulse check) to their customers including Colas, DB Cargo, DRS, GBRf and Rail Operations Group. Feedback from the survey is reviewed by the FNPO leadership team and action plans created to address key areas of improvement. Quarterly face to face meetings are held with Freightliner by the Customer Account Team to discuss key concerns and agree improvement actions.

FNPO will also continue to carry out a freight end user pulse check through quarterly face to face interviews conducted by our Route Freight teams based in the regions. The survey methodology enables a broader conversation with the customer based around five headings – Planning, Operations, Communications, Perturbation and Relationship – and seeks to understand both the comparative importance of a suite of issues to end users as well as our current performance in terms of delivery. Both the importance and current performance are measured on a 0-10 scale allowing analysis of any gaps where Network Rail is not currently meeting requirements and expectations.

The gaps identified support a further conversation about actions to be taken to close or eliminate the gaps, to get closer to meeting our customer requirements. Positive actions on important topics to the end users taken between surveys should see an improvement in the service provided.

#### Freight end-user scorecard

The FNPO settlement for CP6 required us to develop and embed a freight end-user scorecard. We have consulted freight end-users on our proposed end-user scorecard through the pulse check process at period 3. Further work is required to define and agree appropriate measures which we will do ahead of testing further as part of the period 7 pulse check, to inform our scorecard framework in 2020/21. FNPO plans to have a more detailed meeting with a cross section of freight end users towards the end of 2019 to support the evolution of their scorecard and seek clarity on the key issues that they wish to see further focus on.

We will continue to work closely with ORR colleagues as changes are implemented throughout the PPF programme.

Yours sincerely

A handwritten signature in cursive script that reads "Andy Saunders". The signature is written in black ink and is positioned below the text "Yours sincerely".

Andy Saunders

**Delivery Director, Freight and national Passenger Operators**