



John Larkinson
Chief Executive
Office of Rail and Road
One Kemble Street
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31 May 2019

Dear John

ORR's opinion on Putting Passengers First

I am responding to your letter to Andrew Haines in relation to ORR's opinion on Putting Passengers First. We welcome your intention to regulate Network Rail on a regional basis, which will ensure the regulatory framework continues to wrap around our operating model as we implement the proposed changes. I set out below the further information that you have requested by 31 May 2019 to inform a letter that ORR will send in June, describing how ORR intends to monitor Network Rail following implementation of the changes.

Safety

Throughout our transformation, Network Rail is following its Health and Safety Management System (HSMS), and specifically the parts of the control framework that cover change management. We are reviewing each phase against the Common Safety Method for Risk Evaluation and Assessment (CSMREA). The complete change programme is being treated as a change requiring the most intrusive level of safety validation and we are planning to submit a revised HSMS to ORR for re-authorisation later this year.

The various phases of implementation progressively impact the way the business operates. The first phase, for implementation on 24 June, has been determined not to be 'significant' under the CSMREA. We believe later phases will be significant and by the time there is change to the Technical Authority and complete devolution of the Infrastructure Projects Directorate in Phase 3, we expect the cumulative impact of change to amount to a substantial change as defined in ROGS.

To provide the most effective scrutiny of the change, an independent safety validation panel has been convened and has already met three times. With members drawn from across the business with deep expertise in change management, the panel is reviewing the change proposals, and their impact, as well as reviewing the decisions made in applying the CSMREA. From June, the panel will include an external member from an accredited Assessment Body, and already has an ORR observer (Anna O'Connor). For changes beyond phase 1, the safety validation panel chair will have to sign off satisfactory conclusion of the safety validation process before implementation.

Delivery of the CP6 settlements

Putting Passenger First is focused on producing better outcomes for customers and we are setting up our regions and directorates to improve our ability to deliver our CP6 plans. In designing the

implementation tranches of the programme, one of the key considerations was the need to maintain focus on CP6 delivery, particularly in 2019/20.

The accountability for the programme and for delivery of the CP6 settlements is with our Executive Leadership Team (ELT). Our ELT provides direction, prioritisation and collective transformation leadership for the programme. It is also the ultimate point of integration between network and service directorates and regions and focuses on strategic decisions that can be made to improve performance.

Both performance against our plans and transformation decisions are reviewed as part of periodic ELT meetings. Decisions on the Putting Passengers First programme also go through a formal process that involves go-live, readiness and stage gate reviews carried out by Programme Leadership, Programme Board and the ELT. Each individual member of ELT also has to sign-off that their respective areas are ready to go live. This ensures that decision making on the changes consider the wider implications of the change, particularly in relation to business performance in delivering CP6 requirements. ELT is therefore the forum that allows the risks to the delivery of our plans to be reviewed and decisions taken on the most appropriate action, which may include amendment to the implementation of the programme. For Tranche 1 we are seeking go-live reviews within the programme governance on 7 June, 10 June and 17 June.

We have recently announced the appointment of our regional managing directors who all have significant operational railway experience, and will all be in post by 24 June removing any need for interim appointments to be made. Regional managing directors will be fully briefed on the regional CP6 priorities including scorecard and financial performance between 5 and 13 June. This allows our regions to maintain focus on delivery under consistent leadership from the launch and as remaining regional positions are filled. Regional management teams will monitor delivery against their plans and respond to issues and risks should these emerge. Quarterly regional reviews will take place with our chief executive and chief financial officer to hold each region to account for managing a reliable, safe, efficient business that meet the needs of customers and delivers business plan outcomes.

At a working level, and to deliver the organisational changes, dedicated design leads for all routes and functions have provided support and guidance to the national programme team on the development of the new operating model. Any risks to the programme are managed through the established governance which includes Programme Board with regional managing director and network and services directorate representation. The design leads role will continue throughout the implementation of the programme, allowing regional managing directors to focus on the delivery of their CP6 plans.

Freight and national passenger operators

The organisational change we are implementing on 24 June is an important step to deliver a better experience for passengers and freight users. As part of the new organisational structure, FNPO will become part of the Network Services Directorate. Nick King has been appointed as group director for Network Services and will represent freight and national passenger operators, holding regions to account for delivery to its customers and driving a focus on FNPO's needs within the ELT. In addition, Andrew Haines will hold regular reviews with Network Services which will provide the opportunity for Nick to highlight freight and national passenger operator interests at chief executive level.

Network Rail is clear that it needs to continue to provide clear and strong representation for our freight and national passenger operator customers and stakeholders. The FNPO governance structure will be aligned to the corporate governance framework and we are considering how we maintain and strengthen representation at the region and route level in the new structure to give the confidence to our customers and stakeholders that their business interests are fairly and consistently represented.

The current FNPO structure has route freight teams that report through the FNPO Director, physically located in routes and working closely with routes in an established and successful matrix management model. In the new structure we are planning to retain and strengthen, as appropriate, our regional and route teams who will continue to be based in routes and report to the FNPO function. This will provide a continuation of the customer focused and 'can do' approach to supporting the operations of our customers, be that freight operators, National Passenger operators in Cross Country or Caledonian Sleeper, Charter or aspirant Open Access operators. This approach also provides a strong focus on national operators and the network wide voice that aligns to their business requirements, recognising that these customers have interests that run across multiple routes. It also ensures FNPO is sufficiently independent to challenge the regions where necessary. FNPO will retain the same focus on delivering its stakeholder priorities within the Network Services Directorate as it has as a stand-alone route. Through the structure outlined above, FNPO will be engaging with its customers on both the change into Network Services and the wider changes to regions.

System Operator

We are devolving elements of the System Operator (SO) to regions to achieve better clarity of accountabilities such that the regions and routes have greater control of the key levers that impact on train service performance on the railway in their geography in the near term. The SO will continue to provide network wide strategic advice alongside a strengthened network integration capability. For E&W and Scotland, SO devolution from 24 June will include accountability for the project development lifecycle post submission and funding of a strategic outline business case, franchise specification, and pre D40 timetabling activities. These changes will enable regions and routes to better integrate train service performance planning and enhancements and renewals plans into their route plans for the medium term.

Additional accountabilities are being devolved to the Scotland region. To deliver Scottish Ministers' strategic growth priorities set out in the CP6 High-Level Output Specification (HLOS), we consider that increased capacity to effectively manage and deliver investment should be delivered through an expert whole-rail-system project client and sponsor capability based in Scotland, controlling all stages of investment project development and delivery. In Scotland, therefore, accountability for the entire project development lifecycle is being devolved to facilitate this specific requirement. In addition, the responsibility for development of the long-term network strategy for Scotland will be discharged by the region, with ultimate accountability for maintaining and assuring Network Rail's Long Term Plan remaining with the SO. The operating model design for Scotland region maintains strong links with the SO, integrating Scotland's activity with the SO accountabilities. Overall accountability for the Long Term Plan and Capacity Allocation will not be devolved to the Scotland

region, therefore the SO will continue to be ultimately accountable for the SO Functions in the Network Licence. We have provided more detail on these arrangements to ORR separately.

The assurance and governance that will be in place to support these activities within Scotland region mitigate the risk of potential or perceived discrimination and allow us to transparently demonstrate fair processes for all our stakeholders. We have provided ORR with more details on the safeguards we are putting in place to enable us to demonstrate fair processes in these activities, and will continue to work with ORR as we implement these safeguards.

It should be noted that across England, Wales and Scotland, the System Operator will continue to provide expertise in economic analysis (for example, demand forecasting and economic appraisal), capacity analysis and the integration of the proposed changes to train services into a coherent train service specification at a network level.

Scorecards

Scorecards are key to managing and monitoring business performance across the organisation. As part of the Putting Passengers First programme, our scorecards have been realigned to the new operating model and organisational structure. New region scorecards represent restatement of previously agreed measures and targets on the new organisational basis, whilst maintaining the overall structure and format already approved. Regions have taken different approaches within the train performance and customer measures sections, with some regions deciding to group measures by new route, and others grouping measures by customer. Where measures are grouped by new route, CRM-P and FDM-R will be reported within these lines at a new route basis. Our regional comparison scorecard recuts the current route comparison scorecard on a regional basis and includes regional targets for CRM-P, FDM-R and CSI. Ahead of this letter, the Planning & Regulation team has provided ORR with detailed explanation of our methodology for this as well as providing the updated scorecards themselves and additional data used to calculate regulatory minimum floors on a regional basis. Our current routes are engaging with stakeholders on the revised scorecards ahead of 24 June to explain the changes and to seek agreement.

We shared our updated suite of scorecards with ORR alongside this letter. These have been shared with our Board and we have also shared with DfT. We will set up further sessions with ORR to discuss the scorecards in more detail.

Accountability

To enable ORR to regulate Network Rail at a regional level, we have recut the CP6 settlements on a regional basis and shared this data with ORR colleagues ahead of this letter. We have also shared recalculated regulatory minimum floors for CRM-P, FDM-R, and CSI alongside the methodology and assurance processes we have used. Our subject matter experts will meet with ORR colleagues to discuss the underlying models and methodologies in detail to agree updated baselines and regulatory minimum floors by 24 June.

We will work with ORR to review and update the data protocol in line with each tranche of the programme and agree the provision of data at a new route level. We will continue to provide a suitable level of detailed information to inform ORR's monitoring and will work to ensure that there are no gaps in reporting. As far as systems allow, we will provide parallel running data to ORR to

provide additional assurance as the new reporting structure is embedded, including back-dating data that aligns to the new structure.

In its June letter, I understand ORR will confirm the regional baselines and regulatory minimum floors that you will hold Network Rail to account against from 24 June. I acknowledge the tight timescales for ORR to carry out its analysis and assurance and we have planned to engage further with your team on 7 June and regularly thereafter to respond to requests for further information. Thank you for your continued support with the roll out of the Putting Passenger First programme.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Becky Lumlock', written in a cursive style.

Becky Lumlock

Group Director, Transformation