

## Rail Delivery Group

**Response to:**

### **SYSTEM OPERATION**

**A consultation on making better use of the railway network**

**October 2015**

## **Rail Delivery Group Response to the ORR's consultation on System operation: a consultation on making better use of the railway network**

Organisation: Rail Delivery Group

Address: 200 Aldersgate Street, London EC1A 4HD

**Introduction:** The Rail Delivery Group (RDG) was established in May 2011 to lead the industry in delivering a higher performing, more cost effective and sustainable rail network for Britain's rail users and taxpayers. The RDG brings together the chief executives of passenger and freight operator owning groups with Network Rail (NR). RDG develops policies, strategies and plans for the coherent management of the rail industry and advances the provision of a safe, efficient, high quality rail service for users and taxpayers.

## **Consultation background**

The Office of Rail and Road (ORR), as part of its preparation for the next Periodic Review, is consulting on the role of the System Operator (SO). This is designed to inform the overall framework for setting outputs, incentives and the financial framework for Network Rail (NR). The ORR is seeking views on the definition and scope of system operation, in parallel to a consultation run by NR on a dashboard of metrics related to the operation of the rail network. This is an important consultation as the efficient delivery of services to passengers and freight users is central to the success and focus of a growing industry.

## **Development of the RDG response**

The ORR's consultation raises important issues that inform the strategic development of the rail industry. The consultation is taking place at the same time as a number of strategic reviews of the industry, which may have a significant impact upon the future framework of organisational and institutional structures.

In the context of interlinked issues across structure and delivery, development of policy choices needs to be considered as part of the wider development of the industry. To avoid pre-empting the findings of other reviews, the RDG response is focused around the outcomes that passengers, freight users, founders and stakeholders expect from the railway network, and securing a safe, sustainable and affordable system for the future.

Input has been secured from RDG members, principally although not exclusively through the Planning Oversight Group and the Contractual and Regulatory Reform Working Group.

## **Principles and context**

The industry is focused on delivering a safe, affordable and reliable service to meet the needs of passenger and freight users. In the context of the last two decades' doubling of passenger journeys and continued growth in freight demand, the planning, operation and delivery of the network requires to be efficient, flexible and to support continued forecast growth.

This consultation document identifies that SO outcomes are important in the context of industry development. To make progress, the RDG would expect the ORR to develop a clear problem statement that defines issues to be addressed. SO needs to be clearly defined as a concept and as a clear set of functions and accountabilities. This drives an *ex ante* requirement to ensure that any proposals to change current industry roles are evidence-based.

Rail operates as a national network, but within it there are a number of levels of disaggregation that reflect not just infrastructure and operating geographies but also functional responsibilities. If SO activity is specified and measured at too aggregate a level then it will be difficult to define and specify the appropriate outcomes that the ORR is seeking to support the industry in delivering. Close working with the industry will be

required to determine where gaps exist and how the concepts set out in this consultation can support better delivery of service outcomes.

### **The framework for system operation**

In the Rail Value for Money Study (2011), Sir Roy McNulty supported the principle of increasing devolution within Network Rail. Many of his recommendations have already been implemented. The report (p. 72) identified a number of key functions that need to be delivered at a system-wide level to provide effective and efficient delivery of rail services. These were:

- Standard for interoperability
- Signalling priority rules
- Strategic planning, including leadership of Route Utilisation Strategy (RUS) programme
- Asset management strategy co-ordination
- Capacity allocation
- Timetabling co-ordination
- High-level IT services and information services
- “Single desk” for network-wide operators
- Access charging collection and allocation

The RDG considers that all these functions are necessary for the effective delivery of services to passengers and freight users in the context of network operation. They contribute to the delivery of common interfaces, strategic prioritisation and consistent and appropriate standards. The focus of a SO function needs to be on delivery and it is important to identify where current industry structures and responsibilities are not delivering efficient and optimised outcomes.

The RDG recommends that any SO function needs to be “thin” so as not to duplicate or conflict with activity elsewhere in the industry. It must ensure that the roles and responsibilities for SO delivery are defined and specified to provide an accountable and consistent portfolio and to ensure that any change can be planned and integrated without adversely affecting the safety, delivery or financial position of the industry.

As this consultation addresses principles, in moving forward there will need to be a consistent and transparent approach to option development, including deliverability and business case assessment.

The ORR should work with the RDG and the wider industry to ensure that there is clear understanding of required SO outcomes and that options for any proposed changes are developed, as far as possible, in an evidence-based environment, consistent with Better Regulation principles and with understanding of the behavioural and financial implications of future options.

## Delivering effective system operation

Railways, as with other networks, are a complex industry, where the end-user should be rightly indifferent to the delivery process but expects outputs at least in line with their expectations.

The RDG considers that the following four principles need to underpin the definition of an effective SO functionality:

- **Focus on outcomes** – recognising that the needs of passengers, freight users, government and stakeholders are central to the process and that the SO function must support this, in the context of a growing industry and the strategic objectives set out for the rail sector
- **Clarity** – an effective SO function should have a well-defined remit, able to be measured and to be managed without duplicating other industry responsibilities
- **Consistency and flexibility** – the rail industry delivers outputs to a number of markets, geographies and funders, so a SO function needs to provide consistency and clarity, while supporting opportunities for the industry to innovate and deliver in a changing organisational and strategic context.
- **Interdependence** – SO functions need to support the industry in strategic decision-making and service delivery. There are already a number of cross-industry activities that deliver SO functions, which form a foundation for future evolutionary development.

Existing experience of providing SO functions, both within the rail sector through the licence obligations placed on Network Rail and train operators, and across the wider economy should underpin further developments. There will be significant merit in a wider engagement to ensure that the experience of other sectors, for example power distribution networks, air traffic control and the water industry, is analysed and deployed to inform the development of options around system integration.

### Focus on outcomes

The railway exists to deliver outputs required by passenger and freight users as part of a national transport network that supports the priorities of government, end-users and stakeholders – reflecting the requirement for a safe, sustainable transport system to deliver wider economic and societal objectives. Delivering safe, affordable and value for money outputs needs to be at the centre of the design of system operation and wider industry relationships.

These outcomes continue to develop to respond to market and stakeholder needs. Experience within the industry suggests that any proposed change should allow the most effective solutions to be identified and to minimise the risk of unforeseen consequences. The industry has supported and delivered change, and is therefore well-placed to engage and develop strategic choices that support these outcomes.

## **Clarity**

Effective SO delivery is an outcome of the structures, behaviours and objectives of the whole industry, not just those with formal accountability for specific functions. In setting out principles for system operation, the ORR needs to define which functions are required that are not delivered effectively at present, and how any proposals would affect the daily operation of the system. The impacts of a poorly-defined SO that either replicates or contradicts existing industry responsibility would be negative.

Any changes or amendments to duties and obligations resulting from changes to SO accountabilities should be considered in the context of whether they facilitate effective, long-term decision-making and provide clear accountabilities and reduction of complexity in both the short- and long-term. It is important that any proposed changes do not drive inappropriate behaviours from industry parties or create areas where objectives conflict. The problem definition should define what, if any, changes are required, and how solutions will be both scalable and demonstrate that they support effective delivery.

## **Consistency and flexibility**

Rail serves a number of markets and geographies. National passenger and freight operators work across several Network Rail routes, and other operators also cross route boundaries. National standards and arrangements that minimise transaction costs, ensure consistent treatment and co-ordinate network development are central to the efficient delivery of outcomes.

The industry continues to change to reflect emerging passenger and freight needs, as well as to improve efficiency and delivery quality. SO functions need to be defined to support national outcomes, but also in the context of different geographies and markets across the GB network can facilitate innovation and flexibility in delivery structures and approaches.

## **Interdependence**

Some of the functions identified within the scope of SO are already being delivered through the RDG and its workstreams, including the Planning Oversight Group and the Contractual and Regulatory Reform Working Group. Others are already provided on a cross-industry basis, for example income and settlement for passenger operators, access disputes resolution and the functions of the RSSB.

This approach has evolved to deliver and improve the functioning of the network, and the RDG supports continued development of a landscape where delivery mechanisms are optimised.

The consultation's concept of an effective SO function is not necessarily aligned with the current duties and obligations placed upon industry parties. The industry continues to develop both in terms of customer expectations and its structural and contractual architecture, requiring clarity in developing SO definitions and demonstrating how they will support the delivery of industry outputs.

The ORR correctly identifies the difference between long-term and short-term system operation. In recognising this, it sets out (for example in Figure 7) that industry parties will have interests at all stages from the development and establishment of long-term strategy to the delivery of a robust and high-performing train service. The ORR should recognise and harness the existing expertise; engaging with the RDG, the National Task Force and other existing leadership groups to embed and extend collaborative approaches within the framework. The interdependencies that exist with respect to delivery of system outcomes depend upon aligned relationships and a shared understanding of outcomes and the route to effective delivery.

### **RDG response to specific consultation questions**

The ORR has set out a number of detailed consultation questions which are addressed below:

#### ***Consultation question 1***

As discussed in section 2, to deliver good system operation, we think system operation involves these functions:

- Developing proposals for changes to the network;
- Choosing projects for changes to the network;
- Determining capacity from the physical network;
- Allocating capacity (including to possessions) and performance; and
- Operating the system (including at the route level) enabling services to run.

What are your views on the functions we have mapped out, and their ability to facilitate delivery of the system operation outcomes? Do you think we have missed any key functions of system operation?

The RDG considers that these five key functions define an effective conceptual framework for SO outcomes, at a network level. It is, however, fundamental, to define responsibility for specification of the outcome and the responsibility for delivery, while recognising that this may be split between two or more industry organisations. In developing any metrics around potential and utilised capacity, they should reflect the requirements for whole-system outputs, at an appropriate level of disaggregation.

There are already processes in place to identify and develop proposals to change and improve the network, as well as meeting changing customer needs. These have improved over time and this should be acknowledged. The consultation does not in itself make any proposals for change, and the RDG considers that the continued evolution of industry strategic planning and development should be progressed on the basis of maximum industry participation, working to agreed problem statements and with a clear focus on improving outcomes for end-users.

At a high level, there are established and evolving processes for developing strategic proposals – in addition to major projects that require specific legislation such as HS2 and

Crossrail. The current industry planning process, already established through the Long-Term Planning Process and the Network RUS programme, defines and addresses priorities. These in turn inform government and other stakeholders, and support the HLOS process that is an intrinsic part of the Periodic Review.

Network Rail already has a licence obligation to lead these processes and engage with the industry and wider stakeholders. Aligning SO functions with the wider public policy role in setting rail strategy needs to be an embedded principle in developing the themes raised in the consultation.

Decisions on capacity provision and utilisation are complex. Interactions between the physical characteristics of the network, control systems, rolling stock and the timetable requirements underpin the development of optimal solutions for service delivery. Ensuring that the correct planning framework, incentive signals and responsiveness to changes in both user requirements and technology is a necessary requirement for any metric or obligation placed upon the industry or individual organisations to demonstrate effectiveness.

The provision of passenger and freight services reflects market needs, and on a mixed-traffic network metrics that were defined, for example, as utilisation of a theoretical maximum, may not encourage the development of timetables that deliver optimal outcomes. There have been systematic attempts over the years to develop definitions of rail capacity that can support demonstrations of efficient system management, but the proposals set out in Figure 6 are simplistic and do not in themselves demonstrate that the industry is making efficient use of its resources.

Defining the effective utilisation of the network is therefore challenging, and the RDG considers that this should be based on market requirements. A formula-based approach may not be effective in the context of different markets, geographies and network configurations, and the wider requirements of passenger and freight users, including overall network performance and journey times. Any approach that purely measures train movement, without reference to volumes of passengers and freight carried, is likely to produce perverse incentives and, as train service interactions with stations, terminals and junctions are critical, may not support either short- or long-term network optimisation.

Measurement of planned and operated timetables is central to the performance management process. However this needs to be considered in the context of the actual delivery environment, delay causation factors, including the impact of third parties, and the requirements and expectations of all access beneficiaries.

### ***Consultation question 2***

As discussed in section 3, through our work on system operation we want to improve how the railway meets the current and future needs of passengers, freight customers and funders. We think a greater focus on system operation can improve outcomes in six areas:

Continued safe operation;

Choosing the right investment;



- Making the right trade-offs;
- The right services using the network;
- Helping train operators to deliver; and
- Choosing the right investment.

What are your views on the outcomes of good system operation that we have set out in this consultation?

One of the principal objectives of the RDG is to ensure that the whole network delivers safe, affordable and sustainable outcomes. The objectives set out above are consistent with securing the right delivery environment that ensures that the management of the network is optimised across all time-frames.

The obligations placed upon industry parties must reflect their duties and capabilities. If integrated with the charging framework and the wider industry planning process, and where there is the potential for greater potential for changed outcomes and behaviours (for example in supporting informed decisions around trade-offs), then there will be realisable benefits. In promoting informed development of SO definitions the ORR needs to engage with the industry to define where and if quantitative approaches can add value, and where outcomes could be delivered either through changes implemented elsewhere in the periodic review process or by supporting the industry to identify and address any factors that currently block effective outcomes.

Delivery of SO functions needs flexibility and the ability to prioritise outcomes. Operators, funders and investors in the industry, including rolling stock providers, need certainty over a long-term that they are able to deliver a stable set of outputs, but there is also a requirement for the industry to be able to respond to short-term market needs and structural change in a context that incentivises flexible outcomes. Ensuring that any SO metrics are reflective of this supports appropriate behaviours that put the needs of passengers and freight users at the centre of industry decision-making, and which do not potentially disincentivise either stability or change where required.

To support investment in the railway, the ORR should recognise that there are a number of approaches for delivering improvements to network capability and capacity, and that there are potentially a number of funding routes for different asset classes. The strategic direction set out through the HLOS process, as well as the investment framework, will impact upon decisions taken elsewhere, for example around rolling stock. Some assets have a relatively short life compared to others, and it is important to support their optimal deployment and variations to output that support the delivery of the best services to end users.

The clear requirement for good system operation is that it supports the long- and short-term requirements that the transport network is designed to deliver. A more prescriptive framework would need to be assessed in the context of the wider outcomes and also with due regard to any incremental costs incurred either directly or through increased complexity of processes and transactions required to demonstrate compliance. As the RDG stated in our response to consultation question 1 it is fundamental, to define responsibilities for

specification of the outcome and the responsibility for delivery. Only then can assessment criteria and measurements be defined that determine the effectiveness of the discharge of SO functions.

### ***Consultation question 3***

Can you give us any examples, based on your experience, where these functions improve outcomes?

This could include examples of when system operation has helped you in running your business and delivering for your customers. Please also feel free to highlight any areas where you think system operation could help you in the future.

The industry is continuing to improve its processes and effectiveness in discharging the management of the overall system. Through formal mechanisms, including the RDG, and increasingly close integration through alliancing and partnerships, industry engagement and alignment continues to develop. The work of the Planning Oversight Group, for example, demonstrates the extent to which industry is already addressing the range of activities that are required to support the outcomes that the ORR wishes to see from a system operator.

Industry is already partnering with government, stakeholders and end users in developing its long-term strategies, and therefore the ORR needs to consider how its future SO strategy builds upon and develops current improvements. Integrated approaches to planning and delivery are to be welcomed, and should be flexible enough for lessons learned to be applied across the network as experience builds.

### ***Consultation question 4***

To regulate and incentivise Network Rail, we use a range of tools, such as regulating and monitoring Network Rail against certain outcomes and providing for a charging regime that should encourage economic and efficient behaviour by all users.

Do you have any views on what the desired outcomes and functions associated with system operation might mean for the regulation and incentivisation of network system operation?

Please highlight any particular areas where you think a different approach to regulation or incentivisation of system operation could help you better run your business in the future and why.

The RDG is already contributing to the development of future charging and incentives through the work of the Contractual and Regulatory Reform Working Group. SO needs to be integrated into the wider decision-making process around the periodic review so that the required outcomes are integrated into the charging and incentive framework. There needs to be a presumption that the regulatory settlement for CP6 and beyond is simple, coherent and sends the right signals to all industry participants and stakeholders.

Any development of a metric-based approach to system operation, especially capacity allocation, should take place in partnership with and be fully tested with the industry. In order for effective system operation, including a thin, clearly-defined SO function, to be achieved, the ORR and the industry need to understand what outcomes are sought. Developing a business case, impact assessment and implementation strategy needs to take

place in the wider context of both the Periodic Review and the emerging industry structure, with a clear view that the process is designed to improve the functioning of the network as well as being consistent with the need to continue delivering outputs in a safe and efficient manner.

Proposed changes need to be assessed both in terms of their impact on the regulatory framework, but, more critically, on whether they facilitate the efficient delivery of outcomes. The RDG considers that in taking forward discussions on the role of system operation, as well as responsibility for specific functions, the ORR needs to engage with industry and take cognisance of the existing experience around the delivery of those areas identified as required for good system operation.

For enquiries regarding this consultation response, please contact:

**Jonathan Pugh**  
**Manager, Strategic Planning and Franchising**

**Rail Delivery Group**  
2<sup>nd</sup> Floor, 200 Aldersgate Street  
London EC1A 4HD