11 October 2011

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Dear Gian Carlo

Periodic Review 2013 – Establishing Network Rail's efficient expenditure consultation (July 2011 document response)

Introduction

Thank you for the opportunity to comment upon the ORR's objectives, scope and processes for undertaking the PR13 periodic review. We also welcome the open workshop / briefing you held on 21st September 2011.

Whilst FirstGroup have previously provided a detailed response to the specific questions raised in you May 2011 consultation document we feel that there are a number of points we would also like to additionally raise on your July 2011 consultation document.

This letter draws together the response of FirstGroup and all of its rail operations: First ScotRail (FSR), First TransPennine Express (FTPE), First Capital Connect (FCC), First Great Western (FWR) and Hull Trains.

Section 2.20 describes work in the Infrastructure UK report, on the subject of why infrastructure projects in the UK cost more.
FCC have recently been engaged by the DfT to provide support in developing the scope of the new Thameslink depot contracts from which we believe a considerable number of lessons could be learnt:

- Not least of which is the ability of one public sector body to seek financial gain from another public sector body especially through the planning permission process, significantly pushing up the time and cost of the project. For example although the project only marginally modifies an existing underpass parapet the local council has forced the DfT to agree funding of £255k to improve the conditions for cyclists under the bridge which is substantially unchanged. The total of such requirements in the 106 Agreement has added £1.7m to the cost of the project at Hornsey depot alone.
- Early involvement of the incumberent train operator has allowed the scheme design to be reduced in cost and actually made buildable whilst keeping the existing depot running.
- Minor redesign and pragmatic application of standards has allowed a complete bridge replacement to be removed from the scope.

Section 5.14 – Network Rail (NR) are clearly on an asset management journey and we note that much of the work-banks are only starting to reflect the new asset management policies now. The ORR need to ensure that NR policies are translated through to the work-banks such as track which form a significant part of the CP4 and not doubt CP5 expenditure. The NR Route Asset Managers have been largely driven by achieving lower unit costs and the possession disruption index (PDI) rather than renewing shorter, difficult access sites which actually have the greatest potential impact on the overall railway performance. We have seen evidence the approach is now changing but would suggest that the ORR ensure that the KPI's used do indeed drive the correct behaviors.

Section 5.23 – FirstGroup have recently carried out a review of Network Rail's asset information for the LNE route in order to inform discussions on the poor performance of that section of railway, which we would be happy to share with you outside this consultation.

Section 6 – Enhancements are where the TOCs believe the greatest savings can be made going forward. Currently capacity challenges identified in HLOS documents are generally turned into large infrastructure schemes costing hundreds of millions of pounds by Network Rail, whereas the TOC/FOC community believe that earlier consultation could result in a much cheaper solution providing the correct incentives are in place. The NR GRIP process does not normally require TOC consultation until stage 4 by which time the scheme is virtually defined and consultation is more about how to deliver the scheme.

However FirstGroup believe that earlier consultation on the Reading remodeling scheme for example could have achieved much of the operational benefits at a significantly reduced cost. FirstGroup through it's active engagement in the Rail Delivery Group (RDG) Asset Management subgroup are currently discussing this issue with NR to ensure the industry is more joined up going forward.

Section 6.9 refers to the fact that NR have been provided a fund in CP4 to scope up enhancement schemes for CP5. Whilst FirstGroup TOCs have had involvement in developing some future schemes this has been largely on an ad hoc basic and operator involvement is not a formal part of the enhancement scheme development process. As stated in section 9.2.3 of the McNulty study – "typically by the time the project has spent 15% of it's budget, it has committed over 80% of it's cost". Enhancement scheme costs are all therefore in the scope definition. It is for this reason that early TOC consultation on enhancement schemes is essential, combined with a benefits sharing regime which will then incentivise the TOC/ FOC community to really look at the business case for retaining redundant infrastructure or requiring over specified operational flexibility.

Overall First believes that the periodic review has come at a good time given the appetite for significant change in response to the challenge set by the RVfM report. We are very happy to be fully involved in the periodic review process and would be happy to help work through the issues it is raising.

Please do not hesitate to contact me if you would wish to discuss any of the points raised in this response in more detail.

Yours sincerely

Alan Price
Infrastructure Director, Rail