Office of Rail Regulation - Periodic Review 2013: First consultation

Carillion Rail Response

Introduction

This document lays out Carillion Rail's response to the ORR's first main consultation on the 2013 Periodic Review (PR13). In drawing up our response we have carefully considered the document, attended meetings at the Railway Industry Association in London and Manchester.

Carillion is a leading provider of integrated solutions for buildings, infrastructure and services. As a FTSE 250 Company with a turnover of circa £5 billion and in excess of 20,000 employees, the Group delivers high quality, cost effective and sustainable solutions using our range of skills and resources. Our key target markets are health, transport (principally road and rail infrastructure), building, facilities management and support services for public and private sector customers.

Carillion are active in the UK rail infrastructure market, we deliver "Enhancement" projects (for both Network Rail and other clients", we renew the railway and maintain the East London Line.

We have responded to those questions that are relevant to our involvement in the Rail Industry, and ignored those that apply to other areas of the industry.

Responses to questions:

Q1 - Do you agree with our proposed objective for the review? If not, what issues would you add or subtract?

Yes, we agree with your high level objectives. As a company working in the UK marketplace an efficient railway network is invaluable to us.

Q2 - Do you have any views on our proposed timetable for the review? Do you need further information to plan your involvement with PR13?

We are concerned about the timing of this review.

The last Control Period (CP4) was let as a result of a Periodic Review with similar sequencing, similar timing and a final decision taken in March 2009, right at the start of the 5 year Control Period. We are now nearing the half way point in CP4 and we understand that less than a third of money has been spent / work delivered, largely as a result of design development starting, on a large amount of the required workload, following April 2009. This leaves the industry with the need for a significant "ramping up" of resource levels for the final two years of the Period to deliver the required workload.

The McNulty Study identified the lack of a steady workload as being responsible for a good part of the poor value offered for rail infrastructure work, since it is difficult to invest in training, development and innovation in this environment.

We suggest that this can be avoided, in future, by:

- Achieving an earlier settlement and making firm plans for Cp5 by the middle of 2013
- Carrying out more development work, for the CP5 workbank, prior to the start of the period (there are encouraging signs that this is taking place)

Q3 - Do you think that our approach to the disaggregation of Network Rail financial (and other) data to operating route is appropriate? Is the information we are requiring Network Rail to produce set at the right level? Do you have views on the information train operators should produce?

We believe that the disaggregation of Network Rail's financial data by operating route will help understand where efficiency is being achieved. It is important, however, that data is gathered in a consistent and easily understood format in order that the results can be readily compared. It will also be important that the techniques used to gain the efficiency are clearly understood in order that they can be used elsewhere.

Q6 Is the current approach to defining obligations in terms of outputs the best approach? What outputs should be defined? Should there be a move to more use of outcome based obligations? Would another approach be appropriate such as specifying inputs or intermediate measures?
We believe that it is always better to define outcomes rather than outputs, since this best defines what is really required and leaves the way open to innovative solutions. There is, unfortunately, the danger that too much time, cost and energy may be devoted to working out different approaches to outcome based obligations, resulting in compressed periods for delivery of the chosen solution and a lumpy workload.

Q11 Should Network Rail's output obligations include a specific safety requirement, different from its legal obligations?
The railway industry already has a very “Rule Book” approach to safety, rather than the “risk” based methods used in other similarly hazardous industries, this is the cause of many of the high costs, as identified by McNulty. We do not support adding further high level obligations to what is already a safe industry. Further improvement in safety is being achieved within the current framework, there is no reason to think that this will not continue and every reason to believe that a more bureaucratic approach will achieve less.

Q17 We would welcome your views on possible bespoke arrangements for enhancement efficiency benefit sharing and whether there is a need for additional measures to increase the contestability of expenditure?
There are clear benefits to involving all Stakeholders in the delivery of Enhancement projects, all too often schemes are delayed, carried out during expensive possessions or made overcomplicated to avoid any inconvenience to the TOC that will benefit from the improvements. We, as infrastructure contractors, are not party to the agreements between TOCs and Network Rail but our work would clearly benefit from wider co-operation between TOCs, Network Rail and the contractors delivering the improvements.

Q20 What are your views on the duration of the control period?
The length of the Control Period needs to achieve a reasonable balance between short term, accurate planning and longer term controlled expenditure, without excessive peaks & troughs. We believe the current 5 year period is a good compromise between these aims. This could be improved by:

- The plans being in place well before the start of the period, see our response to Q2
- Perhaps adding an outline look ahead for the following 5 (or more) years. The ever-increasing need to control carbon emissions and the likely scarcity of commodities, are likely to make the need for this more important.

Q23 Network Rail faces a number or risks. At this stage, do you have any views on how general inflation risk and input price risk should be addressed?
The debate about inflation risks occur at all levels where money changes hands in the rail industry. The desirability of longer term franchise and contracting arrangements increases the risks of inflation being understated or overstated in contractual relationships. Either situation is undesirable, an over pessimistic assumption will bring excessive profit to the payee and over optimistic assumptions; pain leading to potential instability.
We believe that consideration should be given to a set of common inflation indices for the Rail industry that relate to all levels of contractual activity equally

Bill Free
Carillion Rail
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