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21 December 2015

Dear Nicola

Rail Delivery Group – Freight Group – The future Shape and Financing of Network Rail

On the 2nd December 2015 the Rail Delivery Group forwarded a short submission to your team outlining the collective thinking of the Rail Delivery Group members, including freight operators. The Rail Delivery Group – Freight Group is sub group of the Rail Delivery Group and is constituted of the five main UK rail freight operators and Network Rail as well as members of the RDG Executive.

The rail freight operators carry out their business in a different arena to franchised passenger operators. Freight is moved by rail with a wholly competitive and commercial backdrop; rail freight operators compete with each other, the national road network and ship on a continuous basis and trains are operated in reaction to demand rather than in anticipation of demand.

The freight operators have articulated in a very short paper their key requisites from any future changes to the structure of Network Rail. Individual freight operators will be responding to the scoping document in more detail, but we hope that you find it useful to receive this brief summary of thoughts.

The Rail Delivery Group – Freight Group is keen to continue to engage with you and your team as further thinking and concepts emerge.

Yours sincerely



Russell Mears

Chair, Rail Delivery Group – Freight Group

cc. Paul Plummer – Chief Executive RDG

The value of rail freight

The movement of freight by rail is economically and strategically important to the UK; it supports UK businesses in moving goods worth £30 billion per year from high end whiskies and luxury cars to steel, cement and coal.

Many of the benefits of moving freight by rail fall outside the railway balance sheet. £1.6 billion of economic benefits for UK are generated by rail freight through improved productivity benefits to UK business and wider benefits such as reduced road congestion and emissions and improved safety.

The characteristics of rail freight

Rail freight is a national business and as such any railway route or regional boundaries have no relevance to the rail freight market. Rail freight services are operated in response to demand, unlike passenger services which operate in anticipation of demand. Rail freight services have to be high quality, flexible and competitively priced in order to compete with road and to react to the dynamic requirements of business.

Rail freight operates in the private sector environment, carrying its own risk and continually competing for new contracts and business. Rail freight operators have collectively attracted over £2 billion of investments in locomotive, wagons and other capital equipment since the mid-1990s to enhance capacity and improve reliability and performance. A stable operating environment is essential for freight operators and other private sector organisations to be able to make these continued long-term investments.

Rail is already more complicated for users than road. The freight operators, alongside Network Rail work hard to manage these complexities for customers in order to offer as simple a product as possible. Road is available for use at any time of day, on any route with no controls, restrictions or boundaries and the charge to use the road is fuel duty.

Network Rail

Network Rail is an essential supplier to rail freight operators. Since the central freight team was formed in Network Rail, and through the Rail Delivery Group - Freight Group, real and tangible improvements to freight services are being delivered through more collaborative working. At a time when the benefits of having centralised freight services are beginning to materialise, it is vital that this impetus of joint improvement is not lost through the restructuring of Network Rail.

To act as the organisational solution to greater devolution a strong, national Network Rail freight team is required - this could either be part of, or alongside, the System Operator. In order to have the ability to ensure that the Routes take on the responsibility for servicing the requirements of freight operators and their customers, the freight team must have strong and effective leadership of this team, at Director/Executive level.

Rail Infrastructure Structure - Requirement for a Safety Net

The rail freight operators recognise that there are benefits of increased local focus on delivering passenger services and of being able to benchmark performance and delivery between different regions of Network Rail. Whereas most train operators operate services across one principal Route, and therefore perceive greater devolution to the Routes as being a means to become closer to customers, many rail freight flows cross multiple Routes boundaries, and therefore a degree of centralisation is required to deliver a consistent, timely, reliable and simple product to customers. It will also be increasing important, with the backdrop of structural changes in the freight market that the

freight operators and Network Rail work ever closer together to optimise the capacity and capability of freight corridors (which cross existing Route boundaries).

A framework should be put in place to counteract these increased risks from devolution of a national network, in order to prevent unintended dislocation of national services and maintain national network optimisation and network benefits. A framework should include financial, operational, and planning and guidance elements.

Financial

Any rail infrastructure manager should be structured to recognise external wider benefits, not just internal finances. Route Managing Director's should have objectives (and re-numeration) referenced in Network Rail's Duties and Guidance linked to freight, of sufficient weight to influence behaviour.

Any network grant deemed to be relevant to freight should continue as now to be directed via the infrastructure manager (to avoid issues of state aid).

A national charging and incentives framework should be retained. There is a risk that geographic charges could result in differing local direct costs with the unintended consequence of dislocating existing traffic to road.

Certain strategic functions should be retained in order to minimise duplication of overhead costs and inefficiencies and secure value for money from specialist equipment and workforce.

Operational

Freight services usually cross many Network Rail routes, driving the fundamental requirement for clearly defined, centralised system operation functions. There is a risk that too much local focus could create unnecessary borders and blockages for national services and impact on system optimisation.

Early clarification on the role of the System Operator would help to provide a more certain environment and support continued investment by freight operators, customers and the rest of the supply chain.

A System Operator should be responsible for and able to mandate certain activities including:

- Timetabling
- Co-ordinating possession planning over routes
- Control and operational management regimes that facilitate cross-route operations
- Oversight of one national track access and charging regime (that is decided by the Independent Regulator)
- National incentives regime(s)
- Ensuring joined-up cost reduction

Planning and Guidance

Transport policy should be planned holistically, recognising the cross-modal impacts of policies, not just the impact internally to the railway.

A clear strategy and appropriate guidance from Government and other funders referencing their expectations from freight as well as clear specification of what they are willing to fund (e.g. via the SOFA) would give clarity throughout the industry of expectations and frameworks.

Some enhancements need to be planned and managed nationally as they span route boundaries, e.g. the Strategic Freight Network and need to have clearer outputs such as capacity increases and/or improved network efficiency.

Opportunities for change

Freight operators recognise that Network Rail is facing challenges and is under pressure from a range of stakeholders. Freight operators' believe that there are opportunities to make improvements and to refocus the workforce; these could be taken forward whatever the outcome of structural change. These include:

Increase the understanding and transparency of the cost base, and track and infrastructure quality on a dis-aggregated basis. This will enable more efficient decisions to be made and enable operators to work more closely and collaboratively with Network Rail to identify efficiencies, cost savings and opportunities.

Increase the clarity of expected outputs and outcomes, especially from enhancements, and work more closely with operators to optimise renewal and enhancement design and spend.

Focus more on long term planning of skills e.g. signal design, electrical engineers, train planning, and project management

Focus more on timetable planning as a core national product of the infrastructure manager. Improve the skills base and systems to support decisions about making the best use of capacity and better decisions about enhancements.