

THE FUTURE SHAPE AND FINANCING OF NETWORK RAIL: RESPONSE OF AMEY TO THE SHAW SCOPING REPORT

December 2015

1 Introduction

Amey is pleased to respond to the Shaw Report's request for feedback from the industry on the issues raised by the Scoping Report. We were delighted to have participated in two of the discussion sessions and would like to follow up with this written response to the scoping document

Eighteen months into CP5, Network Rail is going through a difficult time with reports of poor train performance, over spending, late delivery of projects and growing questions about the fitness for purpose of the organisation.

Network Rail is large and diverse organisation sitting within a structurally and regulatory complex environment. It is proving to be difficult and challenging to govern, responsibilities have changed, and there is a lack of accountability for performance.

These are some of the major challenges facing the industry and our interpretation of the essence of your scoping report is to explore whether there is a new structure and financing solution that will deliver better value for money, improved financial management and serve the needs of a rapidly expanding market. **We believe this to be a substantial issue that is likely to require significant change from the starting position in order to address the wide range of points raised in the Scoping Report.**

During the discussion sessions it became clear to us that there seem to be three clear areas of focus:

- Customer
- Devolution
- Efficiency (and finance)

These are addressed in turn.

2 Customer

We believe the 'customer' is not well defined or understood within the current structure and as a consequence, service to passengers and freight operators has suffered. We would like to see greater clarity about who the infrastructure organisation serves and a stronger link between performance and reward (ie: greater accountability). Ideally, this would include the type of sanction most private sector organisations face in the event of poor financial or customer performance. **There is a significant opportunity for private sector involvement in the delivery of infrastructure management and enhancement services.**

One question raised at the consultation meetings concerned what rail passengers (and freight customers) want from the railway. We would like to reiterate our thoughts on this important question:

- Increased capacity, to address increasingly chronic over-crowding, particularly on many commuter networks. This is a growing concern across the UK and has a direct link to the efficient delivery of capacity enhancement projects.
- Consistent and improved train performance. Evidence confirms that passengers value consistent performance above marginal improvements in journey time. Whilst increased capacity will help to improve performance, an enhanced approach to asset management will also significantly reduce infrastructure failures and the need for unplanned maintenance. Amey's experience of modern asset management methods on our Tube Lines contract with TfL provides excellent evidence of the performance (and cost) benefits that result from a modern, data-led approach to infrastructure management.
- Value-for-money. We would not dispute the 'user pays when feasible' principle for rail travel and accept that moderate rises in fares may be required to achieve this. We believe most customers will accept this principle. However, customer dissatisfaction will result where it is perceived that inefficiencies exist in the management and enhancement of the infrastructure and where this feeds-through to higher fares.

On this basis, we would suggest that customer expectations are not being met and that a strong case for change exists in order to address these points.

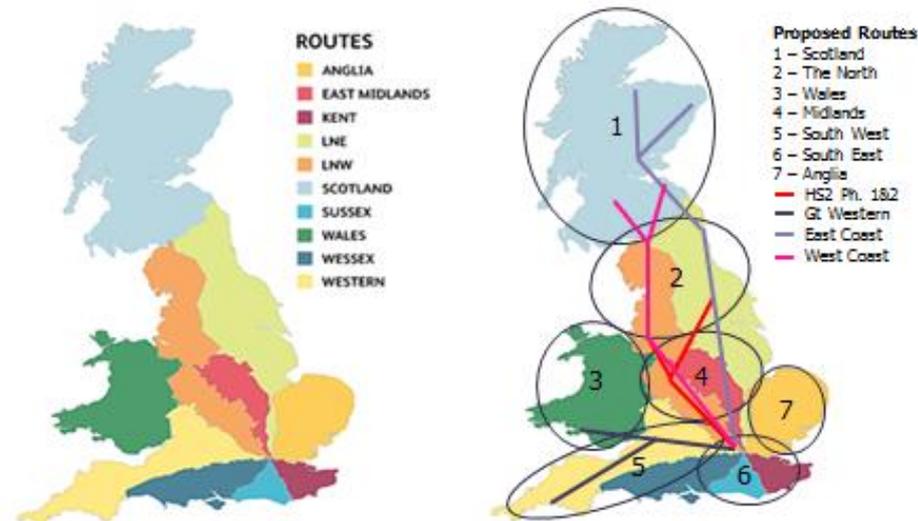
3 Devolution

We believe there to be two aspects to the 'Devolution' issue:

- Internal to Network Rail - This refers to the devolution of responsibilities, powers and accountabilities within Network Rail. There is no doubt that responsibilities between the routes and the centre are still not defined, understood, or agreed. This is likely to contribute to some of the inefficiency referred to by the scoping report. We would like to see a solution that reflects the principles of maximum empowerment, full accountability and an ability to change a poorly performing 'route manager' if and when required. We believe a strong case exists for devolving further responsibilities to the routes/regions; e.g. budgetary control, Asset Management (including renewals and small enhancements), Customer Service and Stakeholder management. We believe this would result in greater customer focus, including a closer working relationship with TOCs and FOCs. A number of private sector route/region managers, accountable for performance and liable to be removed in the event of serious deficiencies would provide an effective solution, not dissimilar to that now seen in other utility sectors.
- External to Network Rail - The Government's drive towards greater regional devolution is looking to put decision-making and delivery into the hands of those who are best placed to drive local economic growth and improved quality of living. **There is the case for changing the route structures to reflect political and economic geographies that are relevant to 21st century Britain** (rather than the Victorian geography of the current structure). This should have a significant impact on the current route structure and should reflect the Devolution agenda being

pushed through by Government, based around strong regional hubs, associated urban centres and their hinterland . As such we suggest an alternative route/regional structure which is highlighted in the graphic below.

Potential Routes



This proposes a devolved structure for rail which reflects the regional networks of other transport modes, centred on the economic drivers of the UK’s emerging geography. One (or more) inter-city routes are centred on the emerging HS2 network and its extensions, along with the GWML to the west-country.

We should stress that the future context for a change in the geographical focus of the network is likely to be continuing strong growth in demand. Rail will be required to carry an increasing share of this total travel growth and will become increasingly important in supporting regional mobility and economic development.

4 Efficiency

We take the view that economic value for money is critical to the delivery of efficiency in such a large and complex system as the UK’s rail network. It is apparent from the Hendy and Bowe reports that there has been a major and possibly systematic failure in ensuring that economic efficiency is both being sought and achieved.

We can suggest a number of principles that, we believe, would assist in improving the efficiency of network management and enhancement:

- **Creation of a strong strategic planning function**, which integrates the planning of franchises, freight facilities and infrastructure (along with other modes). This would replace the more fragmented approach that currently exists;
- A reduced reliance on the RAB as a basis for valuing and financing the network.;
- Increased use of benchmarking to understand the comparative efficiency of routes/regions, as illustrated by the regulated water sector;
- A **commitment and viable plan for the implementation of asset management** as the basis for efficient network operation. Network Rail, and Railtrack previously, have struggled to make progress in the implementation of an ‘asset management’ approach and whilst the present organisation now has a clear commitment to this, the time required for substantial progress appears unduly long;

The consultation sessions considered the concept of a ‘single systems operator’ in order to ensure the rail ‘system’ is planned, operated and enhanced in the most efficient manner. We would concur with the concept of the rail network as a system; however we would take issue with the argument that it therefore requires a ‘single operator’ (or manager). We do not believe that systems theory would support the case for a single point of control or management, but would stress the importance of clarity of purpose; clear boundaries; good linkages between internal components and sub-systems; and a firm understanding of what lies inside the system, and what lies outside. Therefore, we believe that the goal of optimising the performance of the UK’s rail system will be achieved by addressing many of the points raised in the scoping report (purpose, structure, governance, accountability, etc) and not by seeking single points of control.

The final issue, linked to generating greater efficiency, concerns the financing and funding of the network.

5 Financing and funding

Funding of the railway looks certain to remain the responsibility of passengers, through the farebox (and the equivalent for freight customers) and of Government through subsidies and grants as justified by economic and social benefits.

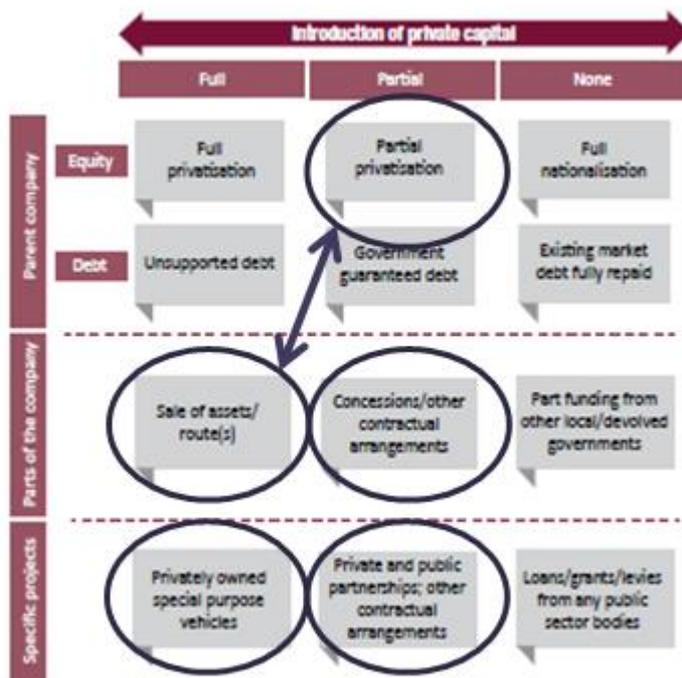
We believe that significantly greater private sector involvement in the development and delivery of financing solutions would bring considerable benefits as well as helping to address a number of the major issues raised in the scoping report. Such potential benefits include:

- Increased accountability for performance;
- Improved budgeting and cost management;
- Accelerated introduction of asset management methods;
- Acceleration in the development of projects.

For the future, we would suggest that the circles highlighted in the scoping report’s graphic, below, would go a long way to addressing most of the issues. Each one of the options circled provide

- An off balance sheet solution
- Internal competition (similar to that that is implemented in the Water Industry)
- Better accountability through private sector involvement and the facility to take action in the event of poor performance
- Change in culture

Figure 17: Spectrum of potential funding and financing options



6 Closing Comments

We have tried to focus our response to what we see to be the most important issues raised by the scoping document and discussion sessions. Whilst we could have provided a lot more detail on some of these issues, we have favoured a more succinct approach.

We hope that our response is viewed as a positive contribution to what is a difficult and complex exercise. We fully appreciate the problems and challenges faced by Network Rail and should emphasise that the issues lie with the structure and processes within the organisation and not the individual staff, who continue to work with professionalism and great application through these difficult times.

Should you wish to clarify or expand upon any of these points, then we would be delighted participate in further discussions.