

Nicola Shaw

Via email: shaw.secretariat@shawreport.gsi.gov.uk

22 December 2015

Dear Nicola,

Thank you for the opportunity to respond on behalf of HS2 Ltd, to your consultation document "*The future shape and financing of Network Rail – The Scope*". The next few years will be an exciting but challenging time for our industry. The next few years will see the digital railway deliver a step change in performance and capacity of the infrastructure, potential changes to our industry structure resulting from the various reviews currently underway, continued rising demand and escalating passenger expectations alongside rapid technological changes, and that is all before our once in a lifetime opportunity to introduce HS2 high speed trains into the system.

First of all, although I know you will be very much aware of them, it is worth me listing as background to this response, HS2 Ltd's strategic goals:

- To be a catalyst for sustained and balanced economic growth across the UK;
- To add capacity and connectivity as part of a 21st century integrated transport system;
- To deliver value to the UK tax payer and passenger;
- To set new standards in passenger experience;
- To create opportunities for skills and employment;
- To create a railway designed, built and operated to the highest health, safety and security standards, and
- To create an environmentally sustainable solution and be a good neighbour to local communities.

Whilst I have shared this response with colleagues at the Department for Transport, it is worth being clear that I am responding in my role as Chief Executive of HS2 Ltd. The response reflects my views in this capacity, as endorsed by the Board, and this does not represent any formal statement of DfT or Government policy. I have not sought to provide recommended solutions to any of the questions posed, but have instead set out criteria for your consideration in recommending any changes to the structure and form of Network Rail. I have limited my responses to those areas that impact on HS2 Ltd, and the wider HS2 Programme, either because the potential options may represent a risk to the successful delivery of the programme's objectives, or because some solutions may represent opportunities to optimise the system and maximise its benefits.

1. With Network Rail now on the public balance sheet as a central government body operating under a framework agreement with the Department for Transport, DfT has taken on more direct accountability for, and influence over, NR's performance in delivering enhancement projects. This is a point that is outlined in the recently published document '*The Report of the Bowe Review into the*

Planning of Network Rail's Enhancements Programme 2014-2019' ('The Bowe Review'). Franchised operators effectively have DfT acting on both the supply-side (for infrastructure) and the client-side (through a Franchise Agreement) for TOCs. DfT is therefore in a position of having to make decisions in the best interest of passengers and taxpayers, whilst taking a view on both the supply and client side for franchise agreements. This might not cause an immediate problem during steady state operations, but it increases the complexity of the commercial arrangements during times of change or delivery challenges. The delivery of the HS2 infrastructure is a major challenge for the industry, with numerous interfaces with the operational railway. The subsequent introduction of Phase 1 services in 2026, which will result in circa 10 trains per hour on the new HS2 infrastructure, of which approximately 7 will then transfer onto the classic network, will result in major timetable changes for the whole network. Clarity and simplicity in the commercial arrangements, along with the ability of a 'system operator' to take the holistic view in setting priorities, will be critical if we are to avoid increasing the risk to achieving successful delivery of the benefits that we have promised.

2. A key objective for HS2 is the achievement of the highest levels of performance and reliability. We committed publicly in the Strategic Case to the following:

4.1.4 HS2 will be built using proven railway technology which is already widely in service around the world and has been designed using integrated system engineering principles to deliver very high performance. Modern train control systems and rolling stock will ensure a punctual and reliable service. International high speed networks routinely operate with very high levels of punctuality and we expect the same from HS2.

The whole HS2 benefits case and timetable planning assumptions are premised on the achievement of these high standards of performance and reliability. However, as outlined in section 1 above, when we commence Phase 1 services in 2026, approximately 7 out of 10 HS2 services every hour will run onto the classic network, interfacing with a West Coast Mainline upon which currently circa 1 train in 6 is over 10 minutes late. This could import consequential delay to the HS2 network and undermine our ability to deliver the high level of performance that we have promised. It is therefore imperative for the success of HS2, and for the rail system as a whole, that the decisions that are taken in your review ensure that Network Rail, or any future infrastructure manager for the classic network, is structured to enable it to focus on working with us to deliver the performance improvements that are necessary to enable the successful introduction of our train services onto the network. I should also acknowledge here that I recognise that this commitment goes both ways, and it is incumbent on us to work with the industry in order to minimise any potential adverse effects from HS2 services being imported onto the classic network.

3. I am aware that the ORR is currently developing a report, following consultation, on the System Operation function for the rail network, and my team is engaged through DfT and the ORR in providing input to that review. However, it is imperative that there is a clear framework within which the body delivering enhancements for the network (whether that be Network Rail or some other body in the future) can take the holistic view in order to prioritise its resources transparently, both for the implementation of projects and for trade-offs when challenges arise, as they inevitably will. Network Rail currently has a number of different customers, as outlined in your report, and with further devolution planned and the introduction of HS2 services, the number of customers is likely to increase further. As a regulated infrastructure provider, Network Rail is currently incentivised to prioritise those schemes that contribute to regulatory outputs, sometimes at the expense of schemes that it may have committed to other customers. It is therefore imperative that a framework is put in place that enables

this holistic view to be taken to support effective and transparent prioritisation of whichever schemes are considered to be in the best interests of passengers, taxpayers and other stakeholders.

4. Whilst the delivery of 'classic rail' enhancement works required to support the delivery of the HS2 programme may well remain outside of any regulatory settlement, it is imperative that the programme is not viewed as an uncapped funding pot alongside any regulatory settlements. Therefore, I would recommend that agreements made between NR (or any successor) and DfT or HS2 Ltd to support the delivery of the HS2 programme should include some level of cost incentivisation and be regulated for Value for Money despite the HS2 programme itself sitting outside the regulatory settlement.
5. In addition to the need for the system operator to be able to take the holistic view to support the prioritisation of enhancement works, it is also essential that this is the case for capacity allocation and service planning. Successful realisation of the benefits promised from the HS2 programme relies on the effective planning of the HS2 services in combination with the rest of the network. Achievement of this goal will rely on a network manager planning the services that serve the relevant markets in a holistic way, as well as providing the access and infrastructure to enable HS2 'classic compatible' services to operate on the 'classic rail infrastructure'. Any fragmentation of this responsibility could increase the risk to the programme as a whole.
6. You ask in your consultation document for views on the adequacy of the current enhancements planning process. I am conscious that *'The Bowe Review'* recommends that DfT considers de-linking major enhancements from the 5-yearly planning cycle (paragraph 6.22 - *'the Department should consider whether major route enhancement schemes (in particular) should continue to be tied to the periodic review cycle or whether they should be handled under bespoke arrangements such as those in place for Crossrail and Thameslink'*). I agree with the conclusion that there are real tensions in delivering long term programmes within an operating environment that has a 5 year planning cycle. Some level of longer term planning certainty (which we have on HS2, but operating with numerous critical interfaces to an environment that only has a 5 year planning horizon) is something that the industry needs to support the delivery of major programmes like HS2.
7. In addition to the need for longer term planning stability, it is worth noting that short term political pressures, which can be magnified when considered at a local level for devolved services, can also increase risk to the delivery of projects. The success of the railway is very important to everyone in this country, both to passengers and taxpayers, and it is absolutely right that those people who are democratically elected by their constituents are those who set the objectives and are ultimately held to account for the railway's success or failure. However, the success of the railways depends on projects with timelines that are significantly longer than the UK's political cycle. Therefore, politicians, at both local and national levels, can be placed under pressure to demonstrate 'quick wins' at certain times that may not be compatible with delivering the long term objectives of projects like HS2. I should stress that many of HS2 Ltd's stakeholders do take the long-term view, but this is not always the case. Finding a way to provide stability and shelter from the risk of short-term priority changes is something that would be beneficial for the railway as a whole. Longer term stability could help provide the environment within which further private investment could be encouraged into the industry, and specifically from an HS2 programme point of view, it would help to reduce risk both in the construction and operational phases.

It is also worth mentioning that, although you have not asked any questions regarding the funding and ownership of the HS2 infrastructure (*page 12 of your report references DfT's assumption that HS2 Ltd will transfer to the role of infrastructure manager from 2026 onwards but does not ask any questions about this*), I think it is important to stress the importance of keeping the ownership and operation of the infrastructure separate from the rest of the network. You will be very aware of the different operating requirements for a high-speed lines compared to traditional lines, and of the high-levels of performance and efficiency that are achieved on HS1 compared to most of the rest of the network. We feel that this can best be achieved for HS2 by keeping the ownership and operation of the infrastructure and assets separate from the rest of the network.

My team and I would welcome the opportunity to discuss this response in more detail. Please liaise with Chris Rayner, Managing Director Railway Operations and Paul Seller, Commercial Director Railway Operations who have led on this work for me and would be happy to talk it through and to help provide views on forming any recommendations.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Kirby', with a stylized flourish at the end.

Simon Kirby
Chief Executive