# GB Railfreight Detailed Response
# The Future Shape and Financing of Network Rail (The Scope)

Summary Comments:

GB Railfreight Limited (GBRf) has four key points it would like the Shaw Report to reinforce throughout this review. The detailed response provided, below, keeps these four points at the heart of it:

1. **One Network Rail for Freight** – Devolution, without national integration, is a clear and present threat to safe and efficient freight operations across the 16,000km of railway for which GBRf holds a licence to operate. Localisation does have our support but with clarity and the controls in place to prevent unintended negative effects.

2. **Simplicity / Less complexity** – Working with Network Rail is already quite demanding due to the myriad of roles that the organisation fulfils. The findings and recommendations should have a firm target to not introduce anymore new roles. “Back to Basics” needs to be the order of the day.

3. **Flexibility and Agility** – Freight companies require a Network Rail that can respond quickly and enable freight’s growth and development. This means that the natural penchant for planners and strategists to lock down the variables to optimise in a controlled environment have to be resisted. As freight evolves from a bulk carrier to mixed train / logistics services, it has to have an infrastructure manager capable of supporting that switch, e.g. the ability for Network Rail to spend money and react as it has in the past has been heavily curtailed since reclassification.

4. **EU Compatibility** – Whichever organisation is to be selected, it has to be compliant with EU legislation preventing re-integration between Network Rail and any TOC or FOC. It also guarantees that essential functions will be kept within Network Rail.

Questions:

1. **What are your views on the scope of Network Rail functions?**

   GBRf recognises the definition of Network Rail’s functions as Operations, Maintenance, Renewal and Enhancements (OMRE) to the physical infrastructure of the railway. The list of activities (page 27; section 3.9) captures far more detail than the four core activity headings which is helpful.

   There is at least one area where GBRf is not convinced that Network Rail is best placed to lead on behalf of the industry and that is in the developing of the digital railway concept. The FOCs and TOCs have a vested interest in this area but a large amount of the current Group Digital Railway department in Network Rail is focused on next generation signaling (ETCS) and Traffic Management (TM).

There are many other areas in the arena of train operations that Network Rail does not hold the competency to deliver nor does it have the commercial levers or dynamism to ensure best value for money. Digitalisation is the next logical step for further efficiency gains across all operations – onboard, trackside and in the cloud, and waiting for control period timelines and network rail procurement processes and policies to support this revolution is not a viable option.

Digitalisation is a programme for the whole industry and should be lead by a body that represents the whole industry including downstream users of our services.

It is also worthy of note, but not captured in the report, that Network Rail has applied for an Operating License for freight services that is scheduled to be approved from April 2016.

Network Rail functions should also be compliant with the EU "essential functions notion".

The final point, which is not clearly apparent from outside Network Rail, is the huge task of managing the requirements of DfT in a changing economic and political environment. Since Network Rail's reclassification this is increasingly juxtaposition against the ORR.

**2. Have we failed to mention any specific and important factors?**

**Connections to the Network** - Network Rail has a role in facilitating freight growth through connection agreements, both existing and new to the network. This is an important role that needs to be captured and considered.

**Service Provision** - Network Rail already undertakes maintenance for some third party locations (over and above HS1 Ltd.), which is a service they can be best placed to manage, from a value-for-money perspective, especially in remote locations.

**Engineering Authority** – The role Network Rail plays in the introduction of new rolling stock to the UK is a key activity as it facilitates growth and innovation.

**Largest Single Buyer of Railfreight Services** – The OMRE activities all require freight services to support the removal and re-instatement of infrastructure materials. The 2013 report, into the value and importance of railfreight, estimated Network Rail's annual spend at c16% of sector turnover. This percentage will have increased since 2013 with the decline in ESI Coal. This role of Network Rail supports the freight sector as it's these very contracts which have seen the introduction of competition into the freight market to challenge the two legacy (formerly British Rail) Operators, DB Schenker Rail (UK) and Freightliner Ltd.

As Network Rail ventures into railway operations from April 2016, this relationship and balance in the sector is at risk of downstream negative unintended consequences, as Network Rail does not have the same economic drivers as the Freight and Open Access operators.

3. **What are your views on these accountability arrangements and their effectiveness?**

This section is the area that holds most concern for GB Railfreight, with the lack of detailed treatment for freight and open access operations in route structures, reinforcing the fears that freight and open access have to a certain degree been missed in the compiling of this report.

In Figure 8, *Annual Funding Flows to Network Rail (and the rail industry),* there is an absence of mention of the Strategic Freight Network (SFN) funding for England and Wales and the Transport Scotland SFN fund. There is also a flow from DfT to FOCs for Modal Shift Revenue Support (c£19m per annum). If government fulfills its aim of passing the network grant via the TOCs, and in turn Network Rail are allowed to increase track access charges accordingly, the FOCs and Open Access operators will need to be held harmless from any changes.

The role of DFT and Network Rail must be clarified vs that of the ORR. The DfT owns the overall multimodal strategy for Britain; Network Rail is the vehicle for delivery and the ORR regulates the quality and value for money of that delivery, especially with respect to Network Rail's accountability for strategic decisions.

4. **Have we correctly identified and defined Network Rail's customers?**

The Open Access operators are missed from Figure 11: *Network Rail's Customers*, on page 39. These operators, like FOCs, are the railway entrepreneurs with 'real' businesses and jeopardy absent of the protections that franchised operators enjoy such as Revenue Support.

There is a wider customer base for Network Rail than has been described. As noted above, Network Rail has commercial contracts with Ports and many other terminals across the network. These connections have annual charges which are levied based on maintenance levels required to handle volume of use.

5. **How effectively are customer needs and expectations met by Network Rail at present?**

Network Rail exists at two levels in the eyes of the freight sector and the annual GFK Customer Satisfaction Survey Network Rail carries out each year asks questions in respect of these two dimensions. At one level there is the Network Rail Freight Team and then the Routes / Rest of Network Rail.

The Freight Sector enjoys a stronger, more positive, relationship with the Freight Team as it's our only real vehicle for advocating for freight within Network Rail. The views of the rest of Network Rail are somewhat dimmer as the understanding of how FOCs conduct their business, the pressures in the marketplace and the service imperatives, are much harder to communicate.

The Routes, which are already heavily influenced by their assigned TOCs, look at open access freight operations as a hassle and burden on their network. That view, generally speaking, then permeates into any engagement and positivity toward new or additional freight business on the rails.

Network Rail's Senior Route Freight Manager roles report into the Freight Team but are sat regionally have some licence to support and advocate freight, which has generated some real successes in the past three years.

The key issue is that there is an absence of incentive to encourage more freight as the focus is almost exclusively on Safety and Passenger Performance to the detriment of other key services.

The Freight Team, within Network Rail, has to be given a higher status in the management hierarchy and Route colleagues set clear and stretching objectives – with bonus weighting where possible – to develop and encourage freight growth.

By far the overriding criticism of Network Rail is its seeming inability to deliver its enhancements and renewal projects, with an even worse track record in On Board train and locomotive projects, e.g. GSM-R.

This lack of delivery has disproportionately affected freight as the schemes for freight are typically very small in comparison to the passenger driven projects, but are heavy in the need for specialist skills. For example, there are train lengthening schemes, first approved in Control Period 4, which have rolled to Control Period 5 and are now at risk of slipping to Control Period 6. These schemes hold back the sector and limit the abilities of FOCs to deliver modal shift targets.

**6. Should direct customer pressure on Network Rail be strengthened? If, so, how might this be achieved?**

**Note:** It is not clear to GB Railfreight what the definition of "customer" is for Network Rail, i.e. whether that's the travelling passenger, end freight user or specifically just the TOCs and FOCs. We answer this question assuming it's the wider customer base beyond TOCs and FOCs.

The customers should have an ability to influence the focus of Network Rail to deliver OMRE activities in the areas where the national interests are best served. To ensure that Network Rail listens and responds appropriately, there needs to be a financial incentive of some sort to achieve a satisfaction level. Putting this another way, there has to be an individual executive level jeopardy and remedy for achieving and failing to achieve.

7. **Are there more positive incentives for delivery which would be useful? Are any of these incentives more effective than others?**

The normal incentives are linked to executive bonuses and other financial rewards for success. As these tools are less feasible in a post financial crisis public service economy, incentive vehicles are limited to ones that encourage through other methods of recognition such as;

a) Promotion / accelerated development for individuals based on tangible results being demonstrated.

b) Additional annual leave allowance to reward for delivery

c) Public league table of best and worst performing Routes similar to hospitals and schools

d) A special measures process which intervenes in projects and programmes based on milestone delivery failures.

e) An independent programme and organisation auditing function which assures the processes and progress of projects with the ability to set a health rating (in a similar manner as Ofsted for schools).

The incentives to deliver are typically either financial, personal pride or a combination of both. A league table, with special measures treatment for the bottom of the league table, is a method used to great effect in the school system.

8. **Is there a case for changing the route structure and what are the advantages and disadvantages of different approaches to disaggregating the network, for example on the basis of:**

- Physical, political or economic geographies?

- Service type, e.g. commuter services, inter-city services and regional services?

Freight operators need a single Network Rail as they are not equipped with staff numbers to routinely interface with multiple route teams. Therefore any further disaggregation is an even greater risk to the freight business. The reason for a Network Rail, in its current shape, is for managing cross-route operations and ensuring that the trading relationships between Routes are adequately controlled.

The route structure that would best suite freight operations is one based on freight corridors emanating from the key points of entry to the UK (Ports and Channel Tunnel), the connections between the conurbations for domestic transports, and the routes from manufacturing areas to the markets for consumption.

With the advent of Traffic Management and the creation of Railway Operating Centres (ROCs) around the country, the operating of trains across the Network should become “boundary-less”. The borders would then remain purely for the purposes of Maintenance, Renewal and Enhancement, centralising the Operations and devolving the remains of the OMRE activities.

**9. Does the current balance of responsibilities between the routes and the centre seem at the right level? Are there any further responsibilities that should be devolved or centralised?**

See Question 8 for a detailed explanation.

**10. Can you point to any specific economies of scale that should be protected at national rather than route level?**

National Capacity Planning and Strategic Development are more efficiently controlled centrally but that has to be balanced with some regional and local knowledge which has not yet been codified into a technological solution.

The purchasing power of Network Rail for commodities such as energy, track and signalling should be maintained.

Route devolution, which has occurred in the past three years, has been challenging for the freight operators as the local relationships with TOCs and other interested parties has lead to some curiosities in the allocation of capacity. Where the Route Managing Directors have had absolute power in making decisions for their routes, the absence of clear business rules, which serve to treat all parts of the industry equally, have been more than a little strained at times.

**11. What processes and capabilities need to be in place (at both the centre and route level) to support Network Rail’s current devolved structure?**

The Network Rail Freight Team has been a hugely important development which came as part of the original devolution process. This team needs to remain and have its influence extended, to maybe having the same status afforded to the Scottish Alliance, which would lift it out of the daily battles with Route Managing Directors.

The Freight Team needs to have its hands on much more strategic issues, which are currently lost in the route management, which is very much more tactical. A vital point is that the Freight Team remains populated with strong leadership appointments at Director and Executive Level, who have deep knowledge of the sector and have objectives agreed with the freight sector and Network Rail.

12. **Drawing on your previous experiences where relevant, what would be the potential impact on your organisation of further structural change within Network Rail?**

The starting point for GB Railfreight is that, in general, it is content with the current structure as it is supporting us in plying our trade. That said, there is, of course, room for improvement. If the principle of a single Network Rail for freight is maintained and strengthened through the Freight Team function, with its enhanced status taking it out of the daily fight with Route Directors, then any structural changes required could be handled much more readily than without such a Freight Team.

Prior to any further structural change, the definition of System Integrator must be properly understood and the industry must be aligned on the powers and reach afforded to this function and activity. With this, and the role and status of the Freight Team understood and accepted, the changes at route level become much more palatable whether it be concessioning, or part of full privatisation.

13. **What are the strengths and weaknesses of Network Rail's current approach to planning enhancements?**

The single biggest issue we see in the planning of enhancements emanates from the skills and knowledge held by the project teams. This leads to incorrect specifications and therefore costs and delivery times are inaccurate. This then leads to delays in authorisation and lost benefits, at best, and at its worst schemes are never commissioned as planning assumptions generate unaffordable schemes.

The key link, which is currently absent, is between project planning and timetabling, where the notion of how the actual new piece of infrastructure would best be used is not given adequate thought or any rigour applied.

14. **What are the strengths and weaknesses of Network Rails current approach to delivering enhancements?**

The enhancements schemes seem have an absence of jeopardy and remedy for the accountable leadership group. There is also a "learnt behaviour" that has occurred where, for schemes that have overrun either financially or on timescales, money is found and timelines accepted.

The enhancement schemes are often delivered in splendid isolation from the railway running around it. There may be some merit in this, only at a project's starting point, with GRIP stages to navigate, so Network Rail can begin planning in time to complete before the end of the relevant control period. However, completing the design in isolation, and not taking on board TOC's and FOC's considered operational views early enough in the process, is not helpful to anyone and leads to schemes that are sub-optimal for all.

A real weakness that is evident is that if an enhancement scheme isn't completed by the end of the designated control period then the allocated finances cannot roll over, therefore putting the scheme on hold until a new authority is sought and approved.

Conversely, the absence of fear about running over budget, as the money will be found, is also a positive element in that this mentality has also allowed projects to be completed that would never have been authorised otherwise.

**15. How well do current delivery and planning processes work for projects of different sizes?**

In Control Period 4, there were a large number of freight specific schemes delivered on time, and to budget, with only a few exceptions for which funding was agreed to roll into Control Period 5.

However due to some of the points mentioned in the above paragraphs, the lack of linkage between projects and timetabling, and the absence of expertise in the project and sponsorship teams, has led to forecasted costs in some schemes trebling, only for those costs to be re-estimated once the freight sector has challenged them. Critically, this process has led to lost time and lost benefits.

The expertise is available in the industry and Network Rail needs to find ways to tap into that knowledge rather than try to train candidates up who routinely begin delivering and then move to new roles for career development. That maybe good for the individuals concerned but it has the effect of holding back major freight projects and therefore value to UK PLC.

**16. Are there any useful models or precedents from other sectors or countries for long term infrastructure planning and delivery processes that we should consider, including in relation to management of and engagement with suppliers during the planning process?**

We have two examples for the team to consider:

a) The Public, Private Partnership (PPP) scheme for Melbourne, Australia's public transit system.

b) The French Assistant a la Maitrise d'Ouvrage system especially in light rail system implementation.

**17. What would be the most important structural features of any future infrastructure provider?**

To be able to equally manage the needs of passenger and freight, nationally, providing the required flexibility and agility for growth and modal shift. In short - an equal playing field for all operators.

This should be achieved through a centralised system operation function which is supported by the whole industry in its role of encouraging multi-route and long distance operations.

**18. Are there any other processes which we have not highlighted, either within Network Rail or the wider industry, which could be improved?**

The entire timetabling process has to be revisited so that there's the ability to move from Short Term Planning to Long Term Planning in much quicker timescales. Flexibility and agility have to be built into a process that was designed for a time which has now passed. This is especially relevant in the age of Traffic Management and the Digital Railway.

**19. Do you have views on how the relationship between the periodic review process and other processes with which you are involved could be improved?**

We support a periodic review process as it gives boundaries and security of pricing and costs. Our preference, and that of our customers, is to have longer-term security over costs and as such we would advocate much longer timeframes between reviews. We have been seeking to increase to 10 or 15 year terms for items such as track access charging, for example.

Other areas such as funding for programmes and projects which have clear benefits cases should be funded outside of periodic reviews and final determinations. This will reduce the 'flash to bang' on projects and enable the railway to evolve at a much more rapid rate, enabled by technology at both hardware and software levels.

**20. What criteria should be used to assess structural options under consideration? How, if at all, should these criteria be prioritised?**

The first criteria must be the safety and integrity of the railway system. The amazing track record the UK railway has in this space must be preserved.

Non-discrimination between different types of operators and commodities carried especially freight vs. passenger operators.

The ability to implement affordable network enhancements - economic efficiency has to be crucial assessment criteria.

**21. Do you have any views on whether the RAB remains a relevant concept in the railway, and, if not, what should replace it?**

We believe that the RAB has been an excellent source of funding and it has been very successful for the railway. Other utilities use the RAB to great effect and we think that that the RAB should remain a feature in a basket of funding sources.

The issue with private funding is the seeming need for monopoly-level returns with very little risk. This has shown, through the rise and demise of PPP in the UK, to be challenging to manage in a price-sensitive world such as train ticket pricing.

**22. How should financial risk be managed in Britain's rail infrastructure in the future?**

This question is subject to whether the infrastructure remains public or has some level of privatisation. Simply put, in a public world the financial risk is borne by the public purse (the exchequer). In a private system the risk should be delegated to the concessionaire and the management team of Network Rail. However, as the railway is so critical to UK PLC, it becomes too big to fail meaning that, ultimately, the exchequer will always be the ultimate safety net.

**23. Do you have any views on how Britain's railway infrastructure should be funded in the future regardless of corporate structure?**

The funding should be a balance of public and private funding using multiple vehicles such as Concessions, Alliances, Franchises and Tolls in return for investment.

The balance of private and public funding has been used by the Ministry of Justice, the National Health Service but has had mixed results. It has to be a consideration when assessing the shape of Network Rail as to whether a different route structure may lend its self more readily to private investment.

**24. What positive case studies are there (e.g. international examples in the railway sector, other sectors internationally/ in the UK), where more affordable and sustainable funding and financing structures have been implemented, with or without private sector capital input? And how do you think the lessons learnt could be applicable to Britain's railway infrastructure?**

See attached ACCA Global Summary Report: *Taking Stock of PPP and PFI Around the World.*

**25. What are your views on the enabling factors facilitating a sustainable and affordable capital structure for Britain's railway infrastructure? What factors would be required specifically for private sector capital introduction?**

This is firstly a political choice: transferring part of all the Network to the private sector triggers the question of the transfer of the financial and operational risk of the network management vs. the cost of the private capital and private management of the Network.

The private sector will firstly request a long-term contract of at least 10 years in order to justify potential investment to improve the network.

The private sector will request a long-term commitment on minimum traffic flows. The private sector will request freedom from the tolls.

**26. What are the types of investors that maybe interested in investing in Network Rail, any of its function of selected parts of it? And for these type of investment, can you indicate:**

- **key attractions,**
- **risk appetite and**
- **required enabling factors?**

No comment on this question.

**27. What characteristics do you think enhancement projects would need to have to attract private sector investment and to what sector and in what form would public sector support would be needed? What types of financing structure could be brought to bear?**

They need to be significant in order to amortize the cost of financial engineering.

The public-sector support would require minimum planning and guaranteed revenues.

Financing will depend on how deeply the DfT would want an involvement with the private sector. It can range from loans to a concession system.

**28. What incentive mechanics or control structures on Network Rail would facilitate third party involvement in the financing of enhancement projects?**

The ability to separate out the revenue from a specific stretch of infrastructure which will support the financial returns required to take the investment risk. This should in no way affect the pricing of access to the network and therefore would in practice be very challenging.

**29. Do these feel like the right concerns? Has anything been missed that is vital to consider at this stage?**

GBRf believes that the line of thought and questioning is correct and appropriate. Our only additional ask is that a “Do Nothing” option is also considered when reviewing how Network Rail is shaped and financed and, instead, inject effort into evolutionary changes aligned with technology rollout to limit the delay and confusion which results for at least a two year period after any business wide change at Network Rail.