Response to The Shaw Report - the future shape and financing of Network Rail, Scoping document

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Freightliner Group

December 2015

Executive Summary

Freightliner welcomes the opportunity to respond to the Shaw Review into 'the Future Shape and Financing of Network Rail'.

Freightliner recognises that many stakeholders expect Network Rail's structure to become more devolved and Network Rail has begun developing a new route-based operating model, expanding on their existing matrix organisation, with the anticipation that this will help control costs. Notwithstanding the changes that are already underway, there are a range of opinions over how Network Rail should be structured in order to respond to today's challenges and whether greater devolution would enable Network Rail to be closer to its customers.

The structure of Network Rail is an important issue for rail freight operators and their customers, as they operate nationally and have services that cross many Route boundaries. This is driving the need for a 'safety net' – a requirement for core functions to be maintained at a central System Operator level – in order to mitigate against the risks posed by greater devolution for freight operators, and enable rail freight to grow and continue to deliver the significant benefits to the UK economy.

These benefits, many of which fall outside the railway balance sheet, are substantial. The productivity gains for UK plc, and the congestion and wider environmental benefits generated by rail freight, are worth over £1.6bn per annum to the UK economy. With the forecasts suggesting that these benefits could increase to over £4bn per year over the next 30 years, it is crucial that Network Rail's functions are organised in a manner that supports the efficient delivery of the network, in order to realise these economic benefits.

The relationship between freight operators and Network Rail is complex and multifaceted, and mapping what these interfaces are is crucial in order to understand the implications of structural change. Our response identifies a centralised, national approach, to timetabling, possession planning, enhancement option development and responding to incidents as well as a central performance and standards regime and a national charging framework as being pre-requisites to support the rail freight industry.

Freightliner notes considerable improvements in Network Rail's performance since the start of the control period. Many of these improvements have been facilitated by Network Rail's National Freight Team who play an important role in advocating for freight both internally and externally, helping deliver high levels of freight network performance, safety, capacity and capability which is key to developing a successful rail freight sector. Any structural changes should not jeopardise these improvements and reverse this positive trend.

With more functions devolved to Route level it will be increasingly important that freight operators are viewed as being important customers of the Routes and we argue Route Managing Directors will require having objectives that are directly linked to freight, and that are of sufficient weight to influence behaviour.

Freightliner firmly supports the long-term planning of infrastructure, arguing that it is essential to ensure that investments are aligned to growth. Under British Rail, annual budgets were often hastily spent — distinctly not conducive to long-term planning. Network Rail's 5-year funding cycle has helped to ensure that the correct investment decisions are made to position the railway to meet future demand and this has been hugely beneficial to the success of the rail industry.

Our response references the discussion surrounding options to attract private capital and notes some of the practical considerations necessary to facilitate this. Ultimately though we note that if private capital is to be used to finance investment in railway infrastructure it must offer value for money by providing the necessary capital at the lowest rates of return, with the appropriate contractual and regulatory structures in place that support private-sector investment.

1.0 Introduction

Freightliner Group is pleased to respond to the scoping report of the Shaw Review into 'the Future Shape and Financing of Network Rail'. Freightliner welcomes the opportunity to make some observations and highlight the considerations necessary to help support and grow and successful rail freight sector.

Freightliner is a logistics operator specialising in rail, moving over 750,000 containers a year to and from deep sea ports and over 20 million tonnes of bulk goods. Based in the UK, Freightliner also has subsidiary operations in Poland, Germany, the Netherlands, the Middle East and Australia. We operate freight services in competition with other rail freight operators and with other transport modes, in particular lorries.

Freightliner is owned by Genesee and Wyoming Inc, a New York Stock Exchange listed company which owns/operates 120 railways across North America, Australia and Europe.

2.0 Greater devolution

Freightliner recognises that many stakeholders expect Network Rail's structure to become more devolved. The Chancellor announced in his budget statement in July that Network Rail would "devolve more power to route managers closer to the front line". Since then NR has begun developing a new route-based operating model, expanding on their existing matrix organisation, with the anticipation that this will help control costs.

There are a range of opinions over how Network Rail should be structured in order to respond to today's challenges and whether greater devolution would enable Network Rail to be closer to its customers. Freightliner understands that wider industry and political pressures are driving changes to Network Rail's structure. Given its size and structural complexity Freightliner agrees that changes to Network Rail's structure could support Network Rail in being closer to passengers. However future changes to structure, and any further devolution of functions to the Routes, must consider the needs of national operators, particularly freight operators, whose operations cross many Route boundaries and therefore unlike many TOCs, are not affiliated directly with a specific Route.

It is also important to recognise the considerable improvements that Network Rail has made since the start of Control Period 5 (CP5) and care should be taken to ensure that greater devolution does not jeopardise these improvements and that the new structure continues to support a successful rail freight sector.

3.0 Improvements in Network Rail performance

The issues surrounding the delivery of CP5 enhancement projects are well documented and the lessons that can be learned for future planning processes are beginning to be understood however, Freightliner has noted considerable improvements in Network Rail's performance since the start of the control period. Britain has one of the safest railways in Europe, passenger and freight volumes continue to grow significantly, rail satisfaction remains high and the European Commission has identified the UK as being Europe's most improved railway[1].

Freight reliability has improved. The Freight Delivery Metric, which measures the number of trains on time (to 15 minutes) in relation to Network Rail caused delays, continues to exceed 95% - outperforming the regulatory target of 92.5%. The appointment of centralised Freight Service

[1] European rail study report, European Commission, 2013

Delivery Managers has assisted in improving the reliability of services and minimising the impact of disruption by developing better post-event recovery of freight services.

Network Rail's National Freight Team has played an important role in advocating for freight both internally and externally, helping deliver high levels of freight network performance, safety, capacity and capability which is key to developing a successful rail freight sector. The excellent response to the Harbury landslip, which was managed by the National Freight Team, provided confidence in the resilience of the sector and demonstrated the importance of having a strong and empowered freight team.

Improvements are underway to increase capacity utilisation. Freight operators and Network Rail have worked together to reduce under-utilised paths, whilst there is an on-going Network Rail workstream to develop a catalogue of strategic paths which mirrors the forecasts in the Freight Market Study. This strategic capacity will provide greater certainty, increase confidence in the sector, help facilitate private sector investment and improve performance levels.

Bowe recognised that Network Rail's Strategic Freight Network (SFN) fund is "managed in conjunction with industry partners"[2] which enabled user participation in the planning process. The governance of the SFN, identified as being best practice, has allowed the industry to identify the best value interventions that improve the capacity and capability of rail freight across the network.

Any changes to Network Rail's structure should be looked at in the context of the tangible improvements that have been made in many areas of performance, and care should be taken to ensure that any new structure does not jeopardise these improvements and reverse this positive trend.

4.0 Interfaces between Network Rail and freight operators

The relationship between freight operators and Network Rail is complex and multifaceted and while the scoping report considers the high level principles surrounding structural change, the relationships further down the chain, and how these relationships are impacted by changes to the industry structure, need to be considered.

In that context, a clear understanding of the characteristics of freight operators and their interfaces into Network Rail is important in order to develop a structure, with an appropriate safety net, that helps to support and grow a successful rail freight sector. Understanding and mapping what these interfaces are is crucial in order to understand the implications of structural change.

A safety net – a requirement for core functions to be maintained at a central System Operator level – is required to mitigate the risks posed by greater devolution for freight operators, and enable rail freight to grow and continue to deliver the significant benefits to the UK economy.

5.0 Benefits of rail freight

Network Rail is an essential supplier to rail freight operators and the appropriate central functions are required in order to ensure that effective interfaces between freight operators and Network Rail are maintained. The benefits delivered by rail freight, many of which fall outside the railway balance sheet, are substantial and therefore the prize of having an industry structure that helps deliver growth and increase the productivity and competitiveness of British business is significant.

[2] Report of the Bowe Review into the planning of Network Rail's Enhancements Programme 2014-2019, Department for Transport, 2015

The rail freight sector has been a real success story. Facilitated by the current industry structure, by 2014 rail freight volumes had increased 80% since privatisation. The wider benefits to society and the economy are substantial. The productivity gains for UK plc, and the congestion and wider environmental benefits generated by rail freight, are worth over £1.6bn per annum to the UK economy.[3]

The forecasts suggest this growth could continue. Network Rail's projections indicate that freight volumes could double over the next 30 years, and with that the economic benefits will increase to over £4bn per year in today's money. However, these forecasts assume unconstrained capacity, and achieving this growth and realising the economic benefits is contingent on Network Rail's functions being organised in a manner that supports the efficient delivery of the network.

6.0 System operator functions to support rail freight

Freight companies operate nationally with many freight services travelling hundreds of miles and crossing a number of Network Rail Route boundaries. For instance Freightliner's service from Felixstowe to Glasgow via the cross-country route goes through five different Network Rail Routes. In the context of a Network Rail structure that is likely to be further devolved it is essential that the core planning activities remain a function of system operation, specifically:

6.1 Timetabling

There is a strong rationale for timetable planning to remain a core, central function. Freight trains are currently planned centrally by Network Rail. Since this centralisation improvements have been gradually realised. While there is scope for improvements, particularly through system and competency improvements, to deliver better outcomes, it is essential that timetabling remains a central function.

Any attempt to devolve this function to a route level would create additional burden and unnecessary bureaucracy for multi-route national operators, and would likely increase inefficiency and import further costs into train schedules, thereby reducing the attractiveness of rail freight. The creation of timetabling boundaries between the routes would restrict the ability of Network Rail to optimise the timetable at a holistic, national level, at a time when many stakeholders believe there is scope for Network Rail to optimise the timetable in order to deliver additional capacity from the existing infrastructure.

6.2 Possession planning

Many freight trains operate during the night, coinciding with the time Network Rail often plans possessions on the network to enable delivery of enhancement and maintenance projects. To minimise the impact on freight services it is crucial that when possessions restrict access to the network, diversionary routes, with the right capability (gauge, train length etc) remain open. As the diversionary routes often cross different Network Rail Routes, a degree of central coordination is required.

Network Rail manages this well at the moment through the central publication of the Engineering Access Statement – a national list of possessions on the network which is planned to ensure that possessions across different Routes do not conflict with each other. Having possessions planned nationally is important for freight operators as it ensures that services can continue to operate, which increases confidence in the reliability of rail freight.

[3] Freight Britain, Rail Delivery Group, 2015

6.3 Delivering enhancements over multiple Routes

Enhancements to increase the capacity and capability of rail freight usually involves coordinating projects across a number of Network Rail Routes – unsurprising given that most freight schedules cross a number of Route boundaries. The Southampton to the West Midlands train lengthening project and the Felixstowe to Nuneaton capacity enhancement project are both key schemes designed to enable rail freight growth. These schemes both cross three different Network Rail Routes and although delivery has faced a number of challenges, the centralised structure has been a pre-requisite to enable the projects to be planned. It is crucial that future enhancement projects continue to be planned holistically in order to maximise outputs and deliver the highest benefits.

6.4 Coordinated response to incidents

It is important for freight that major unplanned incidents continue to be managed centrally. The landslip at Harbury, which blocked the railway line between Oxford and Banbury, showed what can be achieved by a centrally coordinated response. Predominantly impacting intermodal freight traffic from Southampton, diversions were quickly identified across other Network Rail Routes which allowed much of the freight traffic to continue to operate. The coordinated response reflected well on rail freight and Network Rail, and provided confidence in the resilience of the sector.

Response to Harbury landslip

In January 2015 a 350,000 tonne landslip, extending along more than 150 metres of embankment occurred at Harbury Tunnel, blocked the line between Leamington Spa and Banbury for six weeks. This impacted on intermodal freight services between Southampton and the West Midlands, Northern England and Scotland.

Inevitably this incident was highly disruptive to freight operators and their customers, however the swift and coordinated response to this incident helped minimise the impact. The response was managed by the National Freight Team who coordinated with many other functions of Network Rail to help enable freight services to continue to operate.

Capacity Planning identified paths via a diversionary route, over different Network Rail Routes, via London along the Great Western Main Line and the West Coast Main Line to enable many services to continue to operate. A gauge certificate was issued to give dispensation for trains with a W10 loading gauge to operate over this route. Possessions along the diversionary route were cancelled (including a significant possession at Watford Junction) to enable those diverted freight services to continue to operate. The centralised Freight Service Delivery Managers monitored the performance of these trains across the different Network Rail Routes to ensure that the additional trains did not detrimentally impact on network performance.

The coordinated response reflected well on rail freight and Network Rail, and provided confidence in the resilience of the sector. The response was swift and was effective because the National Freight Team were able to coordinate with other functions within Network Rail.

6.5 Managing Performance

Although the attribution of delays is already devolved to Route level the performance regime is a national, benchmarked regime, with Network Rail at the centre of the ‘star model’, which minimises unnecessary complexity and bureaucracy. Furthermore performance is managed across strategic freight corridors. These corridors cross a number of Network Rail Route boundaries.

Managing these corridors centrally has helped to drive improvements in freight performance and improved the understanding of freight capacity and flows.

A system where there was a different performance regime in each Route and which encouraged Routes to blame each other for delays rather than fix problems and find solutions, would be a detrimental change.

6.6 Charging regime

A national charging and incentives framework should be retained. Already a more complex mode than road, the introduction of geographic charges could result in differing local direct costs, increasing complexity which could dislocate existing traffic to road. Route based charging would risk creating perverse incentives, for example incentivising more traffic to operate on the busiest routes.

Road charges are set at a national level (fuel duty) so it is important that the charging regime continues to be set at a national level. Any attempt to adopt a Route based approach to charging for freight would increase complexity, reducing the attractiveness of rail freight in comparison to other modes which can offer customers a much simpler and more predictable charging structure.

6.7 National standards

A national approach to standards must be maintained, for example a standardised approach to determining loading gauges that defines the maximum height and width for railway vehicles that can traverse the network. A common standard is a fundamental requirement for vehicle design and to avoid restricting access to freight operators and importing additional costs.

6.8 Planning for growth

Forecasting future demand and understanding the changes and enhancements required to the network to deliver this growth is handled by Network Rail through the Long-Term Planning Process. Although the production of these studies is already devolved to the Routes many of the inputs into these studies are based on shared central assumptions. For instance, the Freight Market Study provides national forecasts for freight services across various commodity groups over a 30 year horizon, providing a key input into the Route studies. Without the Long-term Planning Process being coordinated at a central level, it is unlikely that a consistent and standardised approach would be taken by the Routes to provide robust national forecasts, and without that it would be difficult to ensure that proposed enhancements would deliver best value.

7.0 Network Rail supporting rail freight

7.1 National Freight Team

Understanding the interfaces between freight operators and Network Rail and ensuring that an appropriate ‘safety net’ is in place to avoid any dislocation is crucial ahead of any changes to Network Rail’s structure. Maintaining Network Rail’s National Freight Team is another important element to minimise the impact of any structural change on freight operators.

The role of the freight team is valued by the sector, and has driven improvement through its work, and its advocacy, both internally and externally. The National Freight Team provides the key link between Network Rail and its freight customers. As more functions are devolved to the Routes, and the structure becomes more geographically diverse and complex, the importance of having a strong and empowered central freight team will be even more crucial.

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, and therefore it is essential that the central freight team is retained, and that the team has sufficient gravitas and empowerment to enable a consistent national product to be offered to rail freight operators and their customers.

7.2 Freight based objectives

With more functions devolved to Route level it will be increasingly important that freight operators are viewed as being important customers of the Routes. That will require Route Managing Directors having objectives that are directly linked to freight, and that are of sufficient weight to influence behaviour.

Functions of Network Rail's National Freight Team

The National Freight Team's vision is 'to deliver high levels of freight network performance, safety, capacity and capability at an efficient cost, supporting economic growth, and profitable and sustainable development of the rail freight sector'. This is achieved through:

- National Coordination of freight access rights and contracts led by Customer Relationship Executives for each major Freight Operator.
- Support via the Route Freight teams within devolved Routes to develop new terminals, grow new traffic, operate longer trains in an agreed and sustainable way.
- Monitoring and improving delivery of day to day performance through the 24/7 Freight Service Delivery Managers working on service reliability and post-event recovery of freight services.
- Reporting on freight performance through a range of indicators.
- Creation and Ownership of the Freight Strategy in Network Rail to reduce costs, increase capacity and improve quality for FOCs and the end user community.

8.0 Considerations ahead of devolution

Freightliner recognises that support for devolution from a number of stakeholders will result in more Network Rail functions being devolved to the Routes and that these aspirations may result in the 'sale' of an English Route, perhaps through a long term infrastructure concession. This would represent a momentous change with significant ramifications for the entire industry, and therefore in addition to providing an adequate safety net for national operators, as described above, there are further considerations required ahead of such structural changes.

8.1 Risk appraisal

Given the scope and scale of the potential structural changes, a thorough risk appraisal should sit alongside the devolution strategy. Reflecting the magnitude of the potential changes this needs to be a comprehensive and thorough analysis.

8.2 Unintended consequences

The implications of a new structure need to be adequately considered in order to avoid unintended consequences and the possibility of creating perverse incentives. Dame Colette Bowe highlighted how the Route devolution which began in 2011 was a contributory factor to the cost escalation and schedule delay in the CP5 enhancement schemes. By devolving the operations, maintenance and renewals budgets but not the enhancement budgets to the Routes, the report inferred that there

was no incentive to reduce the scope of enhancements and instead renew assets – in fact the reverse incentive emerged.

There are other examples where the devolution of certain functions to the Routes has in some areas created internal conflicts within Network Rail, which are to the detriment of the national organisation. Delay attribution is one such area where devolution to the Routes has created perverse incentives. The Route-based performance targets have been seen as creating an incentive to re-attribute entire delay incidents to a different Route, rather than attribute the delays within the incident to the appropriate party.

These examples demonstrate the importance of taking time to ensure that a new structure will deliver the benefits that are anticipated, and avoid establishing a new structure which is counter-productive.

8.3 Corporate memory

It is important to understand how Network Rail's structure has evolved, and to understand what lessons can be learned from this evolution, before introducing significant structural changes. Under the tenure of Iain Croucher from 2007, Network Rail embarked on a strategy of centralising many functions which were previously devolved to the Routes, and this resulted in the establishment of the national centre in Milton Keynes. This was in response to perceived inefficiencies in having many core functions, for example timetabling, devolved to Route level and a perception that efficiencies and economies of scale could be gained by consolidating them centrally. Before devolving functions that have already previously been devolved prior to 2007, it is important to understand the rationale that led to their centralisation.

Network Rail was set up in reaction to several serious accidents and there has been a much improved safety record over the last 10 years with the UK railway now the safest in Europe. All stakeholders are keen to avoid reversing this.

8.4 European law

The trilogue of negotiations on the fourth rail package is currently underway between the European Council, Commission and Parliament aimed at liberalising and improving the competitiveness of the European railway sector. Key to increasing competitiveness within the sector is the separation of infrastructure manager and operators.

It is crucial that the that the fourth railway package is trying to create for the European rail sector are recognised and that appropriate EU legal advice is taken to ensure that the future structure of Network Rail does not conflict with this.

8.5 Cross modal competition

The competition between road and rail will continue to intensify as growth in the rail freight sector will largely be driven by the intermodal sector, with rail less reliant on the traditional commodities, such as coal. This means that rail freight will increasingly be competing directly with road, making it increasingly important that a new Network Rail structure does not increase complexity, import additional cost or create additional risk which would likely restrict rail's ability to compete with road.

8.6 Financial implications

There are many financial implications that need to be understood and addressed before establishing a new Network Rail structure. Staff pensions, and funding top ups, is one such area

that could be affected if a pool of individuals is transferred to a different entity. This potential side-effect of devolution needs further consideration by the appropriate experts.

9.0 Options to attract private capital

Options for attracting private sector capital to fund infrastructure enhancements are explored in detail in the scoping report. The potential to sell specific parts of the infrastructure through a long-term concession similar to High Speed 1 is discussed. Freightliner understands that this is an aspiration of a number of stakeholders, who perceive this as a means of, not only attracting private finance, but also providing an independent comparator to benchmark against the remaining Routes.

Freightliner has concerns that the risks for freight operators of selling a Route are not entirely understood and would prefer that other options for introducing private capital are explored. Although the HS1 concession to manage the high speed line and stations between London and the Channel Tunnel, has undoubtedly been very successful, the line is not representative of the wider rail network due to the limited number of train operators and minimal freight volumes from the Channel Tunnel. Given it is also a greenfield railway line the condition of the assets is known, which gives investors much more certainty over future maintenance and renewal requirements.

There are a number of practical considerations that need to be understood before a sale of a larger Route can be contemplated, not least a thorough understanding of the condition of the assets. Experience from the upgrade of Ipswich Yard demonstrated that the condition of the 30-year old signalling equipment was not known at the outset, and this resulted in a 12-week delay and a substantial cost over-run for the project. Any operator of a concession would reasonably expect to receive a detailed statement of the asset condition across the Route as part of their due diligence, without which the higher risk will increase the cost of capital.

Freightliner believes that there are more appropriate options to attract private capital and other mechanisms to enable a comparison of Route performance. Introductions of levies or adjustments to business rates could help capture some of the value of the infrastructure upgrade for private organisations. This funding mechanism was successfully deployed to help finance Crossrail.

Whilst a ‘regulated income stream’ could also incentivise private sector investment and allow investors, such as pension or infrastructure funds, to inject capital, an integrated transport strategy could provide an alternative source of finance. A holistic approach to transport planning could allow fuel duty, collected from the road sector, to be used to fund the rail network, thereby helping to reduce future congestion on the road network.

Ultimately if private capital is to be used to finance investment in railway infrastructure it must offer value for money by providing the necessary capital at the lowest rates of return, with the appropriate contractual and regulatory structures in place that support private-sector investment.

Questions

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

As Network Rail devolves more functions to the Routes the 'system operator' role will become increasingly important to ensure that holistic network-wide benefits of a railway system are maintained. Section 6.0 discusses in the detail the requirement to maintain certain core functions at a 'system operator' level, in order to provide a safety net for freight operators.

The role of the 'system operator' should be very clear and clearly delineated from other 'support' roles that may be also be carried out by Network Rail as this function may evolve over time. There does not appear to be any obvious imperative or reason to have a separate organisation (to Network Rail) to undertake the 'system operator' roles; to do so would seemingly create a further complication within the industry without any obvious benefits.

It is important however, that consideration is given to the legal status of the 'system operator' function and what powers it has over the Routes. For example there would be little point in a 'system operator' having a role in managing disruptions (particularly where the impact is across Routes) if it had no powers to impose a solution. Similarly there is little point in optimising timetables and allocating capacity if a Route could override this.

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

Customer facing roles such as Network Rail's Freight team are very important to national operators (such as freight operators). Recognising that most of the Routes are more aligned to their lead Train Operating Companies (TOCs), the National Freight Team provides the key link between Network Rail and its freight customers. Much of their role is influencing and co-ordinating with other parts of the organisation.

Section 7.0 describes in detail the functions of the Freight Team and some of the work-streams that the freight operators and the Freight Team are working together on. As more functions are devolved to the Routes, and the structure becomes more geographically diverse and complex, the importance of having a strong and empowered central freight team will be even more crucial.

One area the report omits is the importance of Network Rail's role within the Rail Delivery Group (RDG). Providing a conduit for competing freight operators to work together with Network Rail, this has been valuable and productive in many practical areas. In particular, it has also enabled the freight operators to share (via a third party) financial information so that the economic benefits that the rail freight industry generates in the UK can be calculated and clearly articulated.[4] The RDG is better able to speak as a single voice about what is required from government to promote the rail freight industry.

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

The current arrangements on accountability are undoubtedly very complex for Network Rail to manage. There is a definite case for streamlining how outputs are monitored and perhaps this role could be centred on the Department for Transport in the future as funder of the rail network. However, there is a very important role for an independent economic rail regulator, including in the approval of capacity allocation, and managing disputes.

There appears to be a general consensus throughout the industry that there should be more focus by Network Rail in delivering the needs of customers (by which we primarily mean operators on behalf of end users). Sometimes it has been difficult for Network Rail to focus on customer

[4] Freight Britain, Rail Delivery Group, 2015

requirements as they have been focussing on meeting the requirements of the Department for Transport and the Office of Rail and Road.

As discussed in detail in Section 7.2, as more functions are devolved to Route level freight operators must be viewed as being important customers of the Routes, otherwise there is a risk of displacement of freight services. One suggested change is that the Route Managing Directors should have objectives of sufficient weight to influence behaviour that are directly linked to freight.

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

Yes, we believe that Network Rail's customers have been correctly identified.

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

It is challenging for a company of Network Rail's size to be flexible and to meet different customer requirements locally.

Network Rail's Freight Team work hard on behalf of freight operators to advocate for freight both internally and externally, but they have no authority to impose solutions. Over the last couple of years real progress has been made through collaborative working led by the Freight Team with freight operators with regard to performance improvement, capacity utilisation, enabling longer trains etc.

As Network Rail devolves more functions to the Routes it will increasingly become more important that Route Managing Directors regard freight as being important customers. Having objectives that are directly linked to freight would be one mechanism to help ensure that freight needs are adequately addressed.

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

The pressure to deliver a better service for customers should be directed via the train and freight operators rather than via a regulator. Operators are closer to the requirements of customers on a detailed and localised basis. Network Rail should have some flexibility to be able to deal with local issues in different ways, in order to respond to different local circumstances, however there should be consistency in delivery and processes for national operators.

Currently Network Rail has little flexibility in how money is spent. One suggestion is that each Route should have some discretion to deliver local schemes with appropriate governance, which deliver high quality customer service and value for money; this should be flexible enough to enable the delivery of innovative solutions.

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

The greatest challenge that the railway currently faces is the lack of capacity for growth. This is testament to the railway's remarkable growth since privatisation.

This growth requires Network Rail to trade-off between capacity, cost and performance. However, currently only cost and performance measures are regularly reported and there is no metric for capacity utilisation, meaning that Network Rail are not incentivised to make best use of existing capacity.

Without a balancing metric to gauge capacity utilisation there is a risk that too much focus is on the delivery of performance targets. Performance is recognised as very important, and is directly

linked to customer satisfaction, but there should be a more balanced trade-off between cost, performance and capacity. It is crucial that all three areas are measured in order to achieve the right trade-offs and the most efficient outcomes.

This is an important area, and the industry could benefit from better measurement of capacity. Understanding how optimal the timetable is and assessing whether there is scope to optimise capacity allocation, is important before investing in physical infrastructure interventions. In the context of the financial constraints facing funders this will assist in making investment decisions which offer highest value for money and help facilitate freight and passenger growth. This issue should be de-linked from system operation as there is nothing to stop this work happening now and it is not contingent on a new structure being developed. There is perhaps a perception that there is a lack of skills and incentive to complete this, which it would be helpful to address.

Investment in improved IT systems to enable Network Rail to better model timetable optimisation could be excellent value for money if it saved future physical works.

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?

Freightliner recognises that as Network Rail establishes a new route-based operating model more functions will be devolved to Route level. As outlined in Section 6.0, in order to support and grow a successful rail freight sector, a safety net is required for national operators in order to ensure that effective interfaces between freight operators and Network Rail are maintained.

Any further changes to Route boundaries or structure should only be contemplated if the value in doing so can be demonstrated. If not there is a risk that such a reorganisation could be disruptive and could compromise the ability to devolve other functions to the Routes.

Government policy is clearly steering a course towards greater political devolution to regions and cities. While this devolution may positively impact freight, by positioning rail freight as a key driver in supporting the economic output of the regions, such devolution does not need to impact on the structure of Network Rail. To design regional boundaries that fit with all the different types of train operations or devolved bodies would not be possible, as well as being disruptive and the benefits of doing so are unclear.

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?

The relationship between freight operators and Network Rail is complex and multifaceted and an understanding of the interfaces between the organisations is crucial in order to understand the implications of structural change. As noted in Section 3.0, Freightliner has noticed considerable improvements in Network Rail's performance since the start of the control period. It is important that any changes to Network Rail's structure do not jeopardise these improvements, and that the new structure continues to support a successful rail freight sector.

In that context it is crucial that an appropriate structure is in place for national operators, before any further functions are devolved to the Routes. Recognising that freight operators are national operators, with interfaces and relationships across many different Network Rail functions, there is a requirement for core functions to be maintained at a central System Operator level to avoid any dislocation for freight. The functions and areas which form part of this safety net are discussed in detail in Section 6.0.

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

Major enhancements such as electrification and signalling projects require specialist staff. As major enhancements requiring these skills tend to be delivered in different parts of the country it is important that such projects are planned nationally. Bowe[5] recognised constraints within the supply chain, particularly in signalling and electrification and noted the long lead times to train and recruit the right people, and procure the necessary plant. Further devolution of functions to Route level would likely exacerbate these issues.

As a supplier of infrastructure train services to Network Rail, Freightliner sees first-hand the important role that the National Supply Centre (NSC) plays in Network Rail in allocating resources such as specialist equipment and materials, as well as freight locomotives and drivers, to deliver major schemes. NSC benefits from economies of scale – they are able to leverage their relationship with national freight operators and benefit from having a national pool of specialist staff and equipment. Freightliner's staff are frequently allocated to different projects all over the country, and this would be much more complex and time consuming to plan if the planning of this was done on a route by route basis.

There is an argument that many of the functions identified as part of the system operator, in Section 6.0, leverage economies of scale benefits by being planned nationally. For example devolving capacity planning to the Routes would introduce the need to 'handover' trains when they cross Network Rail Route boundaries. Not only would this increase the number of individuals required to plan trains, but it would create additional bureaucracy for operators and would likely result in sub-optimal timetables and the inefficient use of capacity.

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?

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. This is a recommendation in the Bowe Review.
- 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.

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

Structural change can be disruptive to the focus to staff and management and instil significant uncertainty in the workforce. Therefore it is suggested that a more steady evolution of change

[5] Report of the Bowe Review into the planning of Network Rail's Enhancements Programme 2014-2019, Department for Transport, 2015

rather than a step change be implemented, in order to avoid too much disruption. Only when the value and benefits of further structural change can be demonstrated should any changes to structure be made.

Operating nationally there are significant risks for freight operators of structural change that moves Network Rail towards a more devolved model. As discussed in Section 6.0, a safety net is required to mitigate the risks posed by greater devolution for freight operators, and enable rail freight to grow and continue to deliver the significant benefits to the UK economy.

13. What are the strengths and weaknesses of Network Rail's current approach to planning enhancements?
14.What are the strengths and weaknesses of Network Rail's current approach to delivering enhancements?
15. How well do the current delivery and planning processes work for projects of different sizes?

Enhancements to increase the capacity and capability of rail freight usually involves coordinating projects across a number of Network Rail Routes – unsurprising given that most freight schedules cross a number of Route boundaries. The Southampton to the West Midlands train lengthening project and the Felixstowe to Nuneaton capacity enhancement project are both key schemes designed to facilitate rail freight growth. Both these schemes cross three different Network Rail Routes and although delivery has faced a number of challenges, the centralised structure has been a pre-requisite to enable the projects to be planned. It is crucial that future enhancement projects continue to be planned holistically in order to maximise outputs and deliver maximum benefits.

While the delivery of freight schemes through the Strategic Freight Network (SFN) fund in CP5 has not progressed as well as CP4, this is not due to the management and governance of the group which has been recognised as being best practice. Bowe[6] identified resource constraints within the wider supply chain with the long lead time to recruit and train the right people and procure the necessary plant as being a key issue in the delivery of enhancements.

It is also important to ensure that enhancement schemes are closely linked to outputs, i.e. a scheme should have an output of x additional new train paths rather than simply to move signal or build a bridge. Having a clear output will help ensure the benefits of the investments are realised.

Another enabler would be a focus on greater ownership of projects by sponsors, and a system to enable them to identify cost savings in conjunction with operators.

Greater levels of transparency could allow Network Rail to work more closely with operators, in order to ensure that scheme designs deliver the desired outputs. There was an attempt by the Office of Rail and Road to address this in the last periodic review process by introducing a benefit sharing scheme linked to enhancements. In practice, this mechanism has been little used. The reasons for this are unclear; this should be reviewed so that the scheme is honed to enable more collaborative working in CP6. Similar mechanisms could also be considered to encourage more partnership working with suppliers so that suppliers were better rewarded where they identify more cost efficient solutions.

The current GRIP processes were designed to better manage the costs of enhancement schemes. This process appeared to work well in CP4 where many schemes were delivered to time and near to budget. It appears to have been less effective in CP5. There may be many reasons for this and much of this may be linked to the size, complexity and maturity of the enhancement programme that Network Rail was funded to deliver in CP5.

[6] Report of the Bowe Review into the planning of Network Rail's Enhancements Programme 2014-2019, Department for Transport, 2015

The Bowe Review has addressed this area and makes clear and sensible recommendations.

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

Greater devolution will also give rise to the necessity for a properly defined legal framework. Network Rail, in its capacity as system operator, must have the legal authority to mandate a course of action from the devolved Routes. There will be situations where devolved Routes are required to do something that is not in their 'commercial interest', for example not taking a possession in order to keep a diversionary line open for overnight freight services.

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

As noted in Section 3.0, Freightliner has noticed considerable improvements in Network Rail's performance since the start of the Control Period, and while undoubtedly improvements could be made to processes to improve outcomes for freight these are cultural rather than structural. Many improvements could be realised by encouraging ownership of resolving problems and empowering staff to find solutions rather than following process.

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

While undoubtedly a complex process, and one which risks creating uncertainty and instability for the rail freight sector (which is not insulated from changes to the charging regime), Freightliner believes that long-term, consistent and predictable funding cycles help attain best value from the supply-chain and ensure infrastructure investments are linked to growth. Under British Rail, annual budgets were often hastily spent — distinctly not conducive to long-term planning. Network Rail's 5-year funding cycle has helped to ensure that the correct investment decisions are made to position the railway to meet future demand and this has been hugely beneficial to the success of the rail industry. In that context there is an argument that the industry may benefit from extending Network Rail's settlement from 5 to 10 years.

Questions on financing and funding of the company

If private capital is to be used to finance investment in railway infrastructure it must offer value for money by providing the necessary capital at the lowest rates of return, with the appropriate contractual and regulatory structures in place that support private-sector investment. Section 9.0 discusses in detail various options to attract private capital and some of the considerations necessary, for instance a clear understanding of the condition of the assets across the Routes.

Recognising that rail competes in a transport sector which is dominated by road, it is important that any changes to the capital structure do not import additional cost or increase risks for rail freight operators. As rail freight grows it will be less reliant on the traditional commodities, such as coal, and this will result in rail increasingly competing directly with road, making a holistic approach to transport planning even more crucial.