EVERSHOLT
RAIL GROUP

The Shaw Report
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To Whom It May Concern

This letter represents the formal response from Eversholt Rail (UK) Limited ('ERUKL') to the scoping report on the Shaw review of the shape and financing of Network Rail. While ERUKL does not have a direct interest in many of the questions posed in the scoping report, and does not have any direct contractual relationships with Network Rail, we nonetheless have a strong interest in the general structure and funding of the railways and the role of Network Rail, since this clearly impacts on investment priorities and the delivery of specific projects and programmes, including rolling stock.

We believe that there are a range of key conditions which need to be reflected in any proposals to reform the shape and financing of Network Rail, especially if one objective is to facilitate greater private sector investment in the railways. These principles are:

- the need for a long term, stable policy and investment framework (recognising the political risks associated with a change of government);
- the need for consistency in the application of policy with minimal political interference (again recognising the legitimate interests of the government in the railways given the level of taxpayer support provided);
- the need for a strong, stakeholder-orientated, central capability within Network Rail for network-wide issues, such as common standards and investment planning and procurement.

Financing

The ROSCOs are, of course, one of the few elements of the wider railway industry that have consistently been able to attract private finance, precisely because the mix of risks and opportunities is right and there is sufficient stability in the market to secure steady returns for our investors. A stable long term market with minimal political interference is an important consideration for financial investors. Accordingly, when considering the factors that will influence the willingness of private investors to finance wider parts of the railways, we believe that the review needs to look closely at the experience of the ROSCO market and of HS1 and the factors that have enabled these parts of the railway to successfully attract private finance.

We observe that the railway today is not one homogenous industry but is, rather, made up of a number of different interests and disciplines, with the inevitable risk that there is likely to be a range of different views on the best outcome from the review. In the circumstances, we

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a range of different views on the best outcome from the review. In the circumstances, we have reservations about whether adopting a set of reforms across the industry, to be introduced all at the same time, is sensible, especially given that a range of other changes are to be made following the Colette Bowe review, while the Chairman and Chief Executive of Network Rail are also embarked on a programme of further devolution to the Network Rail routes. Too much change introduced too quickly may not be the right approach, and a longer term implementation plan may be more appropriate and less disruptive.

In the circumstances we would prefer to see a pilot project, based on a discrete but sufficiently large part of the network, to test the appetite for private investors to invest in the railways. One approach might be to award a long term concession where the concessionaire has a contract to manage, maintain, renew and enhance the railway infrastructure on behalf of Network Rail, with the concessionaire rewarded or penalised according to the availability and performance of the infrastructure.

Shape

As noted, the Chairman and Chief Executive of Network Rail are already embarked upon a programme of devolving greater autonomy to the routes. We are neutral on this initiative, although we recognise the benefits that can flow from having stronger empowerment for route directors who are inevitably closer to their local markets and customers.

Our customers are, of course, the train and freight operating companies, so any restructuring of Network Rail is in many respects of second-tier interest to us. However, in our view there still needs to be a strong centralised capability within Network Rail to ensure there is consistency of engineering and other standards, and the development and implementation of a network-wide investment plan. Rolling stock provision is of course heavily influenced by wider investment proposals, most obviously electrification, so we would be concerned if a revised structure of Network Rail resulted in a dilution of any network-wide planning and procurement capability. Network Rail also leads the long-term planning consultation processes for UK Rail, and this central capability also needs be able to strike the right balance in the outcomes between what is good for UK rail industry and what is good for Network Rail.

In the context of investment, we note that Dame Colette Bowe has made a range of recommendations which should lead to a more effective planning process and the development of Control Periods with investment programmes which are capable of delivery. From a rolling stock perspective, one of the issues is that the Control Periods are not consistently aligned to the franchise timetables, which can lead to sub-optimal investment decisions in terms of the best rolling stock solution for a particular franchise. While this is not specifically an issue addressed in the scoping report, better alignment would help to mitigate some of the problems that exist and may also help unlock further private sector investment.

I recognise that this response has not directly addressed many of the specific questions raised in the scoping report, but provides a rather more general and high level view on some of the key issues that are relevant, principally to the issue of private funding. Naturally I and my team are at the disposal to the review team to discuss these issues further.

Mary Kenny
Chief Executive Officer.

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