Nicola Shaw
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BY EMAIL

Dear Nicola,

REVIEW OF NETWORK RAIL

Thank you for involving Eurostar in your consultation on the future of Network Rail and giving us the opportunity to respond. I am replying on behalf of Eurostar International Ltd.

Although Eurostar has very limited access to the NR network we currently depend on their performance via the HS1 operating and maintenance contract. We therefore welcome the report as an opportunity to take stock of current performance and consider options for improvement. We also welcome the tone and style of the report as being open in its thinking, well-researched and conveying a genuine passion for the success of the railway.

The review is prompted by issues of real concern – notably the failure of the latest control period forecasting; some very high-profile and significant major project overruns; and a sense of deteriorating network performance. However, it is also worth placing this in a wider context. Prior to Network Rail, the (fully private) Railtrack badly managed network performance that had, in any case, been historically poor under the (fully public) BRB. Looking across Europe, (and Eurostar has direct experience of several European infrastructure managers) Network Rail continues to perform well in terms of key indicators of European safety and performance; there is also, in our experience, a much more apparent regulatory and efficiency focus in the UK. Comparable European rail reviews have both sought to further integrate operations and infrastructure (e.g. France) and further separate them (e.g. Belgium); there appears to be no clear statistical performance advantage to any given model.

With this in mind we remain to be convinced that organisational restructuring – which might be presentationally attractive – would solve the issues and bring improvement in and of itself. The basic structure of corporate functions and regional (route) delivery is perfectly sound and used successfully in other business and other sectors. Our perception is that the principal issues relate more to culture, focus, incentives and governance. Clear evidence would be needed that the very significant cost and disruption of major organisational change would be justified and that it wouldn't just be a "hard solution" that failed to address the inherent "soft issues" of culture etc. We do not start in favour of major re-organisation.

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With a momentum towards further devolution, there may well be arguments for creating greater autonomy at route level around the major cities (more Merseyrails or London Overgrounds). Whilst this undoubtedly works well where there is both a critical mass of services and a degree of separation, historically the issue has been one of boundaries, given the knock on impact of local decisions/priorities across the wider network. NR(HS) shows some evidence that even a clear local focus doesn't necessarily deliver the right customer focus. So whilst Eurostar would support further regional devolution – if candidates with the right scale and separation can be found – we do not believe that this is sufficient in and of itself; issues of financing and governance remain important.

The report discusses various issues of funding. It raises the question of the role of the RAB (and the return on the RAB) in a public balance sheet context, and it asks whether there is a case for more private money.

Once again, the principal issues appear to be those of culture and governance. That the outcome of CP5 looked undeliverable so soon after the determination raises real issues of budgetary forecasting/discipline and regulatory oversight. It follows an unfortunate pattern of similar error dating back to at least the first West Coast upgrade overruns in the 1990s. In this context, the return of NR to the public balance sheet looks a significant and positive step. Previously, it is arguable that the there was a dilution of both Governance and financial consequences/accountability (the "RAB credit card" mentality) that contributed to the CP5 and previous outcomes. The Government should take advantage of its clear ownership to set equally clear financial objectives and should not be afraid to incentivise these (it is unfortunate that, in the past, HMG has felt incapable of incentivising good financial performance in the face of public criticism).

However, there is also a case for looking at the "big bang approach" the Control Periods. TOCs need certainty of future track access charges. However, half of funding is direct Network Grant. Is there a case for setting a CPx access charge to be paid for by the TOCs but adopting a more progressive approach to Network Grant funding. This might work by only unlocking subsequent funding – and therefore only proceeding with additional schemes – once the efficient and timely delivery of the early CP programme is being demonstrated. This would, in many ways, also reflect the evolution of underling programme management away for the traditional "*Grands Projets*" gate structure towards a more progressive and agile approach. Finally, the ability to unlock more ambitious investments by demonstrating sound delivery would provide both an incentive and focus of pride for management and the workforce alike.

The report considers arguments for a range of private funding options. At a macro level, we are sceptical. Having enjoyed both public and private ownership (and a mix of both) it is not immediately apparent that one flavour of ownership necessarily brings a sharper financial focus than the other. More important is the calibre of directors, clarity of shareholder objectives and a sense among management that they stand or fall according to those clear shareholder objectives (and are fairly incentivised to deliver them).

Private funding – once it reaches a significant proportion –also carries risk. There is a very clear risk – as was demonstrated on the CTRL project – that the enterprise becomes "too big to fail" and what appears to be underwritten by the private sector in fact comes bouncing back to Government in the event of adversity. There is also the risk that private finance is simply more expensive, especially when applied to risks over which HMG has greater control than the private sector. And it raises questions of who then actually determines the nature and scope of the NR investment programme. Certainly, It is unlikely that the private sector would demand any less investment threshold than the indicative one set by the current RAB return. In fact, the most compelling argument for significant levels of private funding would be if the level of Government funding were to be drastically reduced.

That is not to say that there is no case for any private money. Options relating to project funding (as opposed the general "investment" in the NR RAB) have attractions. Again the key here is one of risk transfer – ensuring that the (generally more expensive) private funding attaches to risks that are a) not in any case within government control; and b) genuinely transferrable (and that the funding is genuinely at risk).

This also highlights a very important theme which was developed at the consultation session I attended, which relates to the frequent mismatch between project control and funding. Several examples were given – and the re-signalling of Ashford may provide a further example – of schemes whereby NR effectively determine the "go-ahead", scope and implementation of a project but others carry a significant (or even the whole) financial exposure. This is riddled with the risk of fundamental inefficiencies that those paying don't get the scheme or delivering they want, and those delivery don't face the necessary financial discipline. Various options exist for improvement. One might be moving NR's engagement in such projects to a more contractual/commercial footing (perhaps there is a case for a standard form regulated project engagement agreement) which carries a level of financial risk/incentive for NR. Another might be to compete project delivery on the NR network. A loose model might be that of "virtual capacity" booking e.g. in telecoms or gas whether the infrastructure manager has to offer capacity on the network (in this case possessions?) to other providers working to the same Network Standards.

Part of the issue on project delivery remains one of culture. The fundamental reasons for the separation of train operations and infrastructure – that these require different skills and focus – remain very sound. However, there is a strong sense among operators that NR have lost their understanding of what drives the passenger businesses and their appreciation of their role as a *supplier* and enabler. Unfortunately, Eurostar has experience of this with Network Rail High Speed where there have been too many examples of the NR(HS) management not appreciating the commercial and operating characteristics of the passenger businesses, and not shaping their actions and response accordingly. This is a difficult challenge. NR is the largest single cog in the machine; it employs the most people, attracts the most funding and has the most complex projects and operations. Nevertheless it needs to be guided by and subservient to the needs of passengers. This is an extremely difficult cultural challenge for any dominant organisation but it is essential. An understanding and appreciation of the exigencies of passenger operations needs to be part of the assessed (and rewarded) skills of all senior NR managers and especially route directors.

Although not separately identified within the initial report, the consultation session I attended also discussed the importance of strategic planning and implementation in the industry. There is a sense that there is a particular lacuna at the TOC/Infrastructure interface. This has been most apparent in relation to stations investment. The franchising process does not deliver this. On the east Coast franchise for which Eurostar bid unsuccessfully, the maximum value of proposing stations investment within the bid appraisal process carried a moniterised value of only a few hundred thousand pounds on a bid of over one billion pounds. And this was part of a franchise that was meant to be focused on quality and investment, post the West Coast review. The result is that there is little coherent strategy or investment in stations at the tier below those that are NR owned, let alone encouragement of wider development and this is reflected in the very low property revenues cited in your first report document. However , whilst there may be strong arguments for a separate property solution - perhaps based around a specialist LCR-type vehicle - the strategic gap is not confined to stations. Across the railways, the strategic focus of the next few years will be digital infrastructure. The ability to connect information to serve customers, create new products, better manage capacity and drive efficiency. Yet this kind of cross-TOC, TOC/infrastructure investment is an area where the UK industry has consistently underperformed as witnessed by the painfully slow attempts to introduce wider use of smartcard technologies or to reform fares and network benefits.

Identifying the need is easier than identifying the solution. Various options have fallen short: the Department is too remote from the industry; RDG is too much of a trade body; NR (historically at least) too engineering focused and unwilling to allow TOCs an equal seat at the table. Perhaps the most successful attempt to date has been the SRA and there is a case for reviving this (minus its franchising responsibilities) populated by secondees from within the industry and maybe funded by a cross-industry levy. It could then have responsibility for the Third Party implementation of some strategic projects on the Network Rail estate, as discussed above. Independent and significant funding for particular strategic enhancements would a) give it credibility and clout; and b) provide an external benchmark reference for project cost/delivery to NR itself.

Finally, Eurostar has a particular interest in NR(HS). Generally the issues described above – and especially those of culture, governance (objectives setting) and focus – are common to NR(HS), rather than points of differentiation. However, the separate nature and scope of NR(HS) as a specialist subsidiary company does raise a question of whether it might be further devolved or even privatised. On this Eurostar is agnostic. Certainly we would be cautious about the ability of a privatized NR(HS) to offer a benchmark for wider NR performance (it being too easy to point to the differences in assets etc.). The principal issue is therefore whether any new approach offers the opportunity to further test cost efficiency, recognising that, whilst this has been subject to regulatory review, it has never been subject to a true market test. Once again, structural reform or privatisation is not *necessary* to deliver this (the HS1 contract could be contested without any such change). However, previously it has been difficult to identify an alternative supplier for the main contract. If a sale of NR(HS) were to attract a wider and different market, and if such a sale could be linked to competition on costs and charges, then Eurostar would be open to supporting this.

Once again, can I thank you for including Eurostar in the consultation process. We would be happy to continue to contribute and wish you all the best with the completion of your review.

Yours,

Possibly not the most Christmassy thing I've ever written, but have a good one and all the best to you and the team for 2016!

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