

The Shaw Report  
Zone 6.03  
Sanctuary Buildings  
Great Smith Street  
London  
SW1P 3BT

*please reply to:*  
Clara Vale  
Thibet Road  
Sandhurst  
Berkshire  
GU47 9AR

shaw.secretariat@shawreport.gsi.gov.uk

23<sup>rd</sup> December 2015

## **Railfuture response to the scoping study for the 'Shaw report'**

Dear Sir,

Railfuture is a national independent voluntary organisation campaigning for a bigger, better railway in Britain, so we welcome the opportunity to provide an informed response to the questions posed in the consultation on scope.

This is set against the background as described in Nicola Shaw's introduction that the current railway structure in Britain is delivering the best performance in Europe on a wide range of measures from safety, operational performance to sustained and substantial passenger growth and open access to freight, currently in transition from coal to network intermodal operations.

Railfuture also recognises the importance of the provision of a responsive growing railway in contributing to wider economic, employment and skills, social inclusion and environmental issues.

In our opinion Nicola Shaw has provided an excellent report on issues and potential questions to be addressed. Our response to the questions in Appendix A of the report is attached.

If you require any more detail or clarification please do not hesitate to get in touch.

Yours faithfully

***Chris Page***

Chris Page  
Railfuture  
Vice Chairman

**8**[www.railfuture.org.uk](http://www.railfuture.org.uk) [www.railfuturescotland.org.uk](http://www.railfuturescotland.org.uk) [www.railfuturewales.org.uk](http://www.railfuturewales.org.uk)  
[www.railwatch.org.uk](http://www.railwatch.org.uk)

The Railway Development Society Limited is a (not for profit) Company Limited by Guarantee.  
Registered in England and Wales No. 5011634.  
Registered Office:- 24 Chedworth Place, Tattingstone, Suffolk IP9 2ND

## **Response to consultation on the 'Shaw report'**

### **The future shape and financing of Network Rail – the scope Annex A List of questions**

## **Network Rail's structure**

### **1. Scope of Network Rail's functions**

The true test is whether the current scope delivers in terms of safety, operational performance and programme/project delivery.

Network Rail delivers on operational, project and staff safety indicating that Network Rail's responsibilities including operational control, maintenance are optimum in this area. Network Rail has also delivered high levels of operational performance. The slight decline over recent years is on account of more trains on the network so reducing resilience, and to some extent project work.

Network Rail also manages key stations and has invested in them in conjunction with local authorities. These are important in terms of operational integrity although future management considerations of stations should also include other important multi franchise commercially important locations in the same way.

This would suggest that Network Rail's functions are about optimum.

### **2. Other specific factors**

Network Rail operates in a regulated environment as acknowledged in the report. The 4<sup>th</sup> EU Railway package is also important. EU structural legislation where implemented in a committed way as in Britain, has fostered growth in passenger and freight services. Any changes to Network Rail's structure should acknowledge this and be consistent with EU requirements.

### **3. Accountability**

Accountability is key to the success of any supply-side business. This has consistently been a difficult area for Network Rail. The ultimate passenger or freight customer delivery is through a train or freight operating company. However, the purpose of Network Rail is to deliver safe, value for money operational infrastructure to these operators in the much wider context of wider economic development.

The principal customer is therefore government as regulated by the Office of Rail and Road. Increasingly devolution is becoming an accountability issue for Network Rail and any changes to accountability must improve NR's accountability in the context of regional and local development (eg the Northern Powerhouse arrangements).

Accountability to the TOCs and FOCs also needs strengthening as the financial proxy through Schedule 4 and 8 arrangements are comfortable for NR, a financial windfall for the T/FOCs and not necessarily in the interests of the passenger or freight user. Accountability needs to improve in the area of the resilience of the rail network.

**4. Network Rail's customers identified?**

Yes, subject the comments in 3 above.

**5. Effectiveness in respect of customer needs**

The compensation Schedule 4 and 8 culture is a within industry arrangement that is not primarily focused on end customer needs.

The planning process for additional services and for projects is too long and too expensive. Increasingly regional and local authorities should be seen as customers as well as central government and the rail operators.

**6. Direct customer pressure?**

A populist would say yes, but care is necessary as NR is an essential supplier to the operator and not responsible for the full service delivery to the customer. NR must therefore be seen as a partner to the operator in terms of reporting and accountability. Customer pressures on the operator must therefore be transferred to Network Rail above Schedule 4 and 8 irrespective of whether a formal alliance is in place.

**7. Incentives for delivery**

Increased incentives for operational and project delivery are an important feature of the exercise. Incentives are different from compensation arrangements and must incentivise NR to improve the balance of project risk and provide an incentive for NR to invest in resilience of the network. The exercise may usefully look to the DfT franchise arrangements which over time have increasingly improved incentives in this area as incorporating customer perspectives. An innovative way of achieving this would be to reflect some franchise performance KPIs through the variable access charge.

**8. The route structure**

Any structure must involve areas and regions with the current route structure aimed at reducing operational boundaries for longer distance services. This should remain the default option. Increasing devolution would suggest some remapping between the route structure map and the devolution map both shown in the report.

The route structure already maps directly for Scotland and Wales. As operational control systems make boundaries less significant and given the importance of projects and capacity upgrades the question must be asked whether the route structure in England is optimum in this changing context.

It may well be optimum to consider a single route and accountability for Northern England (more services run East to West here than North to South). Similarly such logic would apply to the East and West Midlands, again with a regional sponsor client.

The most controversial and difficult are London and the South East. The NR Western route is fine, outside London, as is Anglia in geographic terms but six NR routes all converging on the most significant part of the network ie London is perverse. It is proposed that the establishment of a London and South East route should be examined and how in project terms accountability to Transport for London can be improved as a subset within the London and South East zone.

It is recognised that remapping is quite a difficult exercise but the proposals here do represent a response to some of the accountability issues raised in the report.

### **9. Balance of responsibilities between the routes and the centre.**

The balance is about right operationally but there are widely acknowledged concerns in the area of project design and management. Even in an easy to define location such as Scotland, many NR planning activities are controlled from York for example. All large organisations go for centralisation and economies of scale where they can. It is not clear at all in this case that economies of scale are present and that the balance between standardisation/centralisation and regional teams is right. As the main weakness is in the area of project delivery, the exercise should consider far more delegation into the (if revised) route teams on grounds of both accountability and the sheer amount of work in the NR plan.

### **10. Economies of scale**

All experience with railways has shown that economies of scale do not apply which is a concern. There is an important distinction between HQ standards and project delivery. All experience over many years suggests that economies of scale are extremely hard to realise. This suggests devolution where feasible as apart from fragmentation.

### **11. Necessary processes**

There is currently a crushing process in place over and within the current route structure. Success in many cases is judged on adherence to process so infliction of more is not proposed.

Processes such as GRIP need simplifying and peer review from the centre should be part of ensuring additional risk is not imported.

The key areas for a change of emphasis are output, less so on input delivered in the context of VFM and a careful balance of risk.

Strengthened regional project teams would be necessary given the current overstretched project capability in NR.

### **12. Impact of proposed changes**

Any large scale structural change imports risk and takes the eye of current activity during transition. Any changes should specifically address key concerns and political changes specifically. All proposals in this response including suggestions on route structure are confined to this area.

### **13. NR enhancement planning**

Strength:

NR plans and delivers many enhancements successfully and safely on a live intensively-used network.

Weakness:

The area of response to the client and the planning GRIP process needs attention as does the management of risk and the necessary resources to mitigate risks. These include planning for network resilience and specific valuable resources such as signalling commissioning resources.

The costs and mark ups including risk provision need some attention.

#### **14. Delivery of project enhancements.**

Network Rail should see itself as a delivery body, any enhancement should have a clear client. Delivery of on networks for Crossrail is based on this model.

It is clear that physical delivery of infrastructure work can be well planned but high profile problems occur at the point of operational hand back. There is a worrying tendency to reduce risk in this area by doing less work with earlier hand back so reducing risk. This has not in itself stemmed the problem of high profile Monday morning start-up failures.

It is proposed that a careful evaluation is put into changing the emphasis from successful completion of the 'hard' engineering into treating systems as probably the essential component of project success for upgrades and new railways. An evaluation of temporary control systems would be part of such an exercise with later migration into NR's systems.

#### **15. Different sites**

Programme management is a different tool from project management. Looking at projects such as London Bridge, it is clear that programme management is an increasingly important component of project delivery. Programme management is also important in VFM terms in optimising maintenance and renewals into the project equation.

The test on how well Network Rail currently manages programmes is the number of short possessions after a major blockade to do rectification work or maintenance. It would appear that NR has some way to go in this area.

#### **16. Other models**

Yes there are other models all involving a well equipped client side role. Transport for London and Crossrail have adopted this approach suggesting that devolution may improve programme delivery provided that the client is an informed one in engineering and project terms.

The emerging UK light rail industry has adopted a similar model with Manchester Metrolink and DLR the best examples.

#### **17. Important structural features**

The most important structural feature of any infrastructure provider must be a strong equipped client side organisation with more localised delivery providing a clear response to a well defined set of requirements.

#### **18. Other process**

Network Rail is large but not unique in the areas of operational and programme management. It is probably equipped quite well to deliver the 'hard' physical side of projects and indeed operational management.

In terms of managerial weight NR is probably underweight in the area of systems and control and as evidence has had a very hard time with systems such as train control and EU compliance, with grand visions not underpinned by localised competence.

Systems dominate most processes, not just confined to operational control. Timetabling and scheduling is common across all transport and needs to respond far more flexibly and faster to the needs of train operators and in improving resilience requiring fast response to problems.

### **19. Periodic Review process**

Railfuture has not been involved with the Periodic Review process.

### **20. Criteria for structural change**

As stated earlier as the best performing railway in Europe the single key criterion for change is confining it to address specific concerns or political changes (eg devolution). Issues such as VFM, risk, programme and project management and system competency can be addressed essentially within this structure.

## **Financing and funding of the company**

(Please note Railfuture is not an investment bank, so responses to these financial questions are offered as practical points and suggestions.)

### **21. The RAB**

The RAB is a strange concept particularly in the context of enhancements but is probably necessary in the context of efficient regulation. It is, however, considered that putting investment on the RAB as a way of funding projects is perverse and lacking in rigour as small numbers look small in the context of the overall RAB figure. The RAB has increased considerably over time as a consequence of this.

### **22. Financial risk**

The concern here is that handbook style financial risk is particularly making individual projects too expensive and some project managers may see this as authorised expenditure. It may be worth considering that putting risk in at, say, +60% at individual project level is too high and that there perhaps should be a better distribution between project level and group provision so increasing group accountability.

### **23. NR funding**

The current method of funding Network Rail (other than the issue of over using the RAB) is not without logic if NR is to continue to respond to government objectives and affordability and be regulated.

The balance of access charges for rail operators is probably worthy of examination in the context, discussed earlier in this response to incentivise NR in conjunction with the operator to produce the best possible service.

### **24. Other examples**

It is, however, difficult to understand why NR has such a low level of private sector funding given the degree of upgrades to capacity and capability involved. Apart from fragmentation and asset sales which are not proposed, it is clear that other operators such as TfL and the light rail operators have undertaken many PFI style funded projects quite successfully with

the specific benefits of attracting capital and importantly sharing financial, delivery and operational risk.

Interestingly, probably some of the best experience in this area is in the UK.

## **25. Enabling factors**

However, there are dangers in this area which require a strong client side management team to put such arrangements in place and ensure delivery physically, operationally and financially.

This would be an essential enabling factor necessarily placed at group level with Treasury involvement.

## **26. Types of potential investors**

Establishing a clear profile for investment in NR would be essential. NR is clearly not at the white heat end of technology (although it should be in conjunction with suppliers on systems), so in general NR is in the area of investment in areas where the private sector can bring capital and manage projects and services for a reasonable but not speculative return. Such a return would reflect the management of risk and how this is shared with Network Rail.

The key attractions are potentially in the area of reasonably high volumes of investment and a steady income over a long period.

An area where this has been successful in the rail industry is the ROSCOs where risk is taken on (in a growing market) but mitigated by a strong engineering/client team.

The key enabling factor is to evolve models for repeated investment within NR such as with enhancement projects so reducing barriers to entry.

## **27. Enhancement project characteristics**

The standard virtues of good programme and project management are essential irrespective of attracting the private sector to invest in enhancement projects. This includes a clear understanding of required outputs and the sharing of risk respecting the fact that NR has responsibilities of running the operational railway.

This suggests probably that straight investment in NR is not particularly viable at an early stage as risk hence management effort must be shared. As a principal beneficiary of such an approach is the TOC it is not impossible to conceive of direct management and financial participation by a TOC in such investment, subject to franchise length and residual value considerations.

## **28. NR incentives**

Third party investment is clearly necessary but it must be of good quality if it is to be sustainable. Setting targets on proportions of private sector investment may not work at this early stage on account of these fears. The key incentive in the medium and longer term is that the RAB must be contained and that NR must look to the private sector for investment capital to sustain growth and hence its operational income.

Treasury involvement is clearly necessary here with a view to establishing templates for onward management by Network Rail.

## **Risks and Implementation**

29. The diagnosis of issues and questions raised in Nicola Shaw's report on scope are excellent with no obvious omissions.

## **Summary**

Railfuture shares the objectives of the Nicola Shaw report on scope in potentially equipping Network Rail in continuing to deliver a safe, growing railway. Specific issues should be addressed including political changes with devolution together with the need to attract significant private sector capital and risk management to allow Network Rail to keep pace with growth.