

## ***The Shaw Report – The future Shape and Financing of Network Rail***

1. Freight on Rail is pleased to respond to the Interim Shaw Review.
2. Freight on Rail, a partnership of the rail freight industry, the transport trade unions and Campaign for Better Transport, works to promote the economic, social and environmental benefits of rail freight to local, devolved and central Government in the UK and to the European Commission, Parliament and Council of Ministers.

### **Summary Comments**

3. Our response concentrates on the impacts on rail freight of any changes to Network Rail (NR) as a result of this review. Of paramount importance to rail freight, is the retention of centralized system operation supported by Dieter Helm, an industry commentator. He acknowledged in his recent paper *-What to do about the railways, in the section on the case for a system operator that "Someone needs to be in charge to make sure the system as a whole is considered."*
4. The importance of rail freight in terms of its considerable economic, safety and environmental benefits must not be overlooked in any structural changes in this review. Fundamentally, any restructuring must not undermine the sector. Further fragmentation would be a problem for rail freight. Were rail freight traffic to be forced back onto the roads by restructuring which disadvantaged the sector, the costs in terms of road congestion, road infrastructure damage, road crashes and pollution, to the Government would be considerable.

### **5. Value of rail freight to economy**

Rail freight is worth £1.6 billion per year to the UK economy. Each year the rail freight industry carries goods worth over £30 billion ranging from high end whiskies and luxury cars to supermarket products, steel, cement and coal. A quarter of consumer goods imported into the UK are transported by rail.

While coal, steel and Channel Tunnel traffic has declined there is considerable scope for expanded consumer (intermodal and deep sea) and construction traffic. NR freight market study of 2014 demonstrated that there is scope to quadruple consumer traffic by 2034. Construction traffic expanded 17% in 2013/14, 10% in 2014/15 and is forecast to grow 2.5% per annum going forward. For these growth figures to be realized additional freight capacity will be needed.

6. Network Rail is also a customer of the freight operators who supply a significant number of haulage movements for NR including bulk ballast delivery and work-site possession trains.



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In the sections on the role of the railways P13, 1.20, the advantages of transporting freight by rail rather than by road/air need to be emphasized as does the general good of the railways. Rail mes more likely than cars to be involved in fatal collisions on minor roads<sup>i</sup>.

Freight is not only safer than HGVs; per tonne carried it produces 76 per cent less CO2 emissions and almost 90 per cent less small particulate matter (PM10) and up to fifteen times nitrogen oxide ref section 1.25). It ameliorates road congestion and reduces road infrastructure damage. HGVs impose far higher costs on society in terms of congestion, road crashes, pollution and road damage. HGVs impose nine times higher external costs than rail freight. For example, In 2013, HGVs were six times more likely than cars to be involved in fatal collisions on minor roads<sup>ii</sup>.

Therefore the lack of a level playing field and the fact that HGVs do not pay their external costs by a large margin *means that* rail freight interests should be protected by Government.

Research carried out by MTRU for Campaign for Better Transport<sup>iii</sup> using DfT values, found that HGVs pay less than a third of their costs, such as road congestion, road collisions, road damage and pollution which equate to an annual subsidy of around £6.5 billion. These conclusions are in line with a MDS Transmodal study in 2007 which found a very similar amount of underpayment: £6billion. The Government needs to recognise HGV costs in discussion about rail freight costs so that policy implications can then be understood in both directions with road and rail being examined across the piece. The level of HGV subsidy makes a compelling case for supporting rail, which imposes much lower costs on society and the economy, equivalently. Ref 1.24

Therefore the lack of level playing field between road and rail needs to be factored into Government transport planning/restructuring and funding decisions as it is fundamental to understanding the pressures on rail freight.

## 7. Further risks to freight ref 1.37

- a) Any land disposals of strategic sites which could be needed in the future for rail freight terminals could stop more freight being transferred to rail in line with Government policy. Terminals of all sizes are needed but in particular it can be difficult to find suitable sites for Strategic Rail Freight Interchanges which need good rail and road connections near conurbations.
- b) We oppose further Alliances which are challenging for rail freight.

## Shaw Review Questions

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

Freight on Rail broadly supports the definition of Network Rail's functions as Operations, Maintenance, Renewals and Enhancements (OMRE). We are concerned by the suggestion that some of Network Rail's current duties do not fit within the definition of ORME, particularly from an operational perspective. A



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strong case can be made for Network Rail retaining all of the functions listed on page 27 because they require strategic decision making which only a body with overarching responsibility for the planning and operation of the network is in a position to make. These functions are complex ref P27 section 3.9 and should therefore be retained centrally by infrastructure operator and that is why you need to retain centralised system management function.

The following functions must therefore be retained centrally:-

- Need to retain national network access for freight
- Planning and timetabling
- Planning of changes to the infrastructure as well as to the timetable
- Property ownership and exploitation- (rather an emotive word)
- Providing environmental protection
- Negotiating and agreeing track access agreements to ensure service continuity planning and timetabling of train services providing environmental protection
- Safety and security regimes
- Providing operation and maintenance services in other business such as HS1
- supply chain management should remain with NR ref 3.11
- Key role of rail freight with renewals and maintenance
- System operator should be retained centrally by infrastructure operator ref 3.12
- safety standards be retained centrally ref 3.14

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

In addition to the infrastructure on the network, there is also port infrastructure to take into account in relation to connections to NR and the alignment of rail paths to and from such sites. Connection agreements give freight customers a direct relationship with NR.

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

Your description in section 3 including figure 6 explains why freight is worried about the moves for greater devolution which are unclear in the treatment of freight. There appears to be no comprehensive approach to the management of freight within the route structures.

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

Increasingly, the customers of the Freight operators want a direct relationships with NR which necessitates a strong leadership for freight within any new structure.

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

There are significant weaknesses in how Network Rail meets the expectations of its freight customers. The organisation fails to properly incentivise increasing freight flows.



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Network Rail needs to get much better at managing conflicts between local rail priorities and the wider network. Where there is limited capacity (i.e. across most of the network), devolution will intensify these discussions with local authorities and others taking a keener interest in the operation of the railway. Network Rail must be structured in a way that can respond to this in a positive fashion. For example, timetabling is key to maximising the benefits passenger and freight customers get from the rail network. Network Rail therefore has a central role to play in supporting rail freight, improving integration and connectivity between passenger rail services, and joining up rail and other transport. Devolution and decentralisation should retain system operator centrally for open access operators and freight. In any devolved set up, encouragement of freight must be incentivised.

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

Further devolution will necessitate a strong system operator.

**7. Are there more positive incentives for delivery which would be useful? Are any of these incentives more effective than others? No comment**

**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 or service types**

Further devolution will necessitate strong protection for rail freight. See question 9/10

**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?**

Freight on Rail believes that the centralised system operation function within NR is crucial for rail freight. Therefore system operation needs to be retained centrally; we do not support operator led systems operations. FoR has responded to ORR and NR system operation consultations.

As NR's routes become increasingly devolved, and the ambitions for political as well as geographical devolution of transport increase, the need to better define and structure these functions is ever more pressing.

Fundamentally, it is needed at national level to ensure national co-ordination and the necessary system planning of the overall system as very little of the railway is separate and discreet. Devolution makes this role even more key.



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NR is in charge of signalling and the track and it has an overriding command and control function. The system management function within Network Rail (NR) is fundamental to providing a system in which the needs of all the different users, including the rail freight and open access operators, are taken into account.

As well as ensuring that rail freight is not overlooked in any other restructuring of the industry, the Government needs to make sure that the system operation function caters for rail freight. Devolution, both Government and industry, present challenges for rail freight as it is a network-wide industry. The vast majority of rail freight flows cross regional boundaries so that is why nationwide access and timetabling and possession planning must be managed centrally by the system operation. We believe that graphing rules should start with long distance passenger and freight services. Freight services offer high cost benefit ratios. In the case of possession planning, freight customers must be offered alternative diversionary routes.

Planning and management of services across the network is vital as are consistent standards across the network. As more power is devolved, greater safeguards to protect rail freight access and priorities are needed.

Timetables need to be co-ordinated between different train operations as well as other modes of transport. Similarly, investment needs to be co-ordinated with integrated transport planning across the rail and road networks. We believe that future strategic planning for investments in parallel rail and road corridors needs to be integrated to maximise the economic, safety and environmental benefit of infrastructure enhancements. Therefore, the next stage of the Road Investment Strategy (RIS2) and CP6 HLOS processes should identify the corridors with the largest opportunities for rail freight to relieve road congestion.

The experience of devolution to date has been challenging for freight which makes the case for a system operator even stronger as the more the system is broken up, the greater the need for a central system operator.

In detail, the following features are needed

- a. One national track access charging and incentives regime that ;
  - i. fosters modal transfer from road
  - ii. incentivises track friendly equipment
  - iii. is non-discriminatory between freight operators
  - iv. does not discriminate against secondary operators on any / all routes
- b. Capacity allocation and train planning processes/regimes that facilitate (or at minimum do not discriminate against) cross route/national operations.
- c. Control and operational management processes/regimes that facilitate (or at minimum do not discriminate against) cross route/national operations



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- d. A holistic and consistent approach to disruptive access regimes across the network, not per route.
- e. An organisational solution that facilitates understanding /challenging /reducing Network Rail (freight) costs.
- f. An organisational solution that facilitates maintaining economies of scale / efficient use of specialist & scarce resource – e.g. in support activities such as NSC.
- g. With respect to infrastructure renewals and enhancements, an organisational solution that facilitates;
  - i. Cross-route solutions for customers
  - ii. Clarity of specification
  - iii. Clarity of outputs and outcomes
  - iv. Understanding/challenge of costs, both freight-specific and multi-user.

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

Rail freight companies provides a number of services to Network Rail, mainly through National Supply Chain (NSC). This includes provision of engineering trains, supply of ballast and other materials by rail, and maintenance of Network Rail's own fleet.

NSC is able to enjoy an economy of scale by purchasing these services on a national basis. Particularly for engineering trains, this enables freight operators to deploy their resources flexibly across the country, balancing NSC work with alongside commercial freight.

If such services were to be purchased at route level it is likely that the product would be less efficient, and there is a risk that resource allocation would be less efficient.

There would also be a management resource implication for suppliers who would need to tender for, and maintain separate contracts with each route. This could be a particular issue for smaller companies in the supply chain.

With reference to system operator, the scheduling of engineering trains across route boundaries also needs to be considered, especially as these are often booked at very short notice and do not have formal access rights.

## 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?



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NR's central freight team has been an important driver of network enhancements. Freight representation at board level is crucial; therefore the Freight Director role must be retained.

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

It is crucial that a centralised system operator function is developed and maintained to enable rail freight services to be able to operate efficiently and continue to grow. The impacts of route devolution must be factored into the assessment of the system operation role noting that regional political devolution may potentially re-shape NR routes into a different structure than today (e.g. a Northern route).

A fully functioning centralised System Operator function will provide a stable and consistent framework so that the industry, including freight customers and suppliers as well as the freight operators, all have confidence to continue to invest.

**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?**

Questions 13, 14, 15 answered together.

During CP4 significant rail freight enhancements were delivered within budget, which have hugely benefitted UK PLC. The Government's Strategic Rail Freight Vision has facilitated a range of key network capability and capacity upgrades. Within a year of the gauge upgrades on the route between Southampton and the West Midlands, rail had increased its share of port traffic from 28- 36%. However in CP5, project estimates have doubled and even tripled in some cases leading to a serious reduction in viable project deliveries. Project budgeting and cost escalation must be controlled to improve delivery and the image of the railways.

The cross industry group has worked well but there are a number of problems during CP5

- h. A disconnect between physical work and operational requirements, so that new infrastructure cannot be used as anticipated,
- i. Difficulties for freight sponsors in getting regional based IP and route teams to provide resource for freight projects,



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- j. No clear governance for projects which span route boundaries (e.g. F2N) particularly where some components were not funded directly by SFN,
- k. No alignment of decision making on priorities- for example, the delay to the flyover at Werrington which makes freight access to the newly upgraded joint line very difficult,
- l. Constantly changing standards, particularly for gauge, which have increased costs and extended timescales.

Small schemes such as new connections are often overpriced and delivery is slow which discourages modal shift.

**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?**

No comment

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

Centralised system operation function.

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

No comment

**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?**

The new monitoring role of ORR for Highways England (HE) will enable the ORR to compare costs and subsidies across both modes which is very valuable as it would enable Government to fully compare the costs and benefits of different modes, social outcomes and opportunities for efficiency. Any changes to access charges which disadvantages rail freight and causes reverse modal shift will result in extra costs elsewhere for the Government in the form of more road congestion, road casualties, the environmental and road infrastructure damage. The level of HGV subsidy, as described in our section 6 makes a compelling case for supporting rail, which imposes much lower costs on society and the economy, equivalently.



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

It is crucial that the reasons for previous structural problems such as with Railtrack are fully analysed so that the same structural mistakes are not made again.

Philippa Edmunds

Freight on Rail Manager December 2015

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<sup>i</sup> Source: Traffic statistics table [TRA0104](#), Accident statistics Table [RAS 30017](#), both DfT

<sup>ii</sup> Source: Traffic statistics table [TRA0104](#), Accident statistics Table [RAS 30017](#), both DfT

<sup>iii</sup> Addendum to MTRY 2014 report February 2015 and Heavy Goods Vehicles Do they pay for the damage they cause 2014



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