

## **Network Rail's structure**

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

Welsh Government agrees that the safe and efficient operation, maintenance and renewal of the rail network should be undertaken by a public body accountable to government – in Wales, this should be determined by the Welsh Government on behalf of the people of Wales, which should be given the budget for this responsibility.

We also agree that there should be oversight by an independent regulator and safety authority, which should report directly to the Welsh Government in respect of the railways in Wales.

We believe that enhancements and the availability of the funding for this programme should be a government responsibility – in Wales, this should be the Welsh Government on behalf of the people of Wales, which should be given fair funding for this responsibility.

Our experience with the North – South Journey Times and Capacity enhancement project, being delivered for us late, over budget and with reduced scope by Network Rail, and the recent issues with the costing and programming of Great Western Main Line electrification suggest that Network Rail has an insufficient understanding of its assets and that this needs to be strengthened.

We have also found Network Rail not to be very helpful in seeking to establish capacity for additional services between Wrexham and Chester and in accommodating new station stops on the Cambrian mainline, and in both regards have commissioned independent specialist advice. More generally, we have doubts that Network Rail is the appropriate party to determine new timetable requests.

The regulator should have an independent role in resolving differences, and advising on abstraction under a brief of maximising the public interest and passenger journey opportunities, and take account the priorities of devolved administrations.

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

Network Rail should have community development responsibilities with a duty to assist Community Rail Partnerships and other community groups to mobilise rail-based community enterprise, facilities and improvements. It should not charge its traditional multiplier organisation costs to community groups – these should be cross subsidised from commercial income.

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

See answer to question 1.

**4. What are your thoughts on how the periodic review process works presently? How would you propose improving this process?**

See answer to question 1.

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

The principal customers of Network Rail should be regarded as the taxpayer, passengers and freight consumers. In Wales, the Welsh Government is currently jointly accountable for the Wales and Borders rail services (and in future will be wholly accountable for franchised services), and therefore should be able to represent these interests in holding Network Rail to account. However to do this requires a different set of powers and responsibilities.

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

There is neither adequate ownership nor accountability to the customer when Network Rail is delivering projects. This is underlined by third party funders inability to hold Network Rail to account at corporate or project level in any meaningful way.

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

There is a need for Network Rail to be more accountable to the end user of rail services and in Wales specifically for more accountability to the Welsh Government. This will become even more important in letting and managing the next Welsh franchise. This should include more delegated authority for the Wales Route, with direct accountability to the Welsh Ministers.

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

Direct government funding for rail infrastructure costs should not generate excessive profit for the rail industry. Individual responsibility and accountability is a key method by which performance could be incentivised. Network Rail should be contractually bound to take more of the risk on projects on their own infrastructure.

**9. Is there a case for changing the route based structure of Network Rail and what are the advantages and disadvantages of different approaches to disaggregating the network, for example on the basis of:**

- a. Physical, political or economic geographies?**
- b. Service type, e.g. commuter services, inter-city services and regional services?**

Network Rail activities should be fully devolved to the Wales Route in parallel with a fair funding transfer to the Welsh Government.

A mechanism, to be agreed, needs to exist in order to meet the costs of restoring the railway in the event of catastrophic failures such as storm damage and landslips to maintain economies of scale.

Reconfiguration should not skew the share of Network Rail's structure in favour of more profitable routes and services.

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

For the National and high speed networks, issues such as interoperability and standards may make sense to hold at a UK level, however for regional railways and more stand alone networks these matters should be devolved as far as possible.

**11. 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?**

See answer to question 9.

**12. What processes and capabilities need to be in place (at both the centre and route level) to support Network Rail's current devolved structure?**

Long term route and capacity planning should be devolved, with the resources to support this.

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

If the Welsh Government proposals for devolution were agreed, the Welsh Government would require a fair funding transfer which would need to include resources for the management of Network Rail.

Further structural changes should provide the opportunity for Welsh Government and Network Rail strategies to be better aligned.

**14. What are the strengths and weaknesses of the current approach to planning enhancements?**

The current arrangements for Regulated Outputs are inadequate as the Welsh Government is only a consultee and not a decision maker.

For non-Regulated Outputs, the Welsh Government has a better input into planning with Network Rail. However, the contractual arrangements for

delivering enhancements are a significant weakness when holding Network Rail to account for expenditure of public money.

**15. What are the strengths and weaknesses of Network Rail's current approach to delivering enhancements?**

The current arrangements for delivering investment projects are most unsatisfactory. The Welsh Government must not continue to be treated as a third party funder which incurs associated costs and administrative burdens while the UK Government maintains control. For example, it has been difficult for the Welsh Government to plan around the delivery of the electrification of the Great Western Main Line, and Network Rail does not adequately discuss the impact of changes to its delivery programme with the Welsh Government.

**16. How well do the current delivery and planning processes work for projects of different sizes?**

Where we have used our Railway Act 2005 powers to invest in infrastructure improvements delivered using Network Rail's delivery and planning processes there have been major instances of failure to deliver to time and budget.

We find that where we undertake infrastructure improvements directly, as with Pye Corner, this can be both relatively quicker and more economically delivered by our own contractors.

Currently Network Rail's GRIP process and its administration are blocking the efficient delivery of schemes.

**17. 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?**

The Welsh Government believes that its Programme for Government and Wales Transport Strategy/National Transport Finance Plan objectives and priorities should feature in long term planning and strategy for the railway alongside market based industry forecasts.

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

It should be wholly accountable to the Welsh Ministers for projects delivered using Welsh public funds, and focused on delivering benefits to the people of Wales. The Welsh Government also strongly believes that there are efficiencies to be gained, including planning, construction and operational, of a more vertically integrated railway.

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

A more efficient mechanism could be put in place to reduce or remove the need for the transactional costs relating to the current Performance and Punctuality Management arrangements and the attached bonus/malus payments.

There are perverse incentives between Network Rail's management of the asset, including the cost of maintenance, and penalty regime and the desire of train operating companies to improve the customer experience.

**20. 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.**

See answer to question 1.

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

Decisions that affect the people of Wales should be made in Wales.

Any criteria put in place should consider the cost of maintaining, renewing and operating the asset.

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

**22. Do you have any views on whether the RAB remains a relevant concept in the railways, and, if not, what should replace it?**

The RAB is an issue solely for the UK Government to resolve at present. Any changes to the Network Rail's funding should not present a financial obligation for the Welsh Government without a fair transfer of funding.

**23. How should financial risk be managed in UK rail infrastructure in future?**

In terms of unanticipated network disruption, as set out in the answers to questions 9, this is a risk the remediation for which could be shared on a subscription arrangement between Network Rail routes, on a fair funding formula to be determined.

Incentives and disincentives should be considered in terms of Network Rail asset knowledge, planning and delivery, including remuneration penalties for management

**24. Do you have any views on how the UK railway infrastructure should be funded in the future, regardless of corporate structure?**

See answer to question 8.

**25. What positive case studies are there (e.g. international examples in the railway sector, other sectors internationally/in the UK), where more affordable and sustainable funding and financing structures have been implemented, with or without private sector capital input? And how do you think the lessons learnt could be applicable to the UK railway infrastructure?**

The Welsh Government believes that there are more efficient ways to deliver schemes and, in particular, the expertise that has been built up in Wales on highway construction and maintenance offers opportunities. The Welsh Government is building up a portfolio of experience with directly funded rail enhancement schemes (including Pye Corner station/interchange, Welshpool station car park extension and a number of Metro schemes) which have been or are being delivered more effectively, economically and quickly than under Network Rail delivery. The Welsh Government also believes that train operating companies, if appropriately incentivised, and given the requisite powers can bring finance for schemes to the table. Officials would be glad to provide further detail to the Review Team.

**26. What are your views on the enabling factors facilitating a sustainable and affordable capital structure for the UK railway infrastructure Network Rail? What factors would be required specifically for private sector capital introduction?**

The current level of asset condition knowledge is a significant blocker on any investment involving risk transfer.

**27. What are the types of investors that may be interested in investing in Network Rail, any of its functions, or in select parts of it? And for these types of investors, can you indicate:**

- a. Key attractions;
- b. Risk appetite;
- c. Required enabling factors.

The Welsh Government has a history of investing in the rail network where there is a business case and benefits accrue to the people of Wales. However, as described elsewhere in our responses the current institutional arrangements do not allow us to hold Network Rail to account.

**28. What characteristics do you think enhancement projects would need to have to attract private sector investment and to what extent and in what form would public sector support be needed? What types of financing structure could be brought to bear?**

Appropriate risk control mechanisms between the public and private sector.

**29. What incentive mechanics or control structures on Network Rail would facilitate third party involvement in the financing of enhancements projects?**

A less bureaucratic and more flexible organisational structure that could facilitate third party innovation (including in the application of standards) when planning and financing enhancements.

### **Risks and implementation**

#### **30. Do these feel like the right concerns? Has anything been missed that is vital to consider at this stage?**

The Welsh Government has proposals to significantly enhance the Welsh franchise and the Welsh route in an integrated way that would see an alignment between government, operator and infrastructure provider. We would wish to see enough flexibility in this reviews recommendation's to allow the benefits of this project to be delivered.