

24 March 2016

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

Dear Nicola

Govia response to Shaw Report scope consultation questions

Thank you for the opportunity to respond formally to the scoping document you have set out for the future shape and financing of Network Rail. This response represents the views of the three Govia-owned Train Operating Companies (TOCs) – GTR, Southeastern and London Midland, as well as the Go-Ahead Group.

Govia is one of the leading rail operators in the UK and is a joint venture between the Go-Ahead Group (65%) and Keolis (35%). Govia has extensive experience running complex and challenging rail operations. Govia currently runs three major rail franchises: Govia Thameslink Railway (GTR), Southeastern and London Midland. Govia is the UK's busiest rail operator, currently providing around 35% of all passenger journeys. As a key provider of rail services, we welcome the opportunity to respond to your review.

We welcome this review and would seek to ensure that any reshaping or refinancing of Network Rail focuses on its core role of providing robust and sustainable Operations, Maintenance and Renewals. It will also be important to ensure enhancements are planned and delivered effectively.

The responses to the specific consultation questions set out in the scoping document are answered in **Annex A**.

If you would like to discuss this response in further detail please contact Richard Evans, Head of Rail Policy [Contact Details Redacted].

Yours sincerely



Charlie Hodgson

Managing Director - Rail Development - The Go-Ahead Group plc

and

Director - Govia Limited

Govia Limited

Govia Limited, First Floor, 4 Matthew Parker Street, London SW1H 9NP
Telephone 020 7799 8999 govia.info

Annex A: Govia response to Shaw Report scope consultation questions

Network Rail's structure

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

Network Rail currently has a broad range of 'functions'. The scoping document captures these differences and we recognise the roles that have been described.

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

The scoping document has captured sufficiently the different roles.

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

We have been a customer of Network Rail's since its inception in 2001.

Reclassification of Network Rail has led to better accountability to Government, although there are now structural weaknesses emerging in the regulatory environment.

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

We agree with the definition of Network Rail's customers. It is imperative that the relationships and lines of responsibility are clear, as reforms take place. We would suggest that the key passenger interface/relationship remains with the TOC in any reformed structure. Any ambiguity with the infrastructure provider around this key relationship can lead to the blurring of responsibilities and obligations impacting on the passenger.

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

Overall as a customer our needs have not been consistently met at the present time by Network Rail. Our expectations, particularly concerning the core functions of Maintenance and Renewals, have not been met.

Pockets of good practice are evident, but have developed through strong individual relationships between NR and the operator; not as a result of organisational structure or culture.

Our operational (day to day) relationship is satisfactory, but the relationship is unbalanced.

Organisationally Network Rail is skewed towards enhancements. This is manifested in where it focuses its capability (talent) and resources, with the majority supporting major enhancements, and large scale projects. This leaves a capability drain in the core areas of Operations, Maintenance and Renewals.

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

Network Rail's customers (TOC's and FOC's) should have the ability to exert pressure through incentives to achieve the required industry outcomes. Customers of the infrastructure provider need the ability to withhold payment for services provided; or even the right to refuse payment to Network Rail for non-delivery.

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

The current Schedule 8 payment mechanism provides incentives in the short term.

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?**
- **service type, e.g. commuter services, inter-city services and regional services?**

Any disaggregation of Network Rail needs to focus on physical route geographies, rather than political boundaries or economic geographies. The railway structure must focus on the customer, with care taken to limit unnecessary duplication.

Boundaries should reflect railway operations, enabling the greatest efficiency of resources and network opportunities.

We would advise against any alignment of infrastructure provider to service type, as the majority of the network is operating mixed traffic.

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?

We would support further responsibilities being devolved to the routes. This allows the Infrastructure provider to work collaboratively alongside their customers and delivering shared local objectives.

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

We would support the majority of activity being devolved to the route, with only a 'thin' centre being retained with capability for:

- Capacity allocation

- Long term planning
- Debt and Capital financing
- Shared services – which the route has the option to procure.

Innovation should be devolved to the relevant industry parties to ensure the whole supply chain has equal access to funding.

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?

The majority of processes and capabilities need to be moved to the route level. As an outflow of the shift of responsibilities to the route, we would expect the centre to reduce in scale and resource to reflect this. We expect the centre could deliver these functions with a head count limited to about 200-300.

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

We have not worked in a devolved environment with NR, but we would strongly support incentives that further enhance an approach that enables decision making at the route level.

Any further structural change needs to consider the impact upon capability within Network Rail. From our experience, the day to day operational Network Rail is reliant on having great people leading and managing in the routes. Where there is a lack of capability the relationship quickly deteriorates. Capability development will need to be a key feature of any further devolution plans.

13. What are the strengths and weaknesses of Network Rail's current approach to planning enhancements?

Taking a long term planning approach to enhancements which steps across either financial or political cycles is helpful to allow the rail network to grow sustainably.

Weaknesses remain; we have been working closely with Network Rail on the London Bridge enhancement. The passenger impact of this enhancement stems from their inability to model sufficiently the capacity and performance impacts of the delivery of this enhancement.

The politicisation of the railways is an element of railway management that is not going to ebb. However, how Network Rail engages with the political pressure around enhancements and service provision should be examined. The organisation needs the ability to trade off Capacity, Performance and Cost in a way that manages the requirements in a transparent and inclusive way.

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

When undertaking enhancement work Network Rail models the impact of the work on the operational railway. The performance levels assumptions it makes for enhancements tend to be ambitious. Network Rail must develop its ability to model accurately the future impact of enhancements.

Therefore we believe the planning and impact processes around enhancement work need to be sufficiently developed.

A future strong, robust Network Rail needs to focus on Operations, Maintenance and Renewals (OMR). If enhancements are a feature of the future organisation, then talent and resource should not be siphoned off to the detriment of OMR.

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

Across the range of projects under Network Rail's leadership there is minimal customer involvement, particularly in the key early stages of projects and programmes.

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?

Given our operating environment, we are not able to respond to this question.

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

A future infrastructure provider needs to be aligned to the customer, with the responsibility devolved to a low level, to allow it to be responsive, with the ability to make rapid decisions.

The operating environment in which the future infrastructure provider resides needs to encourage efficiency, and a focus on the core role.

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

There are a plethora of industry processes that could be improved, however it is important that this review focuses on ensuring delivering of Operations, Maintenance and Renewals (OMR) and recommends a structure that will develop a culture that puts the customer at the core.

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?

Franchising should remain flexible; the ability for them to straddle Control Periods is an important feature. It would be unsustainable to align all franchises to the Control Period. However, to ensure flexibility and support to the Infrastructure Provider, franchises must have sufficient mechanisms to support the evolving infrastructure provision and the political requirements and outputs of the railway during the franchise term.

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

Outcomes need to be balanced to ensure a robust and sustainable future railway, however it will be important to consider:

1. Safety
2. Efficiency
3. Performance

Financing and funding of the company

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

The RAB is a good instrument to respond to volatility. Whilst the concept remains valid, it needs to be developed if it is to operate effectively in a public financing context.

22. How should financial risk be managed in Britain's rail infrastructure in the future?

Private capital could deliver additional funding and risk taking in rail infrastructure. The current financial market we feel would respond well to the opportunity to invest in rail infrastructure.

23. Do you have any views on how Britain's railway infrastructure should be funded in the future, regardless of corporate structure?

Whilst private investment could support and take on some cost risk, it should not be the only source of funding considered. Public investment and government guarantee in this public service will still be an important feature in any future infrastructure provision.

24. 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 Britain's railway infrastructure?

No comments.

25. What are your views on the enabling factors facilitating a sustainable and affordable capital structure for Britain's railway infrastructure? What factors would be required specifically for private sector capital introduction?

Ensuring that there is a stable, and where possible political-free environment in which future enhancements can be made attractive to long term capital investment will be important to facilitate a sustainable funding environment.

Train Operating Companies and Owning Groups could have role in supporting small infrastructure schemes with limited cost risk, that add short term tangible benefit within defined franchise terms i.e. depot enhancements.

26. 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:

- key attractions;
- risk appetite;
- required enabling factors.

Train Operators are not always in a position to support larger infrastructure projects, particularly if the scheme extends beyond the franchise term, however an option for TOC's and Owning Groups could be to leverage in private finance to support longer term investments.

27. What characteristics do you think enhancement projects would need to have to attract private sector investment and to what extent and in what form public sector support would be needed?

What types of financing structure could be brought to bear?

We believe that there are a number of low risk enhancement schemes that could be attractive to private finance.

Larger schemes which have greater risk, but wider economic benefits may warrant public financing in order to leverage in further private capital.

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

No comments.

Risks and implementation

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

The future shape of an infrastructure provider needs to focus on Operations, Maintenance and Renewals (OMR), aligned to customer (operator) needs. The future financing of the infrastructure provider needs to get right the balance between both public and private investment.