

Carillion response to Shaw Report

Introduction to Carillion:

Carillion is a leading provider of integrated solutions for buildings, infrastructure and services. As a FTSE 250 Company with a turnover of circa £4 billion and in excess of 20,000 employees, the Group delivers high quality, cost effective and sustainable solutions using our range of skills and resources. Our key target markets are transport (principally road and rail infrastructure), health, education, building, facilities management and support services for public and private sector customers.

Carillion are active in the UK rail infrastructure market, we currently maintain the East London Line network and carry out rail project work throughout the UK

We have successfully delivered major transportation projects, including:

- East London Line reopening
- M40 PPP / PFI contract
- "Project Evergreen" rail PFI project at Marylebone
- We have also successfully delivered large projects in connection with Crossrail & HS1
- Framework contracts for Network Rail throughout the UK

Consultation Response

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

We agree with the description given in the Scoping Document

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

In addition:

They represent the UK Rail Industry in various international forums

They provide / have taken on a wider industry leadership role, for instance the Digital Railway and the "Periodic Reviews"

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

No comment

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

Yes

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

Not our area of expertise

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

Not our area of expertise

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

Not our area of expertise

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?

The current geographical splits seem to work well, in so far as project delivery is concerned.

Where possible, creating a Manchester Metrolink type Light Rail service within cities may be preferable to the current heavy rail solutions

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?

A common engineering specification exists, although this is subject to regional preferences (although this is diminishing)

The introduction / approval of innovation is carried out centrally, this tends to preclude the ability to trial innovation via local agreement

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

The purchase of high volume materials: Ballast, Rail, Sleepers

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?

No comment

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

There is a culture of collaboration developing in the Rail industry. The success of this can be seen on projects like Reading & Thameslink.

A decade or so ago projects like Evergreen delivered real value to the railway, as a result of close collaboration. This was all abandoned as part of a Network Rail reorganisation, to the detriment of rail project delivery.

We fear this might happen again in any reorganisation.

Also, the current Control Period is largely planned to be delivered via Frameworks to encourage staff training / development, innovation and continuous improvement. We realise that current Frameworks have been slow to start, due to the slow development of projects, but we worry that any reorganisation may disrupt the current arrangements and prevent the planned improvements occurring.

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

Strengths:

- Liaison with train operators to achieve required scope
- Management of approvals

Weaknesses:

- For larger projects, can fail to optimise the balance between keeping a train service running, for the majority of users, & carrying out the work efficiently

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

Strengths:

- Collaboration between Infrastructure Projects and their Supply Chain
- Successful delivery of smaller projects

Weaknesses:

- Large contracts let to multiple contractors – creating unnecessary interfaces
- Lack of collaboration across Train Operators / NR Routes / NR Infrastructure Projects/ Designers & Contractors
- Silo approach between Engineering, Programme & Commercial arms

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

- Small one off projects – good
- Medium sized – generally good
- Large – can be poor

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?

- Delivery of the three High Speed Lines in France via PPP
- Network Rail have generated evidence showing that, elsewhere in Europe, project costs are generally 30% lower due to improved access (possessions)

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

- Close collaboration with train operations, public and contractors
- Ready cross acceptance for products approved for use in Europe
- Encouragement of innovation
- Ability to assess whole life costs in connection with project delivery
- Clear responsibility
- Balance cost & effect of train operations / efficient project delivery

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

Cross industry collaboration (project delivery to train operations)

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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 Periodic Review should be completed a minimum 12 months prior to commencing the Control Period

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

Reduced interfaces

Ability of those delivering projects to directly negotiate with those using the upgrades / providing a train service

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?

Other Regulators are moving finance for larger projects away from the RAB to a Design, Build, Finance and Maintain (DBFM) basis. Good examples are Thames Tideway, Ofgem's Offshore Transmission Operator (OFTO) regime and Ofgem's proposals for onshore transmission (Competitively Appointed Transmission Operators or CATOs). Similar approaches could be used for high value, "separable" (ie with clearly defined scope) assets in the Railway.

Thames Tideway and OFTOs have demonstrated significant financial benefits compared to delivery and financing through the regulatory regime.

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

RAB is probably a fair way to cover renewal work and small enhancements but major high value, separable projects could be delivered more efficiently via DBFM

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

Major high value, separable infrastructure assets could be funded via a DBFM / Concession mechanism, as is used to fund large areas of the UK's infrastructure.

As well as the examples in 21. Above, there are numerous other examples of successful PPP / concession projects including the M25 upgrade, the M40 upgrade, light rail, hospitals and schools. Carillion also successfully delivered the only design, build, finance heavy rail upgrade (Chiltern "Evergreen" Project)

DBFM / concessions could be carried out on a geographical, Route or asset basis

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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?

OFTOs

Thames Tideway

M40 upgrade:

- Existing motorway part reconstructed & widened
- Managed by PPP company with payments based on availability

England - HS1 Rail, including St Pancras reconstruction, built by PPP

European HS Rail - France, Spain & Portugal

In addition, the Ontario government is implementing a C\$2bn rail electrification (Regional Express Rail Electrification Project) through a DBFM structure.

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?

Enabling factors:

- Readily recognisable and "separable" (ie where the scope of responsibility can be clearly defined) assets requiring upgrade
- Clearly defined requirements
- Good quality data concerning the existing infrastructure
- A mechanism to pay a stable, high quality revenue stream (e.g. "availability" payments)

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:

Infrastructure funds, certain banks, PPP contractors and specialist investors, pension funds – would all be interested in investing in Network Rail PPP Contracts / Concessions

(Carillion have expertise in bringing pension fund finance to the Royal Liverpool Hospital)

key attractions;

Regular income, stable return on investments, growing market

risk appetite;

Payment based on availability of infrastructure (not fare box). Construction appetite depends on complexity, number of interfaces etc but can be mitigated through limited government support (eg Thames Tideway).

required enabling factors.

As question 25

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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 would public sector support would be needed? What types of financing structure could be brought to bear?

Risk that can be identified, priced and/or managed (may require limited government support for unforeseeable/unquantifiable risk)

Link to train operators to define the scope

Clear scope / requirements definition and no ability for "preferential engineering" to be sprung on us

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

ORR oversight of contracts

Clearly defined responsibilities, eg through interface agreements

Risks and implementation

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

Yes, right concerns & nothing missed