Sheffield City Region

Sheffield City Region Response to "The future shape and financing of Network Rail" scoping report

Network Rail's structure

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

The SCR recognises that a substantial part of the functions of Network Rail have been captured in the scoping report (see answer to question 2 for suggested addition).It is clear from this report that Network Rail functions across many diverse business areas and there is complexity in how some of these differing areas interact – to the extent that there is a significant risk that some of the internal relationships may negatively impact on objectivity.

An example is the different, and often conflicting, objectives of a company which is both tasked with delivering the Long Term Planning Process, yet also has a statutory obligation to deliver the Central Governments specification for rail infrastructure enhancements. It is clear that there may be occasions where the outputs of these two processes may be in conflict and can lead to a defensive approach being adopted by Network Rail with regard to future planning.

At the same time, Network Rail is also expected to carry out the essential job of continually renewing the network and ensuring the safe operation of the national rail network. Whilst expectations are that this can be carried out on a "business as usual" basis, the reality has often been different. There have been occasions where the renewals programme delivery has changed to facilitate overall delivery of all projects within budgetary constraints. For example, opportunities to achieve improvement through renewals, such as higher speeds, have been missed.

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

The SCR believes that Network Rail needs to be more cognisant of the requirements of Local Authorities, for example, recognising the importance of economic factors and working more closely in collaboration with the Local Authorities to deliver these requirements. A key example is the role of the station within the community it serves. There is a complete misalignment with how stations are seen within the Network Rail function and the role they play in the communities in which they are situated. Stations act as a gateway to the places they serve; these are more than just the connecting portal to the transport network and are fundamental components of local regeneration schemes. It is also important that Network Rail strengthens communication on the progress and delivery of schemes, whilst also becoming more transparent over their approach and costs. For example, conflicts occur where Network Rail provide investment costs that are higher than expected, however there is insufficient detail to understand whether these are because of the complexities of delivery or because the scheme is over-specified.

Recently, Highways England has adapted to become more transparent and aware of Local Authority requirements and this has resulted in an improved and more collaborative relationship. It is suggested that there may be opportunities for Network Rail to learn from Highways England and other delivery bodies to improve their own approaches.

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

The complexity of accountability arrangements for Network Rail makes it challenging to work with them at a local level and to capture local requirements without conflict with national accountability. An example of this is through the Long Term Planning Process, where the SCR's desire for additional local services between Doncaster and Leeds is in conflict with the Department for Transport's aspiration for additional long distance trains on this section of line. The SCR believe there is insufficient local accountability given the level of local investment that is provided and that further devolution will make this a greater challenge. The current structure has too much focus on central Government being involved in planning detailed aspects of Network Rail's functions. There needs to be recognition of the emerging sub-regional Transport Bodies, particularly Transport for the North, to ensure that Network Rail development plans reflect the aspirations of these areas and that short term commercial decisions do not prevent realization of wider benefits at a later date.

These accountability arrangements are too complex to ensure strong objective delivery of the UK rail network. The different customers all have differing priorities, which leads to conflict, but there is also a financial factor to take account, particularly with the Train Operating Companies and Freight Operating Companies which can lead to Network Rail focusing on delivering their needs (through contractual obligations) at the expense of the overall offer to the fare paying passenger.

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

The report correctly identifies and defines Network Rail's customers according to the existing governance arrangements for the UK railways. However, as alluded to in the report, the process of increasing devolution is likely to result in changes to relationships going forward and there needs to be a greater recognition of customers at a local level.

Furthermore, there needs to be a greater recognition of the changing emphasis on local accountability through devolution. Locally elected representatives are increasingly accountable for representing local resident's and passengers interests in the specification and funding of services through the Train Operating Companies (TOCs). The role of Rail North and the potential for locally elected City Region Mayors will need to be reflected in the scope of customers for Network Rail. Notwithstanding this, although the TOCs represent passenger interests, where services or stations receive local subsidy or support, this needs to be reflected in Network Rail's approach.

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

The SCR is concerned that Network Rail may not be meeting customer needs and expectations at present. If we are to have an economically strong Sheffield City Region then we need Network Rail to fundamentally change, change requires adherence to the commercial

yardsticks of delivering projects on time, on budget and where accountability is transparent. Transport, including the railway, remains essential to support economic growth and it is important that Network Rail understands the importance of the benefits rail investment schemes can bring.

The complexity of the customer relationships mean that Network Rail are struggling to balance the conflicting demands and are tending to focus their efforts on the immediate stakeholder rather than understanding the true impact on the end user – i.e. the passenger of freight customers.

Whilst there are lots of areas where this of concern, the major issue is on delivery of promised enhancements, where late running delivery and cost over-runs frequently occur, and poor communication, both with stakeholders and the passenger. Of greater concern to the SCR are occasions when Network Rail is being funded to deliver enhancements that are not then realised when the infrastructure work is complete. A local example is on the Hope Valley line upgrade (part of the Northern Hub) where initial communication suggested the improvements would deliver 4 fast trains per hour, but this has subsequently slipped to 3 trains per hour. Even as the commencement of work on site approaches, there are indications even this level of service will be achieved through “flighting” of trains rather than even a clock face timetable. Yet there has been little communication on this. Another example is the Shaftholme Junction improvements, where higher speeds were promised during scheme development but have not yet been realised despite the considerable investment and the scheme being supposedly complete.

There needs to be a greater focus on delivering outputs that benefit the final customer, on time and to budget. Network Rail should be able to assist co-ordination between stakeholders to minimise the impact of disruptive enhancements and ensure the results will meet user requirements.

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

We do not have a specific view on this question, but would like to comment on the importance of the customer focus at stations and the timeliness and accuracy of the information provided where delays on the network occur. It is important that customers have confidence that Network Rail are dealing with problems in an efficient manner.

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

The SCR believe it will be beneficial to provide positive incentives for delivery and suggest that the DfT should explore different approaches to develop a suitable approach. The introduction of an incentive scheme needs to be considered carefully so that it does not have an adverse impact on scheme delivery. For example, the scheme should not be so complex that it requires substantial resource to manage and results in overall cost increases. Equally, an incentive scheme should not inadvertently reward conservative estimates and risk aversion in

scheme development (e.g. adding extra delivery time or building in additional risk allowance to make it easier to achieve the incentives).

The SCR believe that the most effective approach to providing incentives would be linking these to benefit realisation (i.e. achieving the intended purpose of the scheme), rather than focusing only on cost, time and quality targets.

However, it is essential that Network Rail is held more accountable for delivering agreed outputs, regardless of the existence of any form of incentive regime.

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 SCR believes there is a case for changing the route structure, but this needs to be considered carefully to achieve the correct balance between local focus and accountability without losing the benefits of a more joined-up approach.

The current geographic structure is too London centric, which means there is the risk of a lack of local focus as there is a focus on long distance services despite these carrying less passengers than regional services. Therefore, the SCR believes there would be benefit in a revised geographical structure that better represents regional travelling patterns and funding availability, and mirrors the emergence of statutory sub-national transport bodies such as Transport for the North. The North of England, and indeed the SCR, is covered by 2 different Network Rail routes Network Rail should provide a single point of contact for Transport for the North and a consistent approach. Currently Northern Rail and Transpennine Express, which provide most services in the North, have to deal with two separate routes which have different practices on possession planning and on other areas. Discussions were held with Network Rail with a view to establishing a “virtual” route to align with the Rail North geography, but this has not been progressed

However, whilst a change of boundaries to provide more local focus would be welcome, this needs to be balanced against the risk of splitting to routes too much so that there is a loss of economies of scale or an increase in the number of boundaries that need to be dealt with. It would be problematic to disaggregate the network by service type because of the intrinsic overlap on our mixed use railway. There would be a risk that intercity services would take priority and result in regional and commuter services having to deal with different parts of Network Rail where they interface with the intercity services.

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?**

The SCR does not have any specific views on the balance of responsibilities between the routes and the centre, but we recognise that there are economies of scale benefits of retaining some functions at a national level. However, it is important that this does not reduce local accountability and where Network Rail uses centralised functions, they should be managed so that they remain transparent and visible at a local level.

The SCR considers that responsibility for strategy and co-ordination of investment should remain a centralised function to provide a national overview and ensure consistency across the country, but there is an opportunity to provide more localised autonomy for scheme delivery.

There is also a need for better balance of local responsibilities, so there is a consistent overall approach between regions, whilst allowing for local variation where this is appropriate. There have been occasions where the policy approach taken some regions has limited development opportunities that have worked in other regions where different policies apply. For example, signal box opening hours and a willingness to extend these to cater for changes in passenger demand varies by region.

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

We do not have a view on this question.

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 biggest challenge to Network Rail's current structure is the transition of projects through the various development and delivery stages, which leads to a disjointed approach causing inconsistencies with cost and outputs. There needs to be stronger overall governance and improved processes to allow projects to be handled through the various stages in a joined up and consistent manner. It is suggested that a comprehensive review of the GRIP process is undertaken. This should identify opportunities for greater flexibility in approach, for example to reflect the scale and complexity of investments. The existing GRIP process can be particularly overbearing for smaller investments, incurring unnecessary cost and time requirements to pass each stage.

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

In the short term further structural change within Network Rail is likely to disrupt the planning and delivery of rail schemes the SCR is developing, as well as potentially creating uncertainty in the longer term planning and strategy development. However, whilst this may create some short term challenges, there is a need for Network Rail to adapt to the current devolution agenda, which will change the role of Local Authorities in light of the emergence of organisations such as Rail North and Transport for the North. In the longer term structural change of Network Rail should provide the opportunity to improve performance, transparency and local support for Network Rail activities.

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

The SCR's experience is that there are both strengths and weaknesses in Network Rail's current approach to planning enhancements.

The strengths of the current approach largely revolve around the transparency of the process and the willingness to involve a range of stakeholders (although concerns remain that not all relevant stakeholders are always identified). The GRIP process provides for clear input points into the planning cycle and it provides of a logically sequenced chain of documents and stages.

However, the approach is weakened by being too process driven, leading to a rigid requirement for substantial work regardless of the scale of investment and there is insufficient guidance to organisations outside of Network Rail on the requirements. This can lead to duplication of effort (or wasted effort) when schemes are being developed by Local Authorities and a dependence on limited Network Rail resource to progress them beyond certain stages, regardless of Network Rail costs. For small schemes, there should be more opportunity to reduce the level of detail of the GRIP process and allow more work to be completed externally to Network Rail.

In addition there is a disconnect between the outputs, outcomes and benefit realisation. The success of a project needs to be more closely tied to the economic benefits that the investment seeks to secure. There are a number of recent examples where the scope of investment has changed to meet output requirements and missed the objectives of the scheme. This includes:

- Shaftholme Junction: Promised line speed improvements have not materialised;
- Great Northern Great Eastern Joint Line Upgrade: Substantial infrastructure improvements took place to cater for increased use by freight trains to release paths on the East Coast Main Lines. However, a lack of grade separation at the southern end of the line means northbound freight trains are unable to access the line, with the result that not all of the benefits are being realised. A plan to provide this grade separation is now underway, but it will be delivered much later than the rest of the upgraded route.
- The Hope Valley Line upgrade. During initial discussions, Network Rail had indicated that there would be paths for 4 fast trains per hour, but this subsequently reduced to 3 trains per hour along with reducing the scope of some of the improvements. Recent developments suggest that the train service the improvements will provide is now looking to be less attractive for passengers as the services may be flighted, so the benefits of a more frequent service will not be realised.

The overall concept of the GRIP process is a strength, but changes are required to ensure it is proportionate to the scale of investment, to allow external organisations to carry out more work independently and for the overall approach to be less risk averse. Whilst the current approach

is suitable for transformational changes, it can often lead to modest schemes becoming unaffordable.

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

Network Rail's current approach to delivering enhancements is causing considerable cause for concern with delays and cost over-runs on many of the projects they are involved with. In the SCR there have been difficulties over contractual arrangements when working alongside Network Rail to deliver infrastructure enhancements, such as Rotherham Central upgrade, again largely as a result of Network Rail's processes being too rigid to adapt to local circumstances.

From recent experience on the Tram / Train pilot project the SCR would question the ability of Network Rail to resource and properly control local enhancement projects. This project has shown significant weaknesses in Network Rail's project management capacity / capability, relying heavily on consultants to supplement its internal resource, particularly in important disciplines such as OLE, signalling and EMC (electromagnetic compatibility), but even in basic project management disciplines. In addition the project has demonstrated a significant reliance on main contractors, with insufficient control of these contractors leading to wasted costs in abortive design work due to poor specification and control. The inability of one part of the organisation to work in a collaborative nature with other parts e.g. the Route Asset Mangers (RAMs) or signalling to reach a common purpose is a concern, which needs empowered and strong management to resolve.

The contracting mechanisms for 3rd party investments in the railway (Asset Protection Agreements or Development Agreements) place all the risk on cost overruns with the 3rd party as Network Rail generally contract on an emerging cost basis. Our experiences at Rotherham Central and on the Tram / Train project raise concern about the risks to local authorities in investing in the railway to deliver enhancements

The experience within the SCR is that there have been more difficulties in delivering rail investment projects than there have been for infrastructure / facility development across other modes. This suggests there are opportunities for Network Rail and the wider rail industry to learn from other sectors in order to improve their delivery record. It is important that the rail industry does not isolate itself from other disciplines and accepts there are opportunities to learn from experience elsewhere.

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

The experience in the SCR is that the current delivery and planning processes are too rigid in their application and do not scale to reflect different size projects. This means that the workloads are similar regardless of the size of the project, resulting in small scale enhancements becoming unaffordable.

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?

There are a variety of different models and processes being carried out in other countries and across different sectors that the UK, all of which should be considered by the rail industry to determine whether there are approaches that could be adopted. It is essential that the industry does not consider itself in isolation and is willing to understand the opportunities that different approaches can bring, to make continual improvement and allow affordable development of the network. It is also beneficial to compare with other processes that are not working as well as the UK approach, so that mistakes can be recognised and any lessons learnt, can be considered for adoption here. The SCR considers that there is an opportunity to commission new research to better understand what other approaches are in use and how these could benefit the UK.

The rail industry should ensure that it invests in training and development to create a strong talent pool of engineers and planners for the future. There are opportunities in the SCR for Network Rail to build upon the Rail College being built in Doncaster as part of the HS2 project so that skills can be developed for the classic network as well.

Network Rail should also seek to provide easier opportunities for small local companies to be able to bid for contract work, as this will help to develop local talent and further boost local economies. There is evidence that the current approach favours larger companies for their economies of scale and results in local companies being placed at a disadvantage.

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

A more direct relationship with the north of England and its city regions through Rail North and Transport for the North

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

One area which could be improved is a more joined up approach between Network Rail, Central Government and Train Operating Companies to deliver train services which can maximise the effectiveness of the railway enhancements which are being delivered. There are two areas where this is a concern; rolling stock availability; and competition for paths.

The challenge with rolling stock availability is a lack of co-ordinated plans across the UK for the delivery of new rolling stock and the cascade of existing rolling stock, with the DfT leaving this to the discretion of the Train Operating Companies and Rolling Stock Leasing Companies. This has resulted in new infrastructure being delivered at great cost and with passenger disruption that cannot be used because of a lack of trains. An example is the Todmorden Curve which was delivered in May 2014 but trains were not available for the services until May 2015.

The other challenge is that train operators compete for train paths on a commercial basis. This means that the available capacity created through enhancements may not be used to the maximum effect. An example is on the East Coast Main Line where the Government provided

funding for capacity enhancements, but operators are currently bidding for fast trains serving only London, Newcastle and Edinburgh, which could result in no benefit for the majority of destinations along the route. A more strategic approach to allocating capacity may represent better value for money.

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?

Network Rail's 5 year planning process needs to be set against a longer term strategic view of the network.

Any improvements planned for the end of the respective control periods are viewed with a level of concern as to whether they will be delivered, due to historic experience. This means that local authorities and city regions cannot give business the confidence that the investment will take place.

The current processes, do not take into account the regeneration plans that surround rail stations. The railways network operates in isolation to the ambitions and plans of local authorities and city regions and the investment that they draw in from the private sector.

It is the SCR's view that Network Rail should be a partner in delivering growth as the rail network is an important part of the 'fabric' of the country.

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

We do not have a view on this question.

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?

We do not have a view on this question.

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

We do not have a view on this question.

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

Whilst the SCR does not have any specific views on how railway infrastructure should be funded in the future, it is essential that the structure adopted provides certainty over longer periods. Investment in the railway often requires long timescales to deliver and with a backlog of investment a structure long term programme needs to be developed. However, this is only realistic if those carrying out the long term planning can be sure of availability of funding and are not restricted by start – stop investment cycles.

In addition the SCR would also support some funding devolution, where investment funding is provided at a Local Authority or regional level for small and medium scale investment to support delivery of wider economic ambitions.

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?**

    We do not have a view on this question.

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?**

    We do not have a view on this question.

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.**

    We do not have a view on this question.

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?**

    We do not have a view on this question.

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

    We do not have a view on this question.

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 approach to the report seems sensible and we welcome the clear and comprehensive scoping document. The SCR would emphasise that our key focus is Network Rail's ability to deliver on its commitments / outputs on time and to cost, with strengthening of their accountability. If it emerges that Network Rail can enhance its capability in this regard through internal changes, then the SCR will be supportive.

With rail investment a key part in facilitating growth then Network Rail needs to ensure that it has the right set of skills and abilities within its work force to meet the expansion of the railways and the opportunities that new technology can bring. The SCR would like to see a clear and transparent plan of apprenticeships and graduate trainees so that the railways can operate in years to come.