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Ref. RN/SHAW/ CM

The Shaw Report

Zone 6.03

Sanctuary Buildings

Great Smith Street

London

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Dear Nicola

The future shape and financing of Network Rail – The Scope

Rail North represents twenty nine local transport authorities across the North of England. Rail North and the Department for Transport have signed a Partnership Agreement which devolves management of the new Northern and TransPennine Express franchises to a Partnership Management team based in Rail North's offices in Leeds. This Partnership arrangement is part of an evolving devolution process that aims to give Rail North full control over the management and strategic development of the franchises in due course (and the agreement makes provision for this further devolution). The Partnership Agreement gives Rail North, through its membership of the Partnership Board, influence and direction over the new franchises, replacing the current DfT commercial management arrangements. The Partnership Agreement also makes provision for Rail North to take on devolved management of HLOS schemes and develop investment plans for the new franchises.

Rail North worked with the Department for Transport (DfT) on the development of the Invitations to Tender for the Northern and TransPennine Franchise competitions issued earlier this year and which reflect the aims of our 20-year Long Term Rail Strategy to improve connectivity for passengers, provide a better customer experience and deliver a more efficient railway for the people of the North of England.

We welcome the opportunity to respond to the consultation on behalf of our members, although some of the members may also elect to submit individual responses representing the specific views and interests of their regions.

We'd like to congratulate your team on their excellent work (in the scoping report) to highlight the specific challenges faced by Network Rail.

We were pleased to have the opportunity to contribute to one of the regional discussion meetings. As discussed at the meeting, we would welcome the opportunity to work with the team on specific aspects of the review going forwards.

David Hoggarth

Rail North Director

Rail North's Response

We would like to submit the following responses to the questions that were asked within the scoping document, summarised in Annex A – the List of Questions:

Network Rail's structure

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

Network Rail's functions are incredibly diverse, encompassing many different business types – the way it sees these different functions should reflect this diversity, rather than a 'one size fits all' approach. These different functions should be reinforced as separate and autonomous business units and then re-examined to see if they are actually best suited to be part of the Network Rail structure.

Whilst we see it to be beneficial for individual functions to be separated out, a central business planning body working in partnership with relevant regional counterparts (Rail North and Transport for the North) should retain a strategic overview, coordinating efforts at a national level (looking at more than just rail needs).

This planning function should probably sit outside of Network Rail and then commission the various infrastructure projects through Network Rail or other similar organizations.

The Operational Maintenance Renewals (OMR) functions should likewise be a fully autonomous unit, but regionalised to align with the structure of its core customers – in the case of the North of England, it would seem to make sense for this to replicate the area of responsibility of Rail North, encompassing the two north of England Franchise areas; this would allow operational alignment and thus better coordination across the region, rather than on the north / south intercity –led approach that we currently have.

There are additional questions to be asked, as to the benefits of a vertically integrated railway, that are not covered within the scope of this consultation, but which may have a bearing on the outcome.

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

We would like to see Network Rail undertake a more complete review of who their actual customers really are and how it can best serve them. The 'true' customers are those people who pay the fares and pay their taxes to fund the network, rather than those who have a contractual relationship through the access regimes. These customers and the communities they live in and by default their representative organisations and authorities acting on their behalf are where the focus needs to be.

Network Rail needs to recognise the needs of the specific communities it serves and the impact that the management and development of the infrastructure it administers has on them and their cohesion and economic prosperity. 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. These assets form part of the key architecture of the civic infrastructure and act as a gateway to the regions they serve; these are more than just the connecting portal to the transport network.

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

There is no real emphasis on accountability to the 'true' customer (see Question 2), but only accountability based on metrics that form part of its commercial relationships (such as TOCs). Network Rail accountability to Local Transport Authorities and emerging sub-national bodies (who are often treated as less important third parties) is not at all sufficient. Rail North should have a strong, direct strategic relationship as the specifier and funder of franchised rail services in the North of England. TOCs manage the relationship with Network Rail on behalf of DfT and Rail North, but they also don't have sufficient influence and have no choice of 'supplier'. The TOCs are representatives of Rail North with regards to managing our interests with Network Rail on day-to-day issues and if they are unable to get the right outcomes, then in turn they will frustrate the plans being developed by Rail North for strategic service developments and capacity growth within our region.

From the perspective of strategic regional development projects, it is imperative that there is better coordination between Network Rail and emerging sub-national bodies (such as Transport for the North) to ensure that Network Rail development plans reflect the aspirations of the local areas and that short term commercial decisions do not prevent wider benefits being realised at a later date – the sale of Network Rail assets which will have a direct impact on aspirations for devolution for instance. Decisions of this nature need full consideration through discussion and consultation, with the long term effects being carefully examined before centrally taken decisions are enacted.

As illustrated earlier in our response, regional accountability needs to extend across the regional boundaries of the Network Rail directorate structure - Rail North would like to see a clear, direct interface with Network Rail covering the whole of the North, as opposed to dealing with two separate routes currently aligned on the basis of North / South intercity travel to London rather than regional decisions relevant to Rail North.

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

As a continuation of the answer to Question 2, Network Rail needs to recognise that it has a myriad of different customers, each with their own requirements, not all of whom are actually rail users. Different regions have a diversity of needs – when assessing the viability of an infrastructure improvement, the focus is almost wholly on more densely populated areas, whereas it needs to reflect the needs of all. This should include those outside of the urban environment in more rural areas, where the advantage of social cohesion and regional economic benefit are not always aligned to strong financial business cases used by Network Rail in their planning processes.

Rail North's devolved role therefore needs to be fully recognised in any revised structure and planning processes with greater emphasis placed on customers who may wish to fund enhancements on top of the central investment programme. In the future, Rail North will be the specifier and funder of franchises. We will therefore be the 'central' procurer of enhancements over and above the new franchise agreement specifications.

The rail industry as a whole needs to recognise that its customers are not solely those who are using the rail network, but should include those customers using other transport modes, ensuring planning is aligned with the needs of these other users, in a more cohesive overview - Local Authorities (working with LEPs and regional bodies) are often the strategic body responsible for developing the wider transport system which the Rail Network has to interact with and as such are ideally placed to contribute that wider strategic view. Where Network Rail operates major stations we feel that there is not sufficient emphasis on passengers who use the stations compared to (for example) retailers.

Local Authorities act as both local planning and transport authorities. LEPs and other devolved authorities are developing their roles – Network Rail's current structure does not facilitate seamless interface between organisations. Network Rail needs to organise to reflect local development needs and democratic accountabilities - whilst it may be difficult to fit exactly, more can be done that at present

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

This is dependent on whether you agree with their definition of the customer (see above).

There is insufficient emphasis on passengers' needs and how local plans and investments can drive growth for Network Rail and the industry. Network Rail is not currently meeting franchise customer expectations; it is not currently fit for purpose to meet the ambitious plans for the North including within the two new North of England Franchises, whose success is based on the ability of the infrastructure to deliver key enhancements and greater network capacity.

As we have illustrated previously within this response, these challenges are exasperated by Network Rail's current structure (see the response to question three) – for example within our region, Northern and TransPennine as train operator 'customers' have to deal with two Network Rail regional routes.

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

Centralised pressure applied on a national level does not reflect the progress being made in the devolution of responsibility for our transport network to sub-national bodies. A recognition of the emerging roles of these organisations should be reflected in the accountability arrangements.

The overall regulatory structure (and role of the Office of Road and Rail Regulation) needs to be reviewed to ensure that Network Rail has the ability to respond flexibly to the needs of Local Authorities and be accountable to them for the outcomes on their behalf.

There needs to be a stronger relationship with passengers and their interests protected, especially during times of disruption (both planned and unplanned). At present, these primary 'customers' have little say as to arrangements put in place on their behalf and are often treated on the basis that the Industry knows best, whereas in reality it is on the basis of what is better or easier for the industry, rather than for the customer.

There also needs to be more direct accountability to those customers funding and facilitating enhancements outside of the standard model, especially if we hope to attract alternative methods of funding infrastructure improvements in the future.

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

We need to look at this outside of just a focus on the Rail Network and instead see it as part of a multi-modal transport network, with incentives based on more than just rail operational performance.

Arrangements which allow Network Rail to take a bigger share of the risk on enhancement schemes (where the delivery risk is within their control) are needed.

Incentives that 'reward' Network Rail for industry benefits such as passenger/revenue growth and wider economic outcomes are required to provide greater encouragement to deliver projects to accurate timescales and budgets are a good idea, but this needs to be balanced by a direct correlation with revenue loss risk on failure to deliver infrastructure schemes that impact on franchise revenue - i.e. Network Rail should compensate TOCs where it fails to deliver the necessary infrastructure to support

revenue-generating service enhancements – there needs to be more incentivised risk sharing.

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?

Rail North would like to see a route structure that directly relates to the whole North of England area with a single interface for both operations (directly with Rail North and through the train operators) and enhancements (through Rail North, TfN, the train operators, , DfT and other investors). There should be equitable executive correlation between Network Rail and its customers in the North of England – an 'MD of the North' and supporting team is required to interface at the correct level with Rail North and their partnering TOCs – but this should not duplicate existing structures (and thus double the cost), but be part of a wider reorganisation of the directing function.

The current structure focuses too much on inter-city routes that actually carry a much smaller number of passengers than regional services and so in terms of data and information, the current structure obscures important cost and performance issues across the two Network Rail routes when taken as one region. The economic benefits of regional rail services are not fully reflected in the current structure and emphasis on the financial return of north-south franchises. Through our work on making the case for regional rail and devolution, we have highlighted the strong wider economic benefits.

A realignment to regional operations would also result in better accountability to local stakeholders would make it generally easier to hold Network Rail to account (see answers to Questions 6 & 7 above).

We feel that any downsides to this re-structuring will be outweighed by the benefits of having an aligned Network Rail aligned with a regional delivery partner covering the same area of the country.

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?

Currently, the split of responsibilities injects complexity and delays to delivering schemes and a more streamlined structure is needed with clear responsibility at a regional route level. The North currently gets the worst of both worlds – centralised strategic planning that is out of touch with regional needs and aspirations and un-focused local route management unable to utilise advantages arising from regional knowledge.

Large scale projects should still in theory remain at a level where they can be strategically managed in context with the whole national infrastructure picture (albeit with stronger regional consultation and partnership) and day-to-day maintenance be retained at a route level, again with a greater degree of engagement.

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

There is a balance to be had between awarding contracts at a national level to get economies of scale and the advantages of employing smaller organizations and SMEs to undertake work regionally, where their performance can be more closely monitored and regional knowledge can be a distinct advantage.

Being able to secure and coordinate scarce resources at times of peak demand is very beneficial where there is limited industry resource (such as signalling expertise, of which there is a real shortage); however, in other cases where there is more availability of resources within the regional markets (such as 'civils'), it makes sense to allow competitive commercial pressure to promote opportunities for better value for money within the contracts being awarded. This is also consistent with the central government policy of including SMEs within Government procurement exercises and results in regional communities benefitting from local enhancement work. Network Rail is currently not doing enough in the area of skills and training and this is a concern given the large programme of investment committed across the North.

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

It needs a much improved capability to move from the strategic planning stage centrally to the scoping stage and then to the delivery stage at a regional level.

It needs far more engagement with various bodies with an interest in the work within the region to ensure a multi-modal approach. Organisations such as Transport for the North (TfN) and Local Authorities need a much higher level of engagement throughout the planning implementation and delivery stages. In the future, these organisations will be actually specifying franchises and rail services, so it is imperative that our long term aspirations are recognised and factored in to the planning.

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

Any Network Rail restructuring must take into consideration the changing regulatory framework arising from the current developments in devolution to the regions with a better alignment to bodies such as Rail North and TfN. Any restructuring outside of that realignment of devolved responsibilities would import further complexity.

The devolution of franchise management has been a critical success factor for us at Rail North and going forward, the devolution of HLOS schemes and oversight of infrastructure projects are critical to the success of our new franchises and future plans; therefore, we would ask that the interface between Network Rail and Rail North with regards to franchise operations / specification and infrastructure projects is effectively managed within any revised structure.

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

The strengths include a clearly defined and well understood planning process; however, weaknesses include the lack of flexibility to adapt the process to the need of specific schemes and programmes and as we have indicated above, the organisation is too centralised and should be restructured to align with the devolved bodies.

Another weakness is their actual understanding of the business case for the operator or understanding operational / rolling stock alternatives – Network Rail's approach is infrastructure / asset led and this can lead to a more expensive and disruptive solution, not accounting for latest developments within the rolling stock marketplace. This is particularly true with regards to capacity and journey time improvements - a more holistic and operations-focused approach is required rather than the rigid infrastructure–led thinking that is the current single strategy.

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

Strengths include the well-understood GRIP process.

Weaknesses include the lack of transparency in Network Rail processes and the lack of incentives on Network Rail to deliver on time and on budget, especially where a third party funder is involved, as well as a general weakness in specifying contracts effectively resulting in regularly seen cost / time overruns and scope 'creep'.

We support the proposed bespoke approach to large scale project delivery (integration of track and train being a key priority here).

There needs to be a simpler and more streamlined approach for smaller projects, let and administered on a local level.

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

It varies between different asset disciplines; there are examples of good practice in projects of all sizes and likewise examples of poorly executed projects. The issues arise from the impacts as a result of cost and delivery overruns, as in smaller schemes they can go unnoticed, whereas in larger schemes the impact is all to evident (Kings Cross last Christmas is a good example of the impact of such difficulties).

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?

We would suggest looking at lessons learned from the delivery of other major non-rail infrastructure projects such as the London Olympics and major project delivery models used in industries such as the electricity and gas sector.

There are also a multitude of examples within Europe and also the Asia-pacific countries and the Middle East that are worth examining more closely, from concept to funding to delivery and operation. We have highlighted a number of these in our technical appendix relating to the financial aspects.

There is a move in some major new infrastructure projects in transport around the world, to have an operator-led approach to planning and delivery of major projects – ensuring early operator involvement in specification and delivery that results in reduced whole life costs; this is worth exploring as part of the review.

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

To be able to relate directly to its customers and funders. In the case of the North of England this means a direct relationship with Rail North and Transport for the North.

Any new structure needs to recognise devolved responsibility for service specification and ultimately funding of future investment in the rail network – the infrastructure provider needs to be more aligned to the strategic outcomes to be delivered in terms of capacity, service enhancements and revenue growth. Rail North, in partnership with its Franchisees, needs to be more involved and have greater influence on the infrastructure planner and provider (whoever they end up being following the review), at a strategic and operational level.

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

More involvement with the franchising process – there should be more of a connection between the infrastructure improvement plans going forward and the ITTs issued by the Department for tender.

The regulatory framework and relationship with the ORR needs to be improved.

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 five year Control Period planning process does not work in terms of the level of ambition and commitment in the North of England to transformational investments (for example the emerging Transport for the North strategy). Short term decisions are often taken that are not aligned with regional plans and aspirations, which take a much longer view. Local regions plan on a much longer basis that the Control Periods / franchise lengths or even parliaments and as such the current processes result in too short an outlook and as such place restrictions on ambition and funding opportunities, as these are often reliant in longer periods of time to realise an acceptable return on investment.

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

We would strongly request that in any assessments that you are mindful of the points we have raised above in relation the changing funding, planning and regulatory environment emerging as a result of devolution. They should also take into account the wider economic impact (and particularly the benefits of aligning with the new organisations and structures).

This is the present and the future of how rail services are going to be planned, operated and administrated and Network Rail must change to reflect that new environment and align its thinking accordingly – this is the absolute priority for us.

Network Rail should recognise that it is part of a changing industry, where expectations of our customers are rightly increasing and it needs to evolve to work with the relevant partners to meet those expectations – it cannot continue to operate in isolation and dictate to the industry and passengers what it thinks is best – It must be reformed and regulated to reflect a greater accountability, with integrated planning and implementation processes recognising the needs of those interested parties.

Nor must decisions that directly affect the long-term future and viability of the industry be taken in isolation to remedy short term problems arising from its failings, for example

blighting station development sites by selling off areas without due regard to proper integration with the surrounding land use plan.

Financing and funding of the company

We are providing a separate appendix covering the finance and funding sections of the consultation.

Risks and Implementation

Implementation of change must be undertaken in a way that doesn't put day-to-day delivery (e.g through the franchisees) at risk, but there is no reason why this should prevent changes from being made, if properly planned and implemented.

One concern that has not been highlighted enough is the lack of connection between the implementation of short-term fixes for the current difficulties prompting this review and the long term implications of such strategies. The disposal of railway assets to address current financial shortfalls is an issue that may return to frustrate our future plans at a later date – this needs careful consideration and consultation before undertaking. Revenue generating commercial assets that may be critical to meeting future industry operating costs should not be disposed of to provide an instant cover up for inefficient project management. This is merely storing up problems for the future and private commercial ownership of these assets may result in other difficulties where expansion or asset development plans are later implemented. For instance, disposal of land around stations or within the area of the track could inhibit the ability to meet capacity enhancements as future need dictates – it is hard to expand a station if it is constrained by a ring of apartment buildings! Whilst it is right and proper that plans for the land, indeed for all of the assets held dormant by Network Rail be used to generate more income to offset costs, the land and assets must be retained by the organisation or transferred to local stewardship to ensure that we can 'future-proof' our Network for future generations. Such short term disposal of valuable industry assets was a feature of the time of Railtrack which we would not like to see repeated.