THE SHAW REPORT

The future shape and financing of Network Rail

Consultation summary and analysis

March 2016

The Summer Budget on 8 July 2015 set out that the government had asked Nicola Shaw to advise the government on how it should approach the longer term future shape and financing of Network Rail.

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Contents

01 Introduction

1.1 In the 2015 Summer Budget, Nicola Shaw was asked by the Secretary of State for Transport and the Chancellor of the Exchequer to report on the shape and financing of Network Rail, the company that owns and manages the railway infrastructure in Great Britain.

The Shaw Report terms of reference

1. To develop recommendations for the longer-term future shape and financing of Network Rail.
2. The work is to be presented jointly to the Secretary of State for Transport and the Chancellor of the Exchequer.
3. It will divide into a scoping study and a detailed report with implementation proposals, the former to be completed in autumn 2015, and the latter by the time of the Budget in spring 2016.

1.2 On 12 November 2015, the Department for Transport published **The future shape and financing of Network Rail: the scope**[1].

1.3 This scoping document outlined the current structure and funding of Network Rail, framed the problem that the Shaw Report was trying to solve and posed 29 questions on which the report team requested feedback in order to inform its analysis.

1.4 The consultation was open from 12 November 2015 until midnight on 24 December 2015. In parallel, the report team toured the country and held nine discussion sessions across the length and breadth of Great Britain. These were conducted under a strict agreement that remarks and comments would remain confidential, although the team published a summary of the topics discussed (Annex A) on the Shaw Report blog[2] after each session.

1.5 The consultation responses and discussion sessions, combined with other evidence available to the report team, formed the basis of the recommendations that were submitted to the Secretary of State for Transport and the Chancellor of the Exchequer ahead of the Budget (16 March 2016).

1.6 This document provides a breakdown of the themes that came out in the consultation responses as well as a summary by question and an overview of the discussion sessions.

[1] http://bit.ly/ShawScoping
[2] http://bit.ly/ShawReportBlog

02 Consultation questions

2.1 The questions in the scoping document were split between three areas: Network Rail's structure; the financing and funding of the company; and risks and implementation. The full list of questions is set out below.

Network Rail's structure

1. What are your views on the scope of Network Rail's functions?
2. Have we failed to mention any specific and important factors?
3. What are your views on these accountability arrangements and their effectiveness?
4. Have we correctly identified and defined Network Rail's customers?
5. How effectively are customer needs and expectations met by Network Rail at present?
6. Should direct customer pressure on Network Rail be strengthened? If so, how might this be achieved?
7. Are there more positive incentives for delivery which would be useful? Are any of these incentives more effective than others?
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?
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?
10. Can you point to any specific economies of scale that should be protected at national rather than route level?
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?
12. Drawing on your previous experiences where relevant, what would be the potential impact on your organisation of further structural change within Network Rail?
13. What are the strengths and weaknesses of Network Rail's current approach to planning enhancements?
14. What are the strengths and weaknesses of Network Rail's current approach to delivering enhancements?
15. How well do the current delivery and planning processes work for projects of different sizes?
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?
17. What would be the most important structural features of any future infrastructure provider?

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

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

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?

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

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

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?

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?

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.

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 be needed? What types of financing structure could be brought to bear?

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

Risks and implementation

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

03 Response numbers and categories

3.1 The consultation ran from 9:30am on 12 November 2015 to 11:59pm on 24 December 2015.

3.2 Over 10,000 individuals took the time to contact the report in some form, either through the online tool, signing a petition, writing or emailing directly, or by using an online campaign website.

Response numbers and categories

Responses from individuals	3,441
Responses from organisations	91
Signatures received via petition	7,231
Total responses	**10,765**

Individuals

3.3 Responses from individuals include personal submissions and pro-forma responses from campaign groups (see below). The team also received one petition (Bring Back British Rail) which was signed by 7,231 people.

3.4 The report team is aware of two websites (the Campaign for Better Transport[3] and We Own It[4]) through which individuals could enter their details, and which would then generate an automatic submission to be sent to the report team. This would, by default, include that campaign group's standard response, however individuals were free to amend the text prior to submission.

3.5 The break-down of responses from different sources is shown in the table below:

Individuals via Better Transport	619
Individuals via We Own It	2,482
Other individual responses	340
Total individual respondents	**3,441**

3.6 There were 25 duplicate responses whereby individuals took the time to write an individual email in addition to contacting us via We Own It. These 25 people are counted under 'other individual responses' and have been subtracted from the 'We Own It' line to avoid double counting.

[3] http://www.bettertransport.org.uk

[4] http://weownit.org.uk/

3.7 Due to the way that the Better Transport campaign and the Bring Back British Rail petition forwarded responses to the report team, a similar method of de-duplication is not possible. It is therefore likely that there is a small amount of duplication between these categories and ‘other individual responses’. Assuming these have a similar proportion of duplicates (approximately 1%) as We Own It, it is likely that there are the following number of duplicates in each category:

Duplicates in Better Transport	6
Duplicates in Bring Back British Rail petition	72

Organisations

3.8 In total, 91 organisations responded. Four asked for their contributions to remain confidential.

Organisations who asked for their submission to remain confidential	4
Other organisations’ responses	87
Total	**91**

Publication of responses

3.9 Responses were received primarily via email and via the online feedback tool. Because of this variance in formats, responses have been published in different ways.

3.10 Within this document, Annex B sets out the petition and campaign responses. Annex C sets out an index of organisational responses (those that did not request anonymity), referencing the relevant separate appendix where full responses are published:

- the first file (Appendix A) contains the online responses alphabetically by organisations where the respondent consented to the publication of the response; and
- the second file (Appendix B) contains electronic copies of emails or letters from organisations where these did not specifically request anonymity.

3.11 Individual responses are published in one separate file (Appendix C), which contains online responses alphabetically by the surname of those respondents who agreed to the publication of their response.

3.12 Responses from members of the public received by email or by post have not been published. Many of these responses were via third party websites (such as the We Own It and Better Transport campaigns) and therefore the report team cannot be confident that the respondent would agree to their response and/or name being published.

3.13 All appendices are available on GOV.UK at http://bit.ly/ShawResponses

04 Overall themes

4.1 There was a broad distinction between responses received from individuals and those received on behalf of organisations.

4.2 While the organisational responses were varied, the vast majority of individual responses were focused on a small number of consistently expressed themes:

- a **rejection of the wholesale break-up** of Network Rail which would further complicate an already fragmented industry;
- **opposition to privatisation** of Network Rail; and
- a desire to **maintain the historically high current levels of investment** in the railway.

4.3 While by no means universally raised, there were also a number of other themes arising, both explicitly and implicitly:

- **frustration with the quality or reliability** of passenger railway services, and in some places a sense that private train operators abstract profit that could otherwise be reinvested into the railway;
- a perceived **lack of accountability** or answerability in the railway: with many respondents asking who is accountable for the railway – the government, Network Rail, train operators, or a combination of all or none of these; and
- a **sense of disempowerment** whereby customers and end users expressed frustration that decisions are taken in places where they do not have a say and where they feel that the railway operates in spite of them not for them. Many responses suggest a deep scepticism with the status quo and that customers' needs are not best represented in the current structure.

4.4 The consultation process also yielded a consistent – if differently pitched – set of messages from the railway industry and the supply chain, many of which were also borne out by responses from members of the public. These centred around a number of themes which have been grouped below.

People	Responses that mentioned the railway's workforce were almost exclusively supportive of the commitment and professionalism shown by Network Rail's people. They were highlighted as a vital resource for which more needed to be done in terms of workforce planning and investment. There was also a general concern over capability development, particularly ensuring that sufficient specialist rail and engineering skills are available to execute industry plans.
Safety	Maintaining the high level of safety inherent in Great Britain's railway was a near-universal theme. This came with an implied challenge: that any changes arising as a result of this report should either increase safety or, at the very least, not decrease the current levels of safety in the industry.

Corporate devolution	Of those who commented on this theme, the majority of respondents believed that Network Rail is moving in the right direction to devolve power from the corporate centre to the routes. There were some issues raised around local implementation of devolution – for example some respondents suggested that having two different routes either side of the Pennines is a barrier rather than an enabler of the benefits of devolution. Moreover, there were questions over how more devolution within Network Rail would work in practice, and how it would relate (if at all) to political devolution. Responses also heavily varied depending on the type of organisation. Local bodies were more likely to embrace devolution (and indeed ask for more of it) whereas national operators (in particular freight companies) were inclined to support national structures that reduce the number of organisational interfaces or that had mitigations in place to ensure national operators were supported.
Customer focus and accountability	Of the responses that talked about customers, almost all felt that Network Rail could have a greater focus on this group. Local authorities and regional transport bodies generally supported more accountability of Network Rail at a local level, whereas other organisations (in general) spoke about the need for Network Rail to focus more on its customers and end users. In many cases, it was unclear whether respondents were defining “customer” as the report team did in the scoping document (those who pay Network Rail for services, so primarily government and train and freight operating companies) or the ultimate end users (passengers and freight shippers). The point still stands, however, that Network Rail is not seen as a particularly ‘customer-friendly’ organisation, with many groups (such as local authorities, train operating companies and passenger groups) looking for ways to make Network Rail more responsive to their needs.
Growth	In this context growth includes planning for the future of the railway, making better use of the existing network as well as delivering enhancements. The importance of the railway being a growth industry was underlined by most respondents who touched on the topic, with many of the responses looking wider than Network Rail itself. In particular, respondents were worried that recent high levels of investment in the railway may not continue in the future, that longer-term planning is not as effective as it might be (or that any changes to Network Rail may harm industry planning), and that the ability for third-parties to suggest smaller initiatives that may make a significant local difference is inhibited.

Different sources of funding and financing	Respondents talked largely about two distinct areas where the railway might be funded and financed differently. Firstly, through additional sources of funding and financing for enhancements (for example through local authorities or via private sector capital); and, secondly, through the introduction of private sector capital to parts of the infrastructure manager (such as the routes). The majority of voices recommending the introduction of private capital were from organisations. Funding for operations, maintenance and renewals (OMR) and for enhancements were seen as conceptually different by most respondents, with a broader preference, particularly among individuals, for private financing and funding of enhancements rather than for OMR.
System operation	Most respondents noted the necessity of treating the railway network as a whole and to ensure that it operates cohesively and effectively (the tools to do this are sometimes called ‘system operator’ functions). Responses sent in through the Campaign for Better Transport website generally included the following text that explains many respondents’ desire to balance increased corporate devolution with maintaining national coherence: *“There are some important functions that will still need to be national. This needs to include safety standards as well as timetabling and engineering work from the ‘system operator’ role at a national level to keep disruption to a minimum and help reduce waste.”* Broadly speaking, there were two distinct (and not necessarily mutually exclusive) variants proposed by different respondents. Firstly, some form of nationwide co-ordination needed to maintain system integrity, especially with regard to day-to-day operations; and, secondly, some form of “controlling mind” which would ensure that the right decisions are being made for the long-term future of the railway, especially with regard to planning.

05 Findings by question

Questions 1 and 2:

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

Have we failed to mention any specific and important factors?

5.1 These questions are concerned with the functions of Network Rail as outlined in chapter 3 of the scoping document.

5.2 There were a range of responses to these questions. In aggregate, however, there were four main themes emerging:

- The functions of Network Rail are **broadly correct**;
- Network Rail should remain in the public sector and its **scope should expand** to include other railway operations (including, in some cases, direct operation of train services);
- The company should **focus on its core functions**, with consideration given to some of its activities that were perceived as non-core. There was no common message as to what Network Rail's core functions are (although operations, maintenance, renewals and enhancements of railway infrastructure were commonly cited) or what the non-core functions were, or what should happen to them (although the ownership and/or management of major stations and the role of the Infrastructure Projects division of Network Rail were both mentioned); and
- Political **devolution** has changed the environment within which Network Rail operates and therefore consideration should be given as to whether Network Rail's functions need to be carried out on a national level or whether they should be devolved to a more local part of Network Rail, or different bodies entirely.

5.3 Respondents identified a broad (and generally non-overlapping) range of answers as to what the report team might have missed. That said, there was some consensus about what respondents felt might have been missing, namely:

- the role of Network Rail as an **advocacy champion** for the industry (and which was sometimes expressed as either a leadership role within the domestic industry or that the company is seen to represent Britain's railway overseas);
- **planning** for the future of the railway, and **growth** (sometimes expressed as increasing the amount of railway and sometimes as maximising the effective use of the existing railway);
- Network Rail's role in supporting and driving **innovation** in the industry; and
- how Network Rail is required to interface with and deliver the needs of **local authorities**.

Question 3:

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

5.4 Only around half of respondents gave a view on this question, with many believing that greater or clearer accountability was needed. Views differed on how this could be achieved.

5.5 Only a small number of respondents offered a contrary view, with single-digit responses believing that the current balance of responsibility and accountability for planning and delivery was clear.

5.6 Other common minority views include:

- that there is tension between the Network Rail corporate centre and its regional responsibilities; and
- that the relationship between the regulator and Network Rail should be improved.

Questions 4 - 7:

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

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

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

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

5.7 These questions relate to the scoping document's definition of Network Rail's customers and how effective Network Rail's delivery is for them.

5.8 The majority of respondents did not specifically answer these questions. Of those that did, many respondents believed that the scoping report did correctly identify Network Rail's customers.

5.9 There was, however, a significant minority of respondents who believed that Network Rail's customer should be the end user of the railway.

5.10 There were other minority views (none of which received more than 10 responses), which suggested that local authorities or the government, the regulator, open access operators, ports or airports or other bodies (such as local enterprise partnerships, community rail partnerships, heritage railways and property developers) could also be seen as Network Rail's customers.

5.11 Of the respondents that answered the question, the majority of respondents believed that customer needs and expectations are not being met by Network Rail at present.

5.12 The majority of respondents believed that direct customer pressure on Network Rail could be strengthened. Suggestions on how to do this include:

- sanctions for poor performance (such as introducing a right for customers to withhold payment for non-delivery);
- changes in funding so that all of Network Rail's funding is routed through train operators;
- conversely a rejection of routing funding through train operators with an alternative proposal that more alliances between train operators and Network Rail would resolve issues around direct customer pressure;
- further devolution and greater roles for regional and local bodies;
- increased incentives on Network Rail to focus on passenger outcomes (potentially including Network Rail taking fare-box income);
- increased joint working between local bodies and Network Rail; and
- longer terms of franchises.

5.13 Comments on incentives for delivery were varied, with some respondents making the point that effective incentives for a public sector organisation are very different to those for a private company, drawing comparisons between Network Rail pre- and post-reclassification.

5.14 On effective incentives, respondents highlighted:

- that **clarity and aligned objectives** (with customers and the supply chain) were vital;
- there should be a **stronger link between performance and reward** (noting that the reward may be financial or reputational);
- effective **sanctions** for non-delivery should be in place;
- the **broader railway incentive regime** (including delay payments from Network Rail to train operators and vice-versa). There was no consensus as to whether this regime was seen as either effective, requiring minor modification or whether it should be overhauled.

Questions 8 - 11:

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 a) physical, political or economic geographies; b) service type, e.g. commuter services, inter-city services and regional services?

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?

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

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

5.15 Respondents had generally mixed views about route structure and internal devolution within Network Rail. While the general principle behind devolution was broadly supported, there were exceptions and different views about how this should happen.

5.16 From the responses, there was support for:

- aligning Network Rail routes with economic and political geographies;
- ensuring that there was a whole network integration, to prevent the national network being seen as smaller systems instead of part of the whole;
- a route for the north (in smaller numbers and largely from respondents with an interest in the area);
- devolving more powers from the corporate centre of Network Rail to the routes; and
- creating a 'system operator' to ensure that key network-wide functions are managed nationally.

5.17 There was a note of caution, with a significant minority of (largely individual respondents) recommending caution over changing the geographical structure of routes.

5.18 Areas where respondents felt that there may be economies of scale at a national level were varied, with no significant agreement across respondents. There was, however a suggestion from a significant minority of respondents that nationalisation of the railway would lead to economies of scale as one organisation would have greater buying power.

5.19 Other suggestions of areas where there may be national economies of scale included Network Rail's functions relating to freight, the provision of national standards and/or technical specifications, back-office services (such as procurement, information technology and telecommunications) and large change programmes. There was also the suggestion that a national supply chain function is important in securing economies of scale.

5.20 Few respondents directly addressed what processes and capabilities need to be in place to support Network Rail's devolution plans. Of those that did, leadership, people and culture were seen to the be primary matters reported by respondents. Other respondents mentioned detailed processes such as Governance for Railway Investments Projects (GRIP), or organisational units (like the Network Rail freight team) which they felt either needed to be supported or reformed.

Question 12:

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

5.21 Answers to this question largely depended on organisations' views as to whether marginal, radical or no change was the best way forward for Network Rail.

5.22 Of the views commonly expressed, the following themes came out the most strongly:

- the potential for perverse outcomes should be taken into account when recommending change;
- strong change management and communications are critical;

- it is important to avoid any form of undesirable hiatus for the industry (for example an unhelpful pause in orders for the supply chain);
- an assessment of the cost of change is important to ensure the costs do not outweigh the benefits;
- any change should focus on either the regions, the whole system or type of traffic (such as freight); and
- any change should be carried out safely and it should not be to the detriment of the high level of safety in the industry.

Questions 13 - 16:

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

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

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

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?

5.23 Respondents generally highlighted more weaknesses than strengths regarding Network Rail's current approach to planning and delivering enhancements.

5.24 Of the strengths, respondents reported that the process was generally clear and well understood and that Network Rail is institutionally capable of delivering projects of different sizes well. There was some reference to the broader industry framework for investment planning (including control periods), which was seen to be well understood by the industry.

5.25 A wide-ranging set of weaknesses were reported by respondents. Not all were consistent (and some were contradictory), however there were broad themes of:

- planning and delivery being slow and complicated;
- overly prescriptive processes (which are often centralised rather than delegated locally) and a lack of flexibility;
- Network Rail not being sufficiently customer-focused and being difficult to hold to account;
- a lack of internal and external alignment (with different parts of Network Rail, or the process, not well integrated, and a lack of joining-up with, for example, local authorities)
- GRIP can be cumbersome and difficult (and early stage GRIP estimates could be better);
- poor cost-control and a lack of timely delivery; and
- the supply chain could be involved more.

5.26 In terms of project sizes, small projects were seen to be sometimes over-governed, with respondents having the perception that GRIP can be too onerous for smaller schemes.

5.27 Some respondents highlighted that repeatable, standard, reasonably sized projects are those which Network Rail and its processes are best at.

5.28 Large projects were seen by some respondents as potentially requiring bespoke or otherwise differentiated methods of planning and delivery.

5.29 A wide range of other models and precedents were suggested by respondents. Domestically (and within the railway industry), Crossrail and project Evergreen were suggested as good examples. Respondents also suggested that international comparisons could be made (primarily with France, Germany and Japan) but were generally lacking in any specific examples..

Question 17:

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

5.30 This question was answered in many different ways, including some innovative responses such as establishing panels to gather the views of retired professionals.

5.31 The most common themes arising were:

- nationalisation (often suggested together with vertical integration);
- improved accountability (either to the travelling public or to its customers);
- a greater regional focus with appropriate autonomy and accountability to resolve local problems; and
- a central ‘system operator’ function. This is a term used across a broad range of responses, mostly to refer to some sort of central body that has a role in ensuring the railway operates as a cohesive system. Responses tended not to give a detailed definition of what the author felt system operation should be defined as.

Question 18:

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

5.32 Again, there were a wide range of answers to this question, with no common responses. The following are the most frequent themes:

- regulatory processes;
- franchising (particularly alignment of infrastructure, investment and passenger services, often with the desire for vertical integration and/or nationalisation);
- the public performance measure (PPM) process, which measures the punctuality and reliability of trains in Great Britain;

- the GRIP process, which was seen as large and sometimes unwieldy; and
- the investment process, including the principle of allocating funds to a defined number of years, called control periods.

5.33 Whilst not processes per se, respondents frequently used this question to highlight broader issues, such as the (perceived lack of) accountability of Network Rail, the organisation's (perceived poor) relationship with the public and its customers, and a desire to see it reflecting 'bottom-up' passenger needs.

Question 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?

5.34 This question was not directly answered by most respondents. Of those that did offer an answer, the following views were those most frequently expressed:

- the Office of Rail and Road (ORR) and Network Rail should engage/communicate more on major projects;
- the time-bound control period process is not flexible enough to attract third-party sources of investment; and
- the five-year period was not thought to be long or flexible enough.

Question 20:

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

5.35 The responses to this question were broad and varied. Few respondents suggested detailed criteria, with the majority of suggestions along the lines that the structural models should support cheaper, more reliable or otherwise improved railway services. There was also a significant focus on value for money and on maintaining the current level of safety.

5.36 Respondents who wanted to see a return to a nationalised (or vertically integrated) industry set these end-states as the criteria which the structural options should be tested against.

Question 21:

Do you have any views on whether the RAB [regulatory asset base] remains a relevant concept in the railway, and, if not, what should replace it?

5.37 There was no majority view on this question. Indeed, most responses did not address it directly.

5.38 Of those that did respond, most felt that the purpose of the RAB is now unclear following the reclassification of Network Rail, and the fact that a cap on government borrowing now applies. A smaller number wanted to keep the RAB regardless, with others suggesting that the RAB should be removed if Network Rail remains in the public sector and kept if it passes into the private sector. A similar number suggested that the RAB should be reformed, however details on what this might entail were light.

Question 22:

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

5.39 There was a broad range of views for this question, some of which went beyond a strict definition of risk management. As such, rather than providing specific suggestions on alternative risk management methods that could be deployed for the future of the infrastructure manager or ways to modify existing arrangements in Network Rail respondents noted the importance of:

- maintaining the balance between public/private and fare-box as now;
- increasing government funding;
- increasing private or fare-box funding;
- devolving financial risk locally;
- more third-party risk being taken at project level;
- offering part of Network Rail as a concession.

5.40 Crucially, there was widespread acceptance of the principle whereby risks should be appropriately allocated to the party that is best suited to hold those risks, recognising that in certain instances related to railway operation and enhancements, the government (rather than private sector counterparties) would indeed be the most suitable party to bear certain risks.

Questions 23 - 24:

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

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?

5.41 The broad range of responses to this question covered a wide range of suggestions, from looking at international comparators, HS1, regulated utilities and Transport for London (TfL). The most frequent suggestion was that the report team should consider how European railways are funded, noting the importance of public sector input in the UK and the rest of Europe. Given the nature of the asset and of the service provided, respondents confirmed that the government should continue to play an important role in funding the infrastructure.

Questions 25 - 26:

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?

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.

5.42 Most respondents did not engage directly with these questions. The majority of comments from individuals took aim at what the authors saw as the implication behind the questions – that introduction of private sector capital would be beneficial and/or required.

5.43 Organisations' responses were varied, with the role of private sector capital more widely recognised, although not universally in the same terms. Of the principle themes that occurred most frequently, the following points were noted:

- that a stable regulatory environment (and stable regulated returns) would be important factors;
- that there would need to be a clear risk profile of any investment proposition, with clear allocation of risks to the party that is best suited to bear them;
- that asset conditions would need to be understood to a suitable level for informed decision-making; and
- that the role of the government is multi-faceted, providing both policy and funding support for future growth, while also representing a presence to be taken into consideration for any contractual arrangement.

5.44 Furthermore, it was noted that there is strong appetite for high quality infrastructure assets in the UK from a range of investors, including pension funds, infrastructure specialists, sovereign wealth funds and other institutional investors, as well as developers and operators. Investment requirements would vary accordingly. While developers and operators would have a clearer role for the financing of enhancement projects alongside construction and development, other types of investors could play a role in the financing of projects while also considering contractual arrangements (e.g. concessions or outright ownership) in part(s) of the network.

Questions 27 - 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?

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

5.45 There were three main themes arising from these questions. None of these were universally raised and are presented in the order of frequency suggested:

- there should be no private finance (this was largely from the group of respondents who also wanted to see a nationalised railway);
- that assets benefitting from the enhancement should generate a clear and stable revenue stream to attract private sector investment; and
- that a government guarantee to underpin said revenue stream may be required.

5.46 In terms of incentive mechanics or control structures, there was a relatively low response and no real consensus in answers received. In (very) broad terms, respondents highlighted a need for (some level) of certainty for investors (both in terms of returns and in terms of regulation).

Question 29:

Do these (the concerns outlined in the scoping document) feel like the right concerns? Has anything been missed that it is important to consider at this stage?

5.47 Responses were again broad for this question, with the "has anything been missed..." prompt taken by respondents to mean both missed from the scoping report in its totality as well as missed from the list of concerns.

5.48 The broad themes arising were:

- nationalisation;
- the risk of loss of industry capability;
- lack of accountability to passengers or freight-shippers;
- the local impact of infrastructure schemes;
- strategy, vision and leadership;
- transition or migration risk; and
- safety.

06 Discussion sessions

6.1 Following publication of the scoping document on 12 November 2015, the team embarked on a nationwide tour to host discussion sessions in cities across the length and breadth of Great Britain.

6.2 The scoping document advertised seven such sessions. Due to popular demand the report team ultimately hosted nine, as follows:

Birmingham	27 November 2015
Cardiff	4 December 2015
London	8 December 2015 and 22 December 2015
Reading	8 December 2015
York	10 December 2015
Glasgow	11 December 2015
Manchester	18 December 2015 (two sessions)

6.3 Each session was held under the promise of confidentiality, so the report team is not publishing the names of the attendees or detailed records of conversations.

6.4 There were about 15 guests at each round-table event, which were professionally facilitated. As well as Nicola Shaw, each session included representatives from Network Rail, the Office of Rail and Road, trade unions and train operating companies. The report team aimed to create a balanced set of attendees from other parts of the industry to make up the remaining places. Members of the report team attended as observers.

6.5 After each session, the team published a high-level summary on its blog (http://bit.ly/ShawReportBlog). These are reproduced verbatim in Annex A.

Annex A Blog posts

Birmingham, published 27 November 2015

Discussion Session #1: Birmingham

Today we held our first discussion session, here in Birmingham.

As we mentioned in our previous blog the sessions have been heavily oversubscribed, but we are very grateful to the roomful of engaged people from around the industry who made the time to come and discuss with Nicola and the team their views on the future structure and financing of Network Rail.

These discussion groups are held under 'Chatham House' rules – so we won't be publishing a full transcript (our reasoning is in our previous entry, here), but we do want to be as open as possible and let you know a little about the type of attendees and some broad flavours of the discussion.

Around the table today were people who work in and around the industry. Industry groups were in the room, as were representatives from unions, train operating companies and owning groups. Network Rail and ORR were also part of the conversation (and will be in attendance at all the discussion sessions).

The conversation was open and productive with lots of very good conversation and useful information for the Report Team. Distilling that is difficult, but talking afterwards the following points struck those of us who were listening:

Firstly, the words we use are really important. There are lots of industry terms that people take for granted but which sometimes can mask meaning. Today, for example, the group spent some time talking about the concept of a "system operator" – and needed some time just to check that the term meant the same thing to different people around the table. We've taken away that we need to be very clear about definitions for things when we think about recommendations – and that we might need to return to ideas like that of the system operator.

Secondly, it's difficult to take the railway out of politics (or indeed politics out of the railway). Elected officials will always have a keen interest in the railway – and rightly so, particularly when taxpayers' money is at stake. What is more interesting is to think about how the relationship can work better and provide for a productive railway delivering what politicians (and taxpayers) want and need.

Thirdly, we clocked a role for Network Rail that we didn't cover in the Scoping Document – one of advocacy for the industry. There is a lot of work that Network Rail does in terms of championing the railway and developing talent that attendees felt that it's really important not to lose.

Fourthly, we were reminded that structural change can sometimes be akin to rearranging the deckchairs. Instead of thinking about reconfiguring what's already in place, we need to get to the heart of the problem and think 'bottom-up' – what incremental, real-world, things would make a fundamental difference to the way that the industry operates. Can we make small changes to processes like timetabling or planning that would have a more significant effect than structuring the current systems and processes in different ways? This also reinforces the message from many attendees that one of the railway's biggest strengths is its people, and that helping railway people to do a better, more rewarding, job shouldn't be optional.

While these were the four key points picked up on by the team immediately after this morning's session, there were many more interesting topics of conversation that we'll be digesting and thinking through in the days and weeks to come. Again, this isn't an exhaustive list, but the group chewed over personal and corporate responsibilities and incentives, analogies from other parts of the industry to the work that Network Rail carries out, interfaces, relationships and boundaries, Network Rail's reputation (and incentive to maximise it) as well as the industry impact of any re-organisation and the subsequent "settling down" period.

Not all of these points were universally agreed on and had different weight in the conversation. But they will all form part of the rich set of data that we are collecting from these discussion sessions, your correspondence and online feedback – so please don't take these thoughts as indicative of any of the final recommendations. They will, though, be vital in helping us work through the complex puzzle of the future shape and financing of Network Rail.

The Shaw Report Team

Our room for the discussion session (pre set-up!)

Cardiff, published 4 December 2015

Cardiff Calling

How quickly a week passes by!

It seems barely yesterday that we were in Birmingham, but seven days have passed and we're here in the impressive surroundings of the Millennium Stadium in Cardiff, where we've spent the day at the second of the discussion sessions.

Again, we had a mix of people from across the industry. Joining Nicola for the discussion were people from Network Rail, the Office of Rail and Road, trade unions, local authorities, a healthy mix of train operators (including open access) and various members of the supply chain. We were also very lucky to have the Secretary of State for Transport join us for the opening part of the session.

In what is becoming our standard set-up, we had approximately 15 people around the table engaged in conversation, together with a small number of colleagues from the Report Team sitting in as observers. After the conversation concluded and the guests had left, the Report Team members had a quick debrief and reflected on the key points from today's discussion. In no particular order, these included:

- **People** are key to the industry. We heard that the railway needs to continue to attract the right people, nurture their careers and keep their capabilities up to date – and that experience across different parts of the railway (such as in train operators, infrastructure management and so on) is vital in creating a rounded and knowledgeable workforce. Attendees also reflected on the committed and motivated people working in and around the railway – people the railway is exceptionally lucky to have. This thought led to something intangible that transcends the different companies involved in today's railway – a sense that somehow "The Railway" is more than the sum of its parts. Maintaining this sense of community and common mission was seen to be vital no matter (to paraphrase one attendee) what logo is on the back of the hi-vis jacket.

- **Safety is vital**. The railway in Great Britain is one of the safest in the world and the lessons of the Potters Bar and Hatfield disasters cannot be lost. We heard some long and thoughtful conversation on the topic, particularly a comparison of incentives or causes under the three different ownership models in living memory (British Rail, Railtrack and Network Rail). While there was no consensus, there was interesting discussion about whether ownership models (such as public versus private) directly lead to a change in the level of safety or whether other factors (such as a clear management spans of control and transparency over accountabilities) are more important.
- **Planning** was also at the front of many of our guests' minds. From national and strategic multi-modal plans, through to the role that the railway can play in local economies and whether it can be used as a tool to encourage inwards investment, the call for a clear, coherent and well communicated plan(s) was clear. Moreover, the group agreed that the question of how the railway can be better involved in different levels of planning in a supporting role, rather than planning for more railway per se, is important. This permeated through ideas about improving existing capacity, thinking about how the railway can support economic or societal objectives and how this can all work effectively on a local, regional and national basis.
- **Sources of funding** was a topic the group returned to a number of times – particularly how easy (or otherwise) it is to offer Network Rail different sources of funds in order to deliver either local improvements or long-term infrastructure projects. For example, some large and significant infrastructure projects could have a pay-back period in excess of 60 years. In a world in which Network Rail is the long term custodian, whereas franchised train operating companies only operate for around five to 20 years, how can these additional sources of capital be captured (if indeed that is the right thing to do)? Some people questioned whether Network Rail is geared up to respond flexibly and positively to such opportunities when they do arise.

We also returned to the concept of the system operator that we flagged in last week's blog from Birmingham. We're still thinking about what this means and what different people's definitions are. To that end, we crowd-sourced a few more thoughts from the attendees today and will be returning to the subject in a future blog post. If you have burning thoughts on the question, feel free to email us (shaw.secretariat@shawreport.gsi.gov.uk), or let us know below.

That's about it for today, but before we sign off a quick word on next week. It'll be a busy time for us and for Nicola – on Tuesday, we'll be in London (in the morning) as well as Reading (in the afternoon). On Thursday it's York and on Friday we'll be in Glasgow. That's lots of trains and lots of conversations, so expect blog posts aplenty.

As always, comments are open below – please feel free to contribute (anonymously or not). And remember to subscribe to get alerted to future blog posts.

Until next week!

Shaw Report Team

London and Reading, published 8 December 2015

The 13:05 from London to Reading

Yesterday marked roughly the midpoint of our programme of discussion sessions – and the first day with two sessions, one in the morning and one in the afternoon.

The morning found us at the Institute for Mechanical and Electrical Engineers in the heart of Westminster. After a quick hop on the train we were in Reading at the Town Hall and Museum. Two very different venues and, as it turned out, two different conversations.

The play-back below covers the conversation in both locations. At the end of a long day, a few points stood out.

Firstly, the inter-relationship between infrastructure management and train operators (both freight and passenger). There was a lively discussion about what franchising of passenger rail services is for, changes in government policy over time (particularly a movement from the assumption of 'no growth' at the point of privatisation to a period of significant increases in both freight and passengers) and how interconnected (or otherwise) passenger enhancements delivered under franchising are with those delivered under the control period process.

Secondly, there was a substantive discussion about procurement by Network Rail. The sums involved are significant and, although there was no consensus reached, there was debate over the capability and capacity of the supply chain as well as Network Rail's efficiency in terms of procurement. We didn't have enough data or information (or time) to hammer this out in detail at the session, but the point was made and noted.

Thirdly, there was general agreement that one size might not fit all. Different parts of the railway have different needs and funding requirements (for example metro services are different to intercity services which in turn are different to regional services). Does this mean that these different service categories need different types of infrastructure management and, if so, how does this interact with economic or geographical areas? And what of lines which are shared by different service types?

Reading Town Hall and Museum

Fourthly, there was an interesting diversity of views about how far our recommendations should go. We heard a desire for both bold and radical change from some but also for incremental improvement from others. This goes to show that achieving consensus will be challenging.

Fifthly, a question around planning for growth. As the cost of capital is exceptionally cheap now, and we are predicting continued growth for a least the next decade, should we be thinking about buying infrastructure, rolling stock and other capital items now to meet demand in a decade?

Finally, there was lots of talk of trust. Trust between the freight shipper or passenger and the operator, between infrastructure management and other parts of the railway, and between the public and the broader railway system. This was aligned to a general plea for simplicity and transparency. The railway is complex and difficult to explain – how can this be made simpler for the general public to understand (and to trust), and include some form of common identity as "The Railway"?

The write-up above excludes some heavily emphasised topics that were also discussed, but that we've covered before on this blog: safety and people. These are key themes emerging from practically every conversation and remain at the forefront of our minds. That said, one additional point about people did emerge: one of the "mushy middle". Attendees discussed, as part of the challenge of how to ensure effective delivery in large organisations, how best to empower middle management in their vital role as a link between the boardroom and shop floor.

Your thoughts on the "mushy middle" or indeed any other points raised are very welcome. Please feel free to comment below.

Now, time to head for the train to York…

The Mallard class A4 locomotive at the National Rail Museum in York.

York, published 10 December 2015

York!

It's Thursday and we've finished three of the week's four discussion sessions. Today, we were in the National Railway Museum in York where Nicola was joined by attendees from the trade unions, RSSB, ORR, Network Rail, freight and passenger operators, regional transport organisations, the supply chain and a host of other interested parties.

As we debriefed in our room in the museum, we reflected that we had found the ideal location for the conversation, particularly (as you will see below) as today's attendees were thinking deeply about learning from the past to prepare for the future.

Here are the main themes as heard by members of the Report Team:

- There was much reflection on **British Rail (BR)**. Firstly, there was conversation around the way the organisation was privatised and broken-up, and whether this is a contributory factor to the issues facing the industry today (and whether there should be a return to a nationalised, vertically integrated railway – interestingly, this was seen to be distinct from a return to British Rail itself, which was seen to have its own set of problems). There was consideration about the positive steps that the industry has taken since BR's days – a more secure financial planning period (rather than year-by-year under BR), more investment and so forth.

- **Devolution**, while a topic that has come up before, had significant weight in today's discussion, both in terms of Network Rail's routes and politically. We heard an explicit call from some attendees to have more regional empowerment over the railway through partnership working.
- **Culture** was a theme woven throughout the conversation, at times implicit, at times explicit, but called out specifically in relation to the risk that any structural or financial changes to Network Rail may fail if any underlying cultural issues are not picked up and also addressed. Cultural issues discussed were wide-ranging but included variable levels of focus on the customer, potential silos in Network Rail and differences in how inward and outward looking parts of Network Rail are.
- **Technology** was seen to present a huge opportunity. The pace of change is rapid and there are already existing solutions that could add significant value to industry processes (such as possessions). Attendees discussed the need for the railway to be alive to changing societal trends (such as the move from personally owned cars to public transport); to be mindful of the impact of potentially disruptive new technologies (such as self-driving cars) on the industry as a whole; how traditional data sources like ticketing statistics are being overtaken by big data; and the need for a greater focus on end user needs and how best to fulfil them through technologies such as smart ticketing.
- The idea of a "**guiding mind**" – the concept of some form of leading body for the railway industry – received significant airtime. No consensus was reached on what form this would take and whether it would be complementary or different to the concepts of system authority and/or system operator, or indeed if it were actually necessary.
- **Intermodal** planning was also a significant theme: how can the railway work with other forms of transport to make the rich tapestry of transportation options better in aggregate? And how can different modes be used for different purposes or to compensate for specific problems?

While these were the principle themes that stood out today, other issues discussed are becoming common to practically every session: the safety imperative, role of people (and skills) in the industry and the railway as growth industry. Interestingly, for the second time across our discussion sessions, we heard a call for the railway to take advantage of the relatively cheap current cost of capital to fund necessary improvements.

As is also becoming tradition, we also sought views on the system operator and system authority functions. Expect a blog post on this just before Christmas!

We're off to Glasgow (by train, naturally) so this is us signing off until tomorrow.

Glasgow, published 11 December 2015

Glasgow

The Shaw Report held its sixth discussion event today in Glasgow. As usual, attendees came from all parts of the rail ecosystem; however, it is worth noting an important contextual difference north of the border. In Scotland, Network Rail and ScotRail have established a formal alliance to deliver rail infrastructure and train services through an integrated partnership, with the majority of government-level involvement coming through Transport Scotland. While the Report Team has been clear that the intention in taking these discussion events around the country is to have a national conversation in as many places as possible, we also recognise the value in learning what we can from different operating models in different places.

So the discussion inevitably focused, to some extent, on perspectives arising from the alliance in Scotland – not only those of Network Rail and train operators, but also those of the workforce, supply chain, government and financial sectors. It was also very interesting to hear the views of attendees on the extent to which these experiences can be applied elsewhere.

One of the key points that was flagged was the extent to which the local alliance in Scotland had resulted in a greater sense of public accountability for Network Rail in Scotland, with the head of the alliance being a public figure, held accountable for the performance of rail – not only in the press and the Scottish Parliament, but also by the general public.

Generally speaking, there was also a recognition that the alliance – by reducing the number of interfaces between Network Rail and ScotRail, and simplifying interactions with suppliers – had made it easier to resolve many of the trade-offs between the competing needs of track and train operation on the one hand and infrastructure maintenance and renewal on the other. It was, however, recognised that such a model might not be appropriate everywhere – important enabling factors mentioned included a rail geography that is conducive to an alliance model, and there being a political partner at the local or regional level who can work with the alliance to articulate local needs and priorities.

The day's discussion did, of course, go wider than the implications of devolution and alliancing. A number of more general issues were covered. In particular, the discussion more than once turned to the issue of long-term planning. This was an issue identified as problematic in the Report Team's scoping document, and this diagnosis has been confirmed by the frequency with which it has come up during these sessions. Today's discussion highlighted the importance of planning for rail infrastructure that fits into – and may in some cases drive – national or regional economic plans. But the need for flexibility in the planning process – to respond to particular opportunities, or to adapt to projects of different sizes – was also discussed.

Many attendees had experienced frustrations in their interaction with the planning system. One recalled a failed investment proposal for a £3 million upgrade which was to be paid for by a local third party. The cost estimates for the project doubled once Network Rail's project process had been applied, and rose further once the time needed to gain the appropriate approvals had been factored in. At this point, the funding was withdrawn. Another recounted a Network Rail figure explaining to them that while it only takes Network Rail five to six hours to approve a decision, those five to six hours can be spread over a 12-month period. A number of people called for more openness and transparency to make the process less opaque for those working in or alongside it.

It is also interesting to note that some topics that have come up frequently in earlier sessions – such as the need for a strong "authority" to govern the system, or the opportunities provided by new technology – were not high on the agenda of today's attendees. Of course, this doesn't mean that these subjects are not relevant or of interest to them. But with sessions such as these –

small-scale, detailed discussions around a focused set of questions – it is not possible to predict what direction the conversation might take on any given subject or on any given day. That is, indeed, part of their value. We learn something new every time, and gain a different perspective.

So in closing, the Report Team would like to thank everyone who has attended the discussion sessions so far and contributed to the discussion – not only in Glasgow, but also in Birmingham, Cardiff, London, Reading and York. Please do add your own thoughts in the comments space below.

Manchester, published 19 December 2015

And Manchester Makes Eight

Yesterday we were in Manchester for two more discussion sessions – the seventh and eighth in our series. As published in the scoping document we had planned to run just the one session in the morning, however due to popular demand we scheduled a second discussion in the afternoon. We're also holding an additional session in London next week, to make sure that we get as many views, opinions, thoughts and ideas as possible. After all, as Nicola notes in the introduction to the scoping document, "only with everyone's best brains on this will we find the right way forward for the next steps in the journey of the rail industry".

So, to the conversations in Manchester. There were a lot of what we now see as common themes to the discussions: safety, the need for customer focus, the role of the railway as a generator of economic growth, the passion and capability of the people but concerns about a skills gap and ageing work force in the industry for example. So for this blog post, we thought we'd focus on some different takes on big themes that struck us as key to the conversations in Manchester but that we haven't necessarily blogged about before:

The group mulled over what were seen as the opaque and difficult processes required to be followed for delivery of **third-party sponsored schemes**. In some cases these processes are so bad as to mean that the third-party funds are lost to the railway as the promoter gives up. Linked to this was a conversation around rigidity of process and whether (for example) the control period process helps or hinders the delivery of smaller schemes. There was a discussion about how to get best **value for money** into the railway – whether we should consider whole route Profit and Loss accounts even where the route and its train operator customers are not working in an alliance – because that might change some actions to drive better bottom line outcomes. In addition it was argued that even without that the Network Rail routes would benefit from taking a wider view than just cost management or efficiency of renewal delivery – because if they focussed more on the bottom line, taking into account revenues too, they might make different asset management decisions. This was linked to a discussion on how the industry is incentivised by ORR and through franchises.

The question of "**culture**" came up again. Here, though, we heard strong opinions about the need for leadership to create and display behaviours that over time, once adopted consistently across the organisation, become self-sustaining. The result of these behaviours could then be described as the culture of the organisation.

The **role of the Department for Transport** (DfT) was carefully considered. Clarity around the role of DfT in terms of specification and change management was seen to be key. There was also discussion about whether, as the process of political devolution continues, some of the Secretary of State's functions should be devolved to local bodies. There was a particular discussion about long-term planning and what could be done regionally and what should be done nationally.

Finally, **devolution and localisation** was a theme that ran throughout the conversations. There was a strong call for a route for the north and also a discussion of how that could be configured – with a recognition that any structure is a compromise. So in creating the compromise it would be important to consider the trade offs, what markets are being served, what the transitional issues are, who decides on what to do at the margins and how the local councils can be aligned and committed to the success of the new route. There was a general view that the compromises might be handled differently depending on the area of the country and that a "one size fits all" approach should be avoided.

As always, please feel free to comment below – and a quick plug to make your views known online or via email (shaw.secretariat@shawreport.gsi.gov.uk) – Christmas Eve is the closing date!

We have but one more session to go on Tuesday next week, but we'll be keeping this blog live up to the publication of the final report and recommendations. And we'll also be blogging about the "System Operator" concept next week before Christmas, as well as the coverage from the last discussion session.

Until next week!

London, published 23 December 2015

Once More in London

Yesterday marked the final discussion session in our programme. This has seen the team visit the different regions and nations of the UK (except, of course, for Northern Ireland which has a separate railway system operated outside Network Rail). After all this travelling, it seemed fitting that we held the last session at our own offices, here in London.

As ever, our attendees came from right across the spectrum of organisations involved in the railway. Before we summarise the session, just one observation: throughout the process – and yesterday was no exception – it has been interesting to see that railway people tend to introduce themselves not only with their name and organisation, but also by reference to their years of service to the railway.

That said, here are the main themes of discussion from our final session:

- **Metrics and KPIs** were a topic of significant debate. Network Rail is obliged to send a large number of measures to the regulator, with the attendees wondering if this number was too great or whether the measures themselves were actually helping NR generate the right outcomes.
- Linked into this was the topic of **incentives**: how is Network Rail encourage to do the right thing? Some attendees reflected that measures of, for example, kilometres of track renewal, may lead renewals of easy stretches of track, with smaller distances (but ones that are more critical) left because they don't tick the measurement box. The delay attribution process was also highlighted as a potential driver of both positive outcomes and of adversarial behaviours across the industry.
- The role of **accounting** in managing the business was discussed. In particular, NR has multiple sets of official accounts – regulatory, statutory, DfT, whole government… these have different focuses and make management difficult. Which is the set of figures that management should be focussing on?
- The impact of **route devolution** surfaced, particularly around safety. If devolution implies greater autonomy for routes to manage things differently, or use different solutions for local problems, then should there be, for example, safety certificates by route? Are there other things that are currently centrally controlled that might need to be devolved? And, returning to incentives, if Network Rail centre retains (for example) a single, company-wide, safety certificate, does that encourage the centre to mandate solutions or check the routes' homework?
- The role of **private capital** was also discussed. There was an interesting debate about whether there is suppressed demand for rail travel and, if so, in an era where there are capital constraints at a governmental level could private capital help the railway grow?
- There was an interesting perspective on **culture**: firstly whether the railway today still has a legacy lasting back to pre-nationalisation companies. The mixture of culture accrued from the 'Big Four' (that some attendees felt was still present today), as well as from British Rail, Railtrack and Network Rail (which in and of itself has changed over time) is a heady mix – and difficult to change.

Finally, attendees reflected on two opportunities for the future:

- Firstly, the **ageing workforce**. While this was seen in many ways to be a threat, our guests talked over the question of whether this could be an opportunity to help reset culture going forward and bring a step change in the way that the railway is organised and run.

- Second the profound **role of technology**. Technological change is moving apace, and can be difficult to predict, except to say that Network Rail, or its successor(s), will be affected. The Digital Railway concept (or ETRMS) though, was seen as a major opportunity for the future.

In closing, on behalf of Nicola and the whole team, we'd like to thank everyone who attended a discussion session, or who expressed interest but who we were unfortunately unable to accommodate. This process has been particularly insightful and educative, and will be instrumental in the formation of the final report and recommendations – so thank you all.

That's it from us for today. But we'll be blogging once more before Christmas, with some thoughts and questions around the System Operator concept online tomorrow.

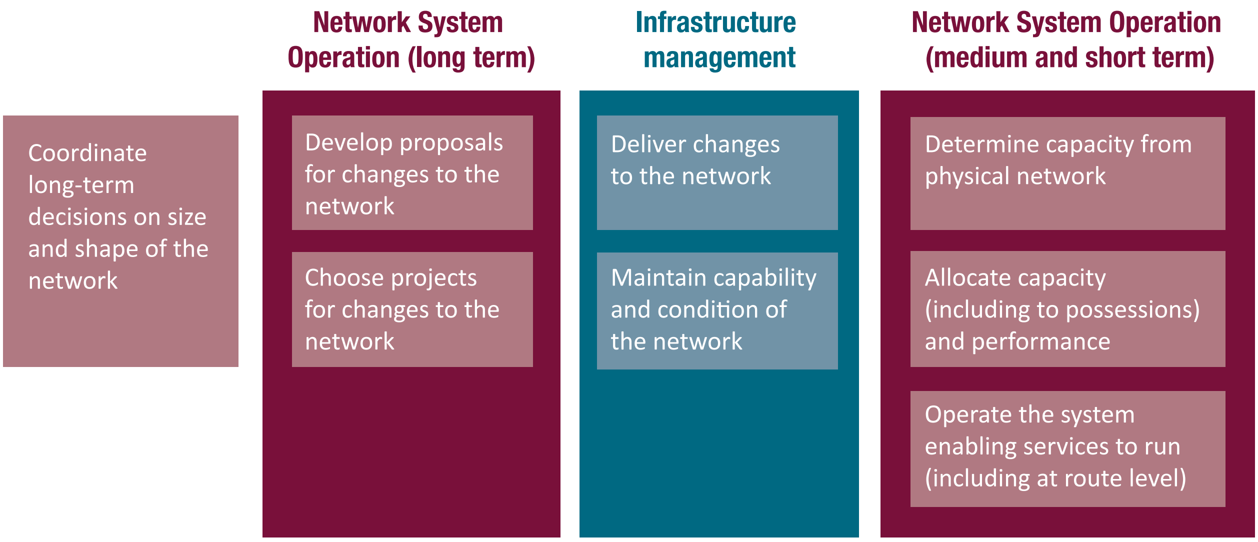
Published 24 December 2015

What's a System Operator?

As we've travelled around the country, we've been asking attendees at discussion sessions for their view on the concept of a 'system operator'.

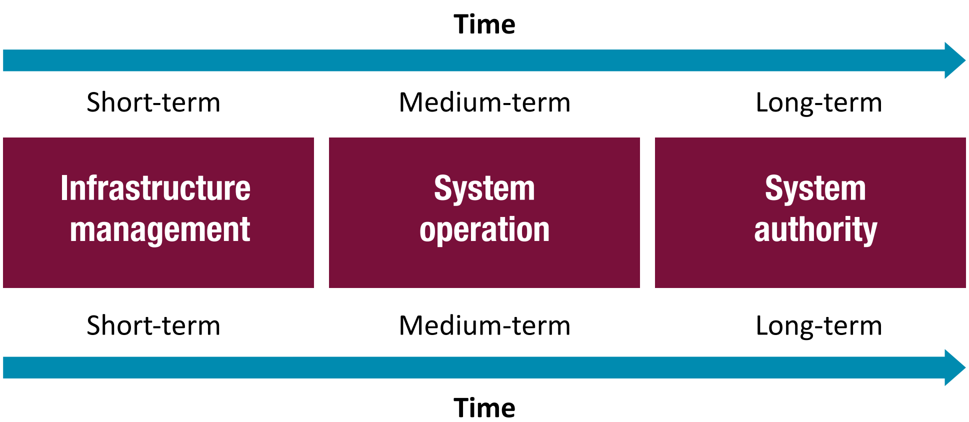
We've had a fair few responses and suggestions, coming at the issue in a number of different ways, so we thought we'd publish a few of the generic concepts and see if there we can get more debate going around the concept.

First up, we have the Office of Rail and Road, which consulted on the matter in August 2015. Their overview is as follows:



They differentiate between long-term and short-term "network system operations", with infrastructure management a separate function.

This feeds into the first idea from those we've spoken to: that the time horizon over which decisions are taken suggests a division of function:



This suggests a logical split between 'system operation' which includes medium-term functions (perhaps timetabling, track access, whole industry response to incidents and so forth) and a 'system authority' that might make longer-term strategic decisions about the railway or enforce compliance.

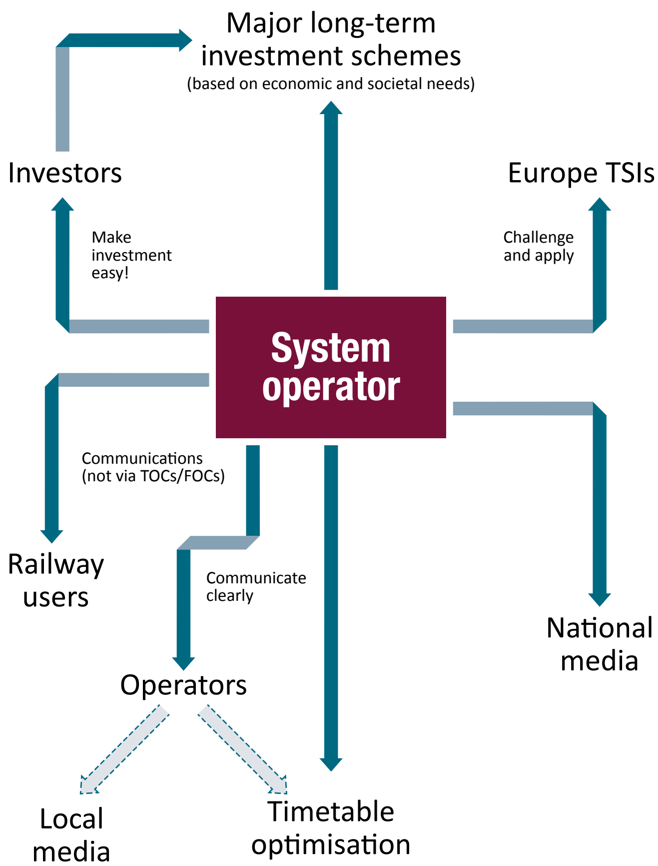
But some people disagreed, and saw all of this as part of a "System Operator" function:

System operator

- Provision of train paths
- National co-ordination of operations
- Audit of standards compliance (for high-level, national standards)
- Be the 'controlling mind' for the Railway

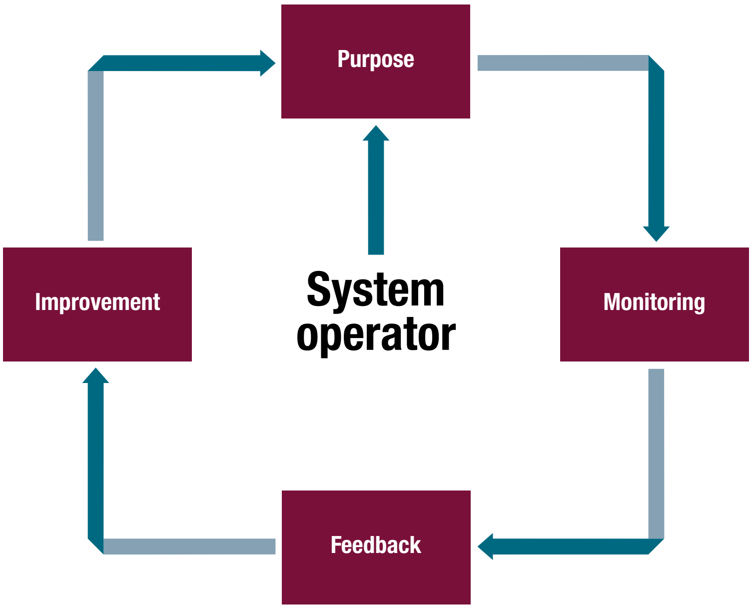
The concept of a "controlling mind" came up in several of the discussion session sessions, but never with a clear articulation of what functions would sit within and what the organisation's (assuming it is an organisation) role and remit would be.

The clearest articulation we had of a system operator as a guiding mind came from the following concept:



Here, the System Operator would appear to be at the heart of the Railway, working with investors (which could be public or private), sponsoring investment schemes, interfacing with the European Commission on Technical Standards for Interoperability (TSIs) as well as being customer or media facing.

But another set of ideas were ***de minimis***. We had some people reflecting on what the exam question is for which the answer would be a System Operator and some people suggesting a simple monitoring and improvement role:



Some people went further and questioned the need for a system operator at all – suggesting that we need to start with the need of the industry then work out functional divisions from there.

Finally, a different set of people spoke of an arbitration function, rather than an "operator" or "authority". This role would seek to resolve disputes across a railway where different organisations have different roles and responsibilities and which may sometime conflict.

As you can see, so far we have no consensus on the subject! If you have any particular insight, our would just like to make your views known on the topic, please do comment below or write in (shaw.secretariat@shawreport.gsi.gov.uk). The ORR's consultation and response are here if you'd like to read into the subject further.

This is our last blog before Christmas. Our next week is going to be spent reading and analysing consultation responses (and eating lots of turkey).

We'll be blogging again in the 2016, but for now Season's Greetings and all the very best for the festive period from Nicola and the Report Team.

Annex B Campaign responses

Bring Back British Rail

To: Patrick McLoughlin, Secretary of State for Transport

We call on the government to rule out the break-up and sell-off of Network Rail – the publicly-owned body responsible for the safety and maintenance of Britain's railways and for the management of our largest stations.

Signed by 7,231 people.

We Own It

Dear Shaw Report team

This is my response to your consultation on options for bringing private sector capital into Network Rail, including the option of 'full privatisation'.

We Own It polling shows that less than one in four people want Network Rail to be privatised; 59% of us oppose it. That's not surprising because privatising Network Rail would be a disaster:

Worse for safety

We need to learn the lessons from privately owned Railtrack, which was heavily criticised for the fatal train crashes in the late 1990s. We don't want to go down that route again - passenger safety must come before profit.

Less accountability

Network Rail needs to be more accountable to passengers, not less. Privatisation would reduce the voice of passengers.

More fragmentation

The railways are already too fragmented. We need a publicly owned rail network that works in an integrated way. Privatising Network Rail and selling off railway infrastructure would make the situation much worse.

Higher cost

2 out of 3 people think train fares would increase if Network Rail was privatised. The public are sick of being ripped off by a railway that puts shareholder profits ahead of passenger needs.

Network Rail isn't perfect but it can be improved, made more accountable and work better in public hands.

Please keep Network Rail public and work towards public ownership of the whole railway network. Privatisation has failed; we don't want any more of it.

Thank you for your time.

Campaign for Better Transport

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

We need a single, publicly-owned body to develop and manage the railways.

Network Rail's operation can be improved, but we must also learn from the mistakes of the past. Breaking up or selling off parts of Network Rail's operations would lead to fragmentation, confused priorities and reduced accountability.

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

Network Rail's overall objective is very important and needs to be set out explicitly.

Network Rail should have a structure that helps the railway to grow. The existing structure can be a hindrance to this. There needs to be better, clearer, long-term planning for the railways. This should go beyond the five year Control Periods.

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

Network Rail needs to be more accountable to passengers. The voice of passengers should be stronger in deciding national priorities for the future of the railways and local priorities for better services and stations. Network Rail needs to have structures and processes to that directly include passengers' views and interests.

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

Passengers are an important customer for Network Rail but our voice is not often heard.

Passengers' interests are wider than those of train operators. For example, we understand how the railways can support communities, development and the economy. Passengers need more opportunities to directly influence Network Rail's priorities.

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

Network Rail does not directly hear the voice of passengers and therefore does not prioritise their interests. The problems at Finsbury Park between Christmas and New Year 2014 show this very clearly.

Network Rail needs work directly with train operators and passengers to make sure services, timetables and maintenance are planned in the best way to stop problems like this happening in the future.

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

Passengers need a stronger voice.

Network Rail should be rewarded if more people are using trains, and passengers are satisfied with services. A form of revenue sharing should be considered to replace the current compensation arrangements, which are confrontational and don't operate in passengers' best interests.

One way of doing this would be to establish a board for each franchise area, where important partners like the train operators, local authorities and passengers could meet regularly with Network Rail.

There could also be a team of people in Network Rail that works with local authorities, Local Enterprise Partnerships, developers and others to make the best use of the railway and examine opportunities for expanding it.

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

At the moment, Network Rail has little responsibility for passenger satisfaction - it only matters whether or not the trains run on time.

Network Rail, passengers, train operators and others like local authorities need to work together to make sure is how many people use the trains and how useful the services are to communities that matters.

8. Is there a case for changing the route structure? Dis/advantages of different approaches to disaggregating the network?

The Government is giving local authorities and other bodies more control over how transport is planned. It is important that the railways are part of this.

While Network Rail needs to stays as a single, national organisation, it is important that planning for the railways is joined up with other transport planning. That means Network Rail having the structure and staff to work much more closely with local authorities for example.

There is no case for re-privatising all or part of Network Rail.

It is important to learn lessons from the catastrophic failure of Railtrack. By separating management of the tracks from the trains, Railtrack fragmented the railways in ways it is still struggling to cover from. None of the problems facing the railways would be solved by going back down this route.

9. Is the balance of responsibilities between the routes and centre right? Further responsibilities that should be devolved or centralised?

The balance between routes and the centre is not currently at the right level.

Our railways need to be outward looking. Network Rail's role should include helping support other objectives like housing, the economy and road congestion. Devolving more power is the key to this, with new structures that are able to link easily with bodies like Transport for the North.

There are some important functions that will still need to be national. This needs to include safety standards as well as timetabling and engineering work from the 'system operator' role at a national level to keep disruption to a minimum and help reduce waste.

In some cases, good capacity planning needs to be both local and national. Intercity and freight services need national planning and management while commuter services need a stronger local focus. Changes to Network Rail's structure must make sure it can bring these needs together.

Annex C Index of organisational responses

Organisation	Location
Amey	Appendix B
Arriva	Appendix B
Ashfield Consulting	Appendix B
Association of Transport Co-ordinating Officers (ATCO)	Appendix B
Atkins	Appendix B
Atos and Worldline	Appendix B
Balfour Beatty	Appendix B
Bedford Borough Council	Appendix B
Bexhill Rail Action Group	Appendix A
Bolton Rail Users Group	Appendix B
Bring Back British Rail	**Annex B**
Campaign for Better Transport	Appendix A
Campaign to Protect Rural England	Appendix A
Carillion	Appendix B
Civil Engineering Contractors Association	Appendix A
Consortium of East Coast Mainline Authorities	Appendix B
CoOperative (local voluntary group)	Appendix A
Cumbria County Council	Appendix A
DB Schenker	Appendix B

Organisation	Location
Delay Attribution Board	Appendix B
Derbyshire County Council	Appendix B
East West Rail Consortium	Appendix A
Enterprise M3 LEP	Appendix B
Essex County Council	Appendix B
Eurostar	Appendix B
Eversholt	Appendix B
Freight On Rail	Appendix B
Freight Transport Association	Appendix A
Freightliner	Appendix B
GB Railfrieght	Appendix B
Go-Ahead	Appendix B
Hampshire County Council	Appendix B
Heathrow Hub	Appendix B
Historic England	Appendix B
HS1	Appendix B
HS2	Appendix B
John Laing Group	Appendix B
Keolis UK	Appendix B
Kilbride Holdings Ltd	Appendix A
Lloyds Banking Group	Appendix B

Organisation	Location
London Assembly Transport Committee	Appendices A and B
London First	Appendix B
London Travelwatch	Appendix B
Manchester Airport Group	Appendix B
Merseytravel	Appendix B
National Express	Appendix B
Network Rail	Appendix B
The Nichols Group	Appendix B
North Yorkshire County Council	Appendices A and B
Northern Rail	Appendix A
Office of Rail and Road	Appendix B
PA Consulting	Appendix B
Passenger Transport Networks York	Appendix B
Public Transport Consortium	Appendix A
Quadrangle Management Ltd	Appendix A
R and SH Tunnicliffe LLP	Appendix A
Rail Delivery Group (RDG)	Appendix B
Rail Forum East Midlands	Appendix A
Rail Future	Appendix B
Rail North	Appendix B
Rail Safety and Standards Board (RSSB)	Appendix B
Railway Engineers' Forum	Appendix A

Organisation	Location
RDG Freight Group	Appendix B
RMT	Appendix B
Rothschild	Appendix B
Sheffield City Region	Appendices A and B
SLC Rail	Appendix B
Social Market Foundation	Appendices A and B
SSE	Appendix B
Trades Union Congress (TUC)	Appendix B
Transport Focus	Appendix B
Transport for Greater Manchester	Appendix B
Transport for London	Appendix B
Transport for the North	Appendix B
Transport Scotland	Appendix B
Transport Systems Catapult	Appendix B
TSSA	Appendix B
TSSA Anglia No1 Branch	Appendix B
UK Power Network Services	Appendix B
Unite	Appendix B
Urban Futures LLP and Garden Cities LLP	Appendix A
Urban Transport Group	Appendix B
Vinci Concessions	Appendix A

Organisation	Location
We Own It	Appendix B
Welsh Government	Appendix B
Wendlebury Gate Stables	Appendix A
West of England Local Enterprise Partnership	Appendix A

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