

[National Assembly for Wales](#)

[Enterprise and Business Committee](#)

[Inquiry into the future of the Wales and Borders Rail](#)

Evidence from Network Rail – WBF 93



Wales

Enterprise and Business Committee

Inquiry into the Future of the Wales and Borders Rail Franchise

Summary

- Network Rail owns and operates the rail infrastructure across Great Britain.
- Demand for rail travel is increasing.
- Investing in rail is one of the most effective ways to help grow the economy.
- The devolved Wales route is responsible for the rail infrastructure in Wales and the borders area.
- Network Rail is working with stakeholders to assess and plan for future demand on the railway through the Long Term Planning Process (LTPP).
- The LTPP will help inform the next Wales and Borders franchise.
- Network Rail's Wales route has a close working relationship with Arriva Trains Wales.
- Further collaboration (alliancing) with train operating companies has the potential to deliver continuous improvement on the railway.

Introduction

Network Rail welcomes the opportunity to provide evidence to the Committee's Inquiry into the future of the Wales and Borders Rail Franchise.

We look forward to seeing the findings and recommendations of the Committee in due course.

Background – About Network Rail

Network Rail owns and operates the railway infrastructure in Great Britain.

We are a 'not for shareholder dividend' company and all our profits go straight back into improving the railway.

We are directly accountable to our members and we are regulated by the Office of Rail Regulation.

Network Rail's purpose is to generate outstanding value for customers and taxpayers. Our role is to provide a better railway for a better Britain.

When Network Rail was formed in 2002 the railway was facing a number of challenges. There were major safety concerns and punctuality levels were falling well short of what passengers expect, with a Public Performance Measure (PPM) of below 80%. Today the railway is safer, whilst performance is above 90%.

This success is mirrored by demand. Today more people travel by rail than at any point since the 1920s - when the rail network was around twice its current size.

Every year 1.3 billion journeys are made on Britain's railway and 100 million tonnes of freight is transported by rail between ports, factories and retail distribution centres.

Demand is still increasing. Over the next 30 years passenger demand for rail across Britain will double and some estimates show freight demand rising by 140%.

There is also a strong forecast for demand in Wales, for example, the Wales Rail Planning Assessment (WRPA), published in 2007, indicated an increase in passenger demand of 35% by 2016 and up to 48% by 2026.

In order to help meet this demand, Network Rail is developing and delivering a programme of investment in Wales.

Rail investment helps to stimulate private sector growth by linking towns and cities and is one of the most effective ways to help grow the economy. Improved transport and enhanced rail links create better connections between people and jobs and bigger customer bases for companies selling products.

The railway also performs a vital lifeline. It helps reduce isolation and strengthen communities by connecting people to health and education services and expanding other opportunities such as trips to leisure centres and shops.

Network Rail in Wales

Network Rail's organisational structure consists of a corporate centre and devolved routes, including the Wales route which was established in 2011.

The Wales route business unit directly employs over 1300 people and oversees the management and operation of the railway in south Wales, mid Wales, north Wales and the Marches – broadly reflecting the Wales and Borders franchise area - from a headquarters in Cardiff.

The Wales route has close working relationships with Arriva Trains Wales (the current Wales and Borders franchisee), the Welsh Government and the four transport consortia.

Long Term Planning Process

Network Rail is leading the Long Term Planning Process (LTPP) in Wales, with input from the Welsh Government, regional transport consortia and train operators.

The outcome of this work will culminate in a new Route Plan for Wales. The next steps are to:

- Identify the economic factors that will influence changes in demand over the next 10 to 30 years
- Assess gaps between existing capacity and future demand
- Develop solutions to bridge the gaps, with a strong emphasis on optimising before enhancing
- Provide choices for funders
- Complete by end of 2016 to inform the next HLOS.

The LTPP provides the framework for government, regional transport consortia and other funders to consider the best ways of integrating public transport into the future development of the railway network in Wales.

The LTPP will also help inform the specification of services for the next Wales and Borders franchise.

Existing arrangements with the Wales and Borders Franchisee

Network Rail is committed to providing safe and reliable rail routes on which passenger train operators can run services to meet ever-increasing passenger demand.

The Wales route works closely with Arriva Trains Wales (ATW) on a number of different issues as well as having a formal contractual relationship through the track access contract.

One area in which we work closely with ATW is train performance and reliability. Train performance is a complex function of the inter-relationship of infrastructure performance, rolling stock performance and operations.

By working collaboratively, we have been able to deliver significant improvements in recent years. Arriva Trains Wales (ATW) Public Performance Measure (PPM) Moving Annual Average (MAA), as of the beginning of mid-September, was 93.7%. This places ATW as one of the best performing train operating companies in Britain.

Opportunities in next franchise for collaboration

We note the specific question in the Terms of Reference about whether the next franchise can support an enhanced relationship between Network Rail and the franchise operator and the benefits this might have.

We believe that further collaboration, which we refer to as alliancing, has the potential to deliver continuous improvement beyond that which could otherwise be achieved without such an approach.

Network Rail exists to generate outstanding value for taxpayers and customers by continually improving the railway in Great Britain and our role (what we do) is to develop, operate and maintain the infrastructure in partnership with our train and freight operating customers, our suppliers and our funders and other stakeholders.

In pursuit of this, we consider that further benefits could be unlocked through alignment of incentives between industry partners and through more flexibility to deliver outputs in the most efficient way.

Therefore, we consider that the ultimate purpose of alliancing is to achieve improvements in value for money by enabling more effective partnership or cooperation with our train and freight operating customers. We believe that this will then drive improvements in end user satisfaction – passengers and freight customers.

The franchise process is a key enabler for alliancing and support from government is important. We have started a conversation with Welsh Government about the broad principles of alliancing and we have committed to provide more information, including lessons learned from elsewhere (Wessex route), later this year.

Alliancing: Network Rail Policy Statement

In order to achieve greater benefits for tax payers and rail users through collaborative working arrangements, Network Rail has entered into a number of alliances with train operators over the last two years. We believe this approach can deliver significant benefits to the industry, and are keen to implement alliancing arrangements with both incumbent operators and through the refranchising programme. The purpose of this policy statement is for Network Rail to set out the principles it adopts when negotiating and agreeing alliances with train operators.

1. **Purpose:** Network Rail sees its purpose (i.e. why we exist) as to generate outstanding value for taxpayers and users by continually improving the railway; and we see our role (i.e. what we do) as to develop, maintain and operate rail infrastructure in partnership with our customers, suppliers and other stakeholders. We consider that two of the key obstacles to improved value for money are the lack of alignment of incentives between industry parties and their lack of flexibility to deliver the required outputs in the most efficient way. Accordingly, we consider that the ultimate purpose of alliancing with passenger and freight train operators is to achieve improvements in value for money by enabling more effective collaboration or partnering with these customers. Separately, we are also seeking to develop relevant alliances with our suppliers.

2. **Objectives:** Network Rail's objectives from alliancing with its customers are to:

- drive continuous safety improvement;
- deliver financial benefits beyond that which could be achieved without alliancing;
- drive improved performance and user satisfaction through alignment of incentives around the market and customers; and
- apply learning from alliancing to other parts of the business.

We expect to achieve these objectives by using alliancing to:

- challenge constraints which would otherwise be regarded to be outside the control of the parties;
- reduce interface inefficiencies and duplication of resource with operators;
- transform behaviours and interface management away from being driven by defending current contractual positions towards collaborating to improve industry outcomes; and
- drive positive change across the industry by improving Network Rail and operator understanding of each others' business.

3. **Safety issues:** Network Rail is committed to continuous improvement in safety. This includes addressing the safety culture of the business and helping to embed the concept of system safety across the industry. We expect closer collaboration to result in improved safety. Alliance parties will retain their existing safety management systems under which relevant changes will be subject to safety validation both in establishing alliances and in operating an alliance.

4. **Network issues:** To varying degrees all routes are used by multiple operators. In addition, many operators operate across more than one of our routes. We will ensure that any arrangements with individual operators do not compromise our ability to provide excellent service to other operators on a route or to plan, develop and

operate the network *as a whole* so that it is seamless to individual operators or rail users. This reflects Network Rail's role as system operator.

5. **Route and national activities:** The relevant route will be in the lead for Network Rail within an alliance, making decisions with the operator at a local level. Some activities will continue to be delivered nationally, for example where there are clear benefits from standardisation or economies of scale.
6. **Stewardship issues:** Part of Network Rail's role involves it taking a whole-life approach to stewardship of the infrastructure. Our approach to alliancing is intended to maintain this focus while gaining greater input from operators to help inform tradeoffs. This includes network wide asset policies and assurance processes.
7. **Legal issues:** Alliances are encouraged to promote innovation which will ultimately benefit taxpayers and rail users. However, any alliancing arrangements will comply with Network Rail's existing statutory, contractual and regulatory obligations. This includes the prohibition on undue discrimination in our network licence, the legal requirement to maintain separation of train operations from Network Rail's capacity allocation functions and the provisions of the network code.
8. **Ultimate accountability:** Alliancing will not change Network Rail's ultimate accountability or that of the relevant operators. Network Rail as a company will continue to be accountable for its existing statutory, contractual and regulatory obligations. The alliance arrangements with individual operators are designed so that they do not prevent either party from taking necessary action to discharge their accountabilities. Even in the case of a "deep alliance" explained below, Network Rail is able to determine that additional costs should be incurred or other actions should be taken locally to meet longer term requirements or the requirements of other operators using the route. The company will continue to be held to account by the ORR.
9. **Bespoke alliances:** Network Rail is keen to explore mutually beneficial opportunities with any passenger or freight train operator. We have signalled this willingness to explore opportunities both to existing passenger and freight train operators and to shortlisted franchise bidders. The precise arrangements will differ according to the characteristics and use of the relevant parts of the network; the characteristics and markets served by the relevant operators' train services; the challenges facing this part of the network and the relevant operators over the period in question, and the aspirations and approach of the operators concerned.
10. **Framework alliance agreement:** Network Rail has developed a framework alliance agreement which has evolved through discussions with a number of operators. This framework agreement template approach need not constrain discussions and it will continue to evolve in the light of experience. The current framework agreement provides for transparent sharing of information on the performance of the respective businesses to help identify mutual opportunities; for the establishment of a code of conduct to underpin the mutually desired changes in behaviour; and for the identification of specified alliance projects which the joint teams intend to progress. Where the identified projects result in proposals for change, these changes are still subject to the existing industry change processes. We will engage as early as possible with all operators where they would potentially be impacted by a change.

The nature of the projects which are included and the way in which they are progressed will vary depending upon the circumstances of the case.

11. **Non-framework alliancing projects:** In some routes, specific projects are being progressed without a framework agreement of the nature described above. These specific projects could potentially change the way in which Network Rail works with operators on the routes but this would still be subject to the same principles as described above. There is therefore no requirement for a specific alliance agreement in order to progress such initiatives.
12. **Deep alliances:** A “deep” alliance can be defined as one in which one of Network Rail’s routes (or potentially part of a route) and a train operator share upside and/or downside risk against an agreed baseline for all or most of their activities. In Network Rail’s view, this would only be appropriate where an operator has a very strong geographic alignment with the route – such that it has very little traffic on other routes and other operators have a small proportion on the route in question. Network Rail is also of the view that it would be inappropriate and impractical to enter into such an arrangement with an incumbent franchisee except where there are several years remaining on the franchise term. In CP4, Network Rail entered into one such deep alliance with an incumbent train operator, SSWT (the “South Western Railway”). For CP5, we have stated that we are willing to enter into a deep alliance arrangement with the successful bidder of the ScotRail refranchising competition¹.
13. **Refranchising:** Network Rail will continue to provide input to government in relation to the specification of franchises and will discuss appropriate alliancing opportunities. Network Rail also engages with shortlisted franchise bidders on potential alliancing arrangements. Alliancing projects which are developed with the incumbent franchisee in advance of the refranchising process would be made transparent to bidders in the competitive process. Alliancing conversations with shortlisted bidders are confidential but we cannot guarantee exclusivity. The points of contact for discussion with potential franchisees are within the Network Strategy and Planning teams.
14. **Freight and open access operators:** In taking forward a range of alliancing opportunities with franchised train operators, Network Rail will remain focused on providing service to freight and open access operators. In addition, Network Rail welcomes the opportunity to explore mutually beneficial commercial opportunities with freight and open access operators. We expect the principles as outlined above to apply to such arrangements, although acknowledge that the *nature* of these arrangements is likely to be different.
15. **Best practice and learning:** Network Rail will apply general lessons from alliancing arrangements to other parts of its network. In addition, alliance arrangements with an incumbent operator would be expected to inform the potential for opportunities from refranchising. The precise model from one situation is, however, unlikely to be applicable elsewhere.
16. **Transparency:** Network Rail is committed to transparency in relation to its financial and operational performance. While the commercial terms of an alliance may be

¹ The Alliance is not mandated by Transport Scotland as part of the refranchising process.

commercially confidential, any aggregated financial flows as a result of alliancing for each of Network Rail's routes would be identified through the regulatory accounts. This would therefore be subject to independent audit and potentially further review by ORR or the independent reporters.

17. **Route efficiency benefit sharing (REBS):** In CP4, track access contracts included an efficiency Benefit Sharing mechanism which provides for the sharing of OM&R (operations, maintenance and renewals) efficiency benefits with operators pro-rata to their use of the network. In CP5 it is expected that this will be applied on a Route basis rather than nationally (referred to as REBS) and will include both upside and downside sharing with operators. Bespoke alliancing arrangements are intended to operate alongside this mechanism. As part of its Final Determination on PR13, we expect ORR to conclude that alliance performance will be taken account of before any REBS payments are made ('alliance before REBS').

Train operators' participation in REBS will not be compulsory, with the possibility to opt-out of the mechanism at the beginning of CP5 or during CP5 under specific circumstances. On entering into any alliance arrangements with operators during CP5 that include one or more elements of Network Rail's cost and/or income included in REBS, we would expect to require operators to opt-out of the mechanism.

18. **Concessions:** Network Rail is also considering the potential benefits and issues which would need to be addressed for it to let a long-term concession for part of the infrastructure. This is independent of alliancing and the implications would be quite different. Unlike an alliance, letting an infrastructure concession would involve the creation of a new company and that company would be accountable for the relevant infrastructure. In such a scenario, however, Network Rail would expect to continue to act as system operator for the network as whole. Network Rail currently has no plans to let an infrastructure concession but any decision to proceed with this option would take account of the same issues as described above. It would therefore need to be justified in terms of additional benefits to rail users and taxpayers, it would need to enable continued whole-life optimisation of the whole network, and it would need to conform with the relevant legislation.