

**MINUTES OF A MEETING OF THE BOARD  
OF  
NETWORK RAIL LIMITED  
held at  
151 St Vincent Street, Glasgow  
on  
Monday 23 February 2015 at 10.30am**

**Present:** Richard Parry-Jones (Chairman) Chris Gibb  
Malcolm Brinded Janis Kong  
Patrick Butcher Michael O'Higgins  
Mark Carne Paul Plummer  
Sharon Flood Bridget Rosewell

**In attendance:** Suzanne Wise – Secretary  
Phil Hufton (min 15/18 – 15/26)  
Barney Wyld (min 15/25)  
Mark Farrow (min 15/27)

**MINUTE  
NO.  
15/18**

**CHAIRMANS REMARKS**

**ACTION**

The Chairman reported on his Network Rail activity since the previous meeting. In particular he noted that the new board sub committee or working groups of the Board namely the Critical Infrastructure Projects, Major Projects Delivery and Business Plan sub committees were all working to provide additional focus and assurance on these key areas, without becoming a substitute for the Executive. He had met with the Shareholder Executive at the end of January and was due to meet with them again later that week. He had also met with Anna Walker of the ORR.

Business visits had included a visit to the Harbury landslip site with the local MP and Attorney General, Jeremy White and paid a visit to Tottenham Hale Depot with Neal Lawson. There the Chairman had taken part in a depot improvement meeting based around visualisation boards. The Chairman noted that this had been an encouraging visit with employees being engaged and with all issues being “in the room”. However this part of the business was still in its infancy of embedding structured continuous improvement. Of concern had been the number of Temporary Non Compliances (“TNC”) being reported as overdue and it was agreed that the extent of TNCs and their status would be reviewed to determine whether there was a systemic problem. An update would be brought back to the Board.

**MC(PH)**

Phil Hufton then described his approach to structured continuous improvement. His use of visualisation boards which created visibility of performance measures and encouraged a culture of escalation and asking for help when needed, and the new meeting structure he had instigated with the Route Managing Directors.

Lastly the Chairman reported on his visits to Loughborough University with Jerry England to see the work they are doing (with Network Rail and the RSSB) on redesigning switches and crossings based on aircraft technology; and the Government’s HSE research laboratory in Buxton, which he commended for future consideration and collaboration.

**15/19**

**PREVIOUS MINUTES**

The Minutes of the previous Board meeting on 22<sup>nd</sup> January were **APPROVED** with minor amendments.

**15/20 ACTION LIST**

The Action List was **NOTED** and would be updated. In relation to Action 15/08(iii) the Board noted the clarification of the entries in the SHEP Report relating to the Improvement Notices, noted that the process for including this information had been improved and that in the future new Improvement Notices would be uploaded into the Resource Area of Board Books so that all Directors were made aware of them. **SEW**

**15/21 DIRECTORS' CONFLICTS OF INTEREST**

No Directors' Conflicts of Interest were raised.

**BUSINESS OPERATIONS:**

**15/22 BOARD REPORT – PERIOD 10**

Mark Carne led a general discussion on the Board Report the following items being highlighted:

- The serious accident on the line between Hungerford and Bedwyn which had occurred the previous day. This had been caused by a lorry reversing on a bridge over the railway and knocking the stone parapet onto the railway below, which a train had then hit. There had been no injuries but the train had been disabled and the c700 passengers on board where on the train for 5 hours. This was obviously a serious incident; it was being investigated thoroughly and would be brought to the SHE Committee once the investigation has been completed. The investigation would consider the extent of contact signage on such bridges. **MC(JS)**
- The arrival of Phil Hufton and the appointment of the new Director of Safety, Technical and Engineering, who would join later in the year.
- The Harbury landslip and the fact that some 200,000 of the 350,000 tonnes of earth had been removed with the railway reopening prior to Easter. The Board congratulated Barney Wyld and the Communications team for very clear coverage on the corporate web site.
- The ORR's Report into the Kings Cross overrun over the Christmas period
- The Easter works at Reading including the re-signalling work with SSL. It was noted that a series of reviews had been undertaken into this work, which was not without risk. Nevertheless the Executive team had determined to proceed, as good contingency plans had been developed with FGW (the potentially most impacted TOC). Also the consequences of not carrying out all work as planned would have serious implications for other projects and delay tackling the signal reliability problems that had already caused 60,000 minutes of train delay this year.
- The CEO's visit to LNE Route it being explained that this route was the only route outperforming PPM and the route furthest along its structured continuous improvement journey. It was agreed that the Chairman should visit one of LNE's control centres to judge the progress made in the route. **MC(PH)/RPJ**
- The CEO's visit to the Wessex Alliance team.

The following specific items were then reviewed in the Performance Report:

- It was noted that the workforce safety KPIs were starting to show improvement, Malcolm Brinded commenting that 63 fewer people had been injured this period than the same period last year. The overall trends were gratifying.
- It was noted generally that where key milestones had been missed there was little commentary in the report to explain why and better quality of commentary in this area was encouraged.
- It was noted that although the top level score card was still troubling there were underlying areas where positive momentum was starting to be demonstrated. For example the trend in the Asset Management Composite

Reliability Index, excluding the telecoms failures, was positive. Consideration would be given to showing meaningful direction of travel by the use of arrows on the score card.

- It was noted that there had been an increase in level crossing failures partly due to the poor reliability of recently installed obstacle detection equipment, together with relay failures. A more detailed explanation would be brought back to the Board.

MC(JS)

## 15/23 FINANCE REPORT – PERIOD 10

Patrick Butcher presented the Finance report for period 10.

- It was noted that the same pattern of opex and income variances seen earlier in the year had continued.
- Capex was £132m overspent year to date which would translate to a £33m impact on the budget once the 75% RAB adjustment is added back.
- The latest Financial Performance Measure (“FPM”) forecast for the full year was discussed, including the nature or some of the overspends. In the future explanations for major movements and losses would be included making it clear which were permanent losses and which temporary. It had been found helpful to have FPM split by route.
- Period 10 had been a better period for Schedule 8 payments but the forecast for the full year was still £44m higher than budget, reflecting the continued trend in train performance.
- The Schedule 4 position was also discussed noting that Period 10 costs were £12m below budget of which £5m had been a deferral of renewals activity and £7m due to outperformance, largely savings from blockade works over the Christmas period.
- Other matters discussed included the renewals progress, the position in relation to the Enhancements Cost Adjustment Mechanism (“ECAM”), and the CP5 borrowing estimate.

## 15/24 UPDATE ON THE BUSINESS PLAN

The Chairman reported back from the first Business Plan sub committee meeting noting that the terms of reference had been agreed and the members had obtained a far deeper understanding of the numbers and challenge within them. The purpose of this session was to bring the Board as a whole up to speed and to start to understand the choices that may have to be made.

Patrick Butcher then presented paper 10/15 and led the discussions on the business plan. He set out the background reminding the Board that the 2014 business plan had included savings of £3.5bn and a gap against the Final Determination of £1.6bn. The savings had represented 18% efficiency over CP5, in addition to the 38% efficiency achieved over CP3 and CP4. The Company’s response to the Final Determination had particularly highlighted the uncertainty of track and signalling renewal costs, stating there had been a very low chance of achieving the ORR’s assumptions. The process for review of the plan internally and the discussions to date with the ORR and DfT were also explained.

It was emphasised that the Executive remain determined to deliver within the loan amount through continuous improvement making transparent choices were necessary.

The process would see the Company inter alia, providing an update on the Delivery Plan and share a summary updated CP5 Business Plan with the ORR, DfT and TS.

To date the business had submitted a full CP5 reforecast in December which had resulted in significant adverse cost variances, in January the business submitted a revised forecast and identified at a high level the impact of reducing activities, volumes and scope. A full re- submission had been received by the Executive on 13 February which was being reviewed in detail and would be presented to the

Board at the additional Board meeting on 6<sup>th</sup> March.

Patrick Butcher then took the Board through the summary of the numbers from the January re-submission, it being noted that in terms of opex variance this had been brought back to zero although there still remained considerable stretch in the numbers in the later years of the Control Period. The Routes had been given “relief” on the money spent on Vegetation and Tidy Railway and central functions had been given a challenge of saving a further 10% versus their original Business Plan number. A detailed discussion then took place on the renewals costs and key volumes, enhancements opportunities in ECAM and Ring Fenced Funds, property income opportunities and the opex efficiency profile by route and route assessment of efficiencies by programme.

In discussing the change programmes designed to drive efficiencies the Board recommended that a lead route should be clearly identified for each programme to lead and be accountable for delivery. It was confirmed that whilst this was the case for some change programmes this approach was not universal. It was also noted that nearly 50% of the planned route efficiency did not come for the centrally run change programmes but from “Local/Other” and that the granularity behind this figure was not yet available. Phil Hufton confirmed this level of granularity would be key, clear ownership in this area was required and the Routes needed to aim for a much higher target in efficiencies overall so they delivered what was actually required.

The Chairman asked that there be a clear reconciliation back to the CP5 Business Plan as the reasons for the material variances needed to be fully understood to avoid the same situation in a year’s time. Patrick Butcher confirmed this work was being undertaken and once the work was completed the insights and learnings would be shared with the Board.

It was agreed that an additional Business Plan Sub Committee would, if possible, be scheduled for 4<sup>th</sup> or 5<sup>th</sup> March, ahead of the full Board on 6<sup>th</sup> March.

PB

SEW

*Phil Hufton left the meeting*

## **STRATEGIC THEMES:**

### **15/25 CUSTOMER FOCUSED ORGANISATION – POLITICAL STAKEHOLDERS**

*Barney Wyld joined the meeting*

Barney Wyld presented paper 11/15 which outlined the proposed changes to our structures for managing senior stakeholder engagement across Westminster and Whitehall; and which encouraged a discussion on how Board members can help with this engagement. It was noted that in other similar arm’s length bodies of government it was more common to have a broader group of executives having more frequent engagement with Westminster and Whitehall in a structured and coordinated way.. Adoption of such an approach within Network Rail was supported.

The non-executive directors then shared their experiences and views of the benefits of taking part in a wider engagement programme. Views on the relative contribution of and role of non-executive directors were mixed, but on balance the Company should view the role of the non-executive directors as one of providing assurance and underpinning. It would not be appropriate for any of the non-executive directors to “own” any of the external relationships. Meetings with a relevant executive member would be the best combination and this did not always have to be a main Board director – for example joint meetings with the non-executive director and a Route Managing Director or other senior manager and the external stakeholder would be appropriate.

It was agreed that the non-executive directors would send to Barney Wyld a list of their key networking contacts whether already on the list or not.

NEDs

There then followed a discussion on the core themes to support that stakeholder engagement. Whilst the proposal was broadly endorsed the Board suggested that the core themes have to acknowledge dissatisfaction with the status quo, and must also explain the history, how far the Company has come, the scale of the future challenge and the dilemmas and choices the Company will be facing. In addition it was suggested the core messaging could be “softened” to include a reference to the development of the caring culture. Further work would be undertaken to develop the core messages before these would be brought back.

BW

*Barney Wyld left the meeting*

## 15/26 ORGANISATIONAL CHANGE – SCOTLAND

Paul Plummer presented paper 12/15 which requested formal approval for delegated authority to the Group Strategy Director and Group Finance Director to include downside risk sharing in the alliance arrangements between Network Rail Scotland Route and Abellio as the new operator of the ScotRail Franchise.

Paul Plummer explained that sharing of downside risk had always been contemplated as this was seen as the best way of achieving full alignment between the parties. This was however only one of several key aspects that needed to be decided and included a potential appointment of a single Alliance MD for the combined operations, the structure below that appointment, how the Alliance would then engage with the center of Network Rail, and to what extent central policies or approaches could be challenged unilaterally. All these questions were under debate and would be reviewed holistically by the Executive.

In the meantime it was now possible to establish a firm alliance baseline to allow both partners to assess the potential impact of downside risk sharing. It was explained that the baseline had been established using Network Rail’s Regulatory Settlement for the Scotland Route for years 2-5 of CP5 but that it was now proposed to use the outcome of the current business plan process. Due diligence was being carried out on the Abellio P&L to determine the likely risk for Network Rail from including downside risk in the Alliance. The risks were set out in the paper and discussed. The Board asked for clarification of what the worst case could be. This was discussed, but it was noted that as yet no numbers were available as the due diligence process had not been completed.

The Board approved in principle the proposal to include the downside risk sharing in the Alliance subject to clear quantification of the risk and delegated approval of the inclusion of the downside risk and agreement as to financial caps etc to a sub group of the Board to include the Group Strategy Director, Group Finance Officer and the Chairman.

*Mark Farrow joined the meeting*

## 15/27 TRANSPARENCY – FOI READINESS

Mark Farrow presented paper 13/15 which gave an update on the Freedom of Information readiness programme. It was noted the operative date was likely to be 25<sup>th</sup> March. The readiness programme was therefore in a critical phase. Following the acceleration of the operative date there were two areas where contingency plans were being activated, these involved the IT system and people, but nonetheless the Company would be ready to begin handling requests in accordance with the legislation. The size of the expected demand was explained as was the benchmarking work that had been undertaken to establish this. It was also noted that, with the approval of the Executive, the Company was to adopt a “liberal approach” to disclosure, consistent with the Companies ongoing commitment to

transparency.

There followed a discussion of the approach being taken. The Board asked whether an individual's e mails would be disclosed. It was confirmed that whilst this would be rare it could not be ruled out but in this event where possible individual identities would be protected and/or the emails would not be disclosed without the individual having been notified.

The proposed approach to dealing with requests for the Board and Committee papers etc was noted. It was agreed that in future the Company would publish proactively not only the minutes of the full Board but also the Minutes and agendas of each of its formal Committees. Consideration would also be given to publishing papers shared with the Public Members.

The Chairman thanked Mark Farrow for an excellent paper which had given assurance that the Company would be ready for Freedom of Information and that the Board would still be able to operate effectively.

*Mark Farrow left the meeting*

#### **APPROVALS:**

#### **15/28 NR RISK APPETITE STATEMENTS**

Bridget Rosewell and Patrick Butcher presented paper 14/15 which set out the proposed risk appetite for the Company, being a document that should help drive decisions and assist in reviewing risks through the different lens of Safety, Finance, Performance and Reputation.

Following discussion the Board approved the broad risk appetite statements and the matrix which had assessed each element against a risk appetite of averse, cautious or opportunistic. The wording in respect of safety and the concept of "zero appetite for safety risk exposure" would be reviewed in light of the legal requirement to reduce safety risk to as low as reasonably practicable and the word "trust" would be included in the bottom left box on reputation.

#### **15/29 DODDLE – FINANCING**

Patrick Butcher presented paper 15/15 which provided a progress update on Doodle, the Joint Venture with Lloyd Dorfman, providing a Click and Collect network of stores at or close to stations, and to seek approval to provide the final £7.5m funding of the £19.95m approved in the 2014 Board paper.

The current state of the Doodle business was explained and discussed. After considerable debate and weighing up the pros and cons, on balance the Board agreed that a further period of trading would be required before the new business model was adequately tested.

Following the discussion the Board **APPROVED**, subject to the qualification below:

- Payment of the final £7.5m of the £19.5m commitment, in so doing waiving the relevant loan covenants

█ [REDACTED]

- [REDACTED]
- Delegation of authority to the Group Finance Director to negotiate terms of funding to a different structure to the original framework with a balance of more equity and less debt.

[REDACTED]

PB

In addition a paper would be circulated to the Board in August 2015 providing a further business update.

PB

## 15/30 THE STATION OFFICE NETWORK LLP (TSON) – FINANCING

Patrick Butcher presented paper 16/15 which requested approval for NRIL to provide a charge over its 50% interests in The Station Office Network LLP (the Office Joint Venture partnership with the Esselco Office Properties) to HSBC Bank, who had agreed to provide a non-recourse bank loan facility at attractive rate (margin 3.5% + Libor) for £10.0m to the JV, and to grant delegated authority to the Group Finance Director to approve any refinements to the terms of the loan and sign off relevant documents.

It was noted that the business had been and continued to be successful.

Under the terms of the Facility Agreement, the Company and Esselco were each required to enter into the following documents (together with the Facility Agreement, the "**Finance Documents**"):

- an agreement to be entered into by the Company granting: (i) a legal charge over its interests in TSON and (2) an assignment of the Subordinated Debt, in favour of the Bank as Security Agent; and
- a subordination deed to be entered into with the Bank, among others.

The Board noted that the proposed third party financing had previously been disclosed to the Department for Transport ("**DfT**") prior to the Company's reclassification and had been included in the schedule of existing intercompany and subsidiary debt facilities provided as a condition precedent to the loan facility agreement provided by DfT to the Company and dated 4 July 2014 (the "**DfT Loan**").

### **Consideration of the Finance Documents**

After due and careful consideration it was **RESOLVED** that, subject to Esselco also agreeing to the proposed transaction:

1. in the good faith judgment of all the directors of the Company, it would promote the success of the Company for the benefit of its members as a whole to enter into the Finance Documents;
2. TSON be and hereby is authorised to enter into a £10 million single currency term facility agreement with the Bank in its capacity as a borrower;
3. the terms of the Finance Documents be and are hereby approved by the Company;

4. NRIL would provide to the Bank a charge over the Company's interests in the TSON joint venture; and
5. any director and/or the company secretary of the Company be and hereby is authorised to approve and execute any and all documents that may be required in connection with the Facility Agreement, subject to any minor amendments that they in their sole discretion may consider to be necessary or prudent;
6. any director or the secretary of the Company be and is authorised to:
  - a. issue and certify as true and up-to-date copies of the articles of association of the Company;
  - b. issue copies of the minutes of this meeting and to certify that such copies are true and that the resolutions passed at this meeting remain in full force and effect;
  - c. issue a certificate setting out the name and signature of each of the persons authorised to execute or, as the case may be, to attest the sealing of, any or all of the above-mentioned documents pursuant to the foregoing resolutions and, if such person is an officer of the Company, the office held by that person; and
  - d. certify as true a copy of any other document which is to be delivered by the Company pursuant to or in connection with any of the Finance Documents.

**15/31 ANY OTHER BUSINESS**

Chris Gibb reminded the Board that today had been the 8<sup>th</sup> anniversary of the Grayrigg fatal train accident and this was duly noted with respect.

**15/32 DATE OF NEXT MEETING**

The next Board Meeting would be held on 6 March and the Board Strategy Day would be held on 11 March 2011.

**15/33 REPORTS FROM SUB COMMITTEES**

**CRITICAL INFRASTRUCTURE PROJECT DELIVERY**

Janis Kong provided a short verbal update from the last meeting.

**MAJOR PROJECTS DELIVERY**

Malcolm Brinded provided a short verbal update from the last meeting.

**For information – discussion by exception only**

**15/34 COMMITTEE REPORTS**

**AUDIT AND RISK COMMITTEE – 10.02.15**

Bridget Rosewell provided a brief note from the Audit and Risk Committee meeting on the 10 February which was taken as read.

**TREASURY COMMITTEE – 10.02.15**

Bridget Rosewell provided a brief note from the Treasury Committee meeting on the 10 February which was taken as read.

**15/35 BOARD FORWARD AGENDA**

The forward agenda was noted.

There being no further business the Chairman closed the meeting.

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CHAIRMAN

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