

**MINUTES OF A MEETING OF THE BOARD
OF
NETWORK RAIL LIMITED
held at The Royal York Hotel, York
on
Wednesday 15 July 2015 at 11.20am**

Present:

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

In attendance:

Suzanne Wise – Company Secretary
 James Menzies – Deputy Company Secretary
 Anthony Odgers - Shareholder Executive
 Graham Hopkins (min 15/99)
 Ben Edwards (min 15/99)
 Jerry England (min 15/103)

MINUTE NO.		ACTION
15/93	<p>CHAIRMANS OPENING REMARKS</p> <p>Richard Parry Jones welcomed Richard Brown to the Board as the newly appointed Special Director and also Anthony Odgers as the Shareholder Executive representative. He confirmed that his resignation as Chair and director would be effective from the close of the Board meeting and that Sir Peter Hendy's appointment as the new Chair would take effect from 16 July.</p> <p>Richard Parry Jones expressed his thanks to all the directors, members of the executive team and the Secretariat for their support over his three year term of office as Chair.</p>	
15/94	<p>PREVIOUS MINUTES</p> <p>The minutes of the Board meeting of 4 June were approved subject to some minor adjustments.</p>	
15/95	<p>ACTION LIST</p> <p>The Actions list was reviewed and updated. Noting specifically:</p> <p><i>Minute 15/82(ii) HS2/Euston Station Remodelling</i> – whilst this had been due to return to the Board in September it was noted that the remodelling of the new timetable for Euston would not be complete until December 2015 and that a full analysis of the operational impact of HS2 on Euston would not be available until the early part of 2016, at which point it would be brought back to the Board.</p>	MC(PP)
15/96	<p>DIRECTORS' CONFLICTS OF INTEREST</p> <p>The directors confirmed their potential conflicts of interest, specifically Richard Brown declared his position as a non-executive director of HS2 Limited and his position on the Advisory Board of the DfT.</p>	
15/97	<p>BUSINESS OPERATIONS</p> <p>BOARD REPORT – P2</p>	

Mark Carne presented paper 39/15. He updated the Board on the resolution of the threat of industrial action and how the executive is now working with the RMT on efficiency improvements and the work being undertaken to learn lessons from the recent dispute. A request was received for a note on the implications of the proposed new trade union legislation and this would be made available in the Reading Room facility of BoardPad.

SEW

The Board reviewed the performance indicators in the P2 Board report, with Mark Carne noting that train performance in the first three periods was largely on target, but that P4 was proving more difficult.

Asset failures were 8 percentage points better than previous year, which was due in part to the focus on lean structured continuous improvement. The CEO pointed out the Lean Academies shortly opening in Wessex, Anglia and Wales and the encouraging take up of structured continuous improvement across the business.

The number of delays caused by train crews, trespass and suicide had all shown an increase, the issue of increased trespass and suicide would be brought to the Safety Health & Environment Committee in due course

Mark Carne advised that performance on the part of the Anglia route that had transferred to TFL Rail had improved. The performance focus that TFL Rail had brought has potential lessons for other franchises.

Mark Carne then reported on the work being undertaken by the Executive in response to the recent announcement by the Secretary of State. This included assembling various work streams to deal with enhancements (the Hendy Review), and the business plan. There then following a discussion regarding the Company's response.

Mark Carne ended his report to the Board with words of thanks on behalf of the full Executive team for the substantial support and commitment Richard Parry-Jones had shown in his tenure as Chair, this had been much appreciated.

The Board then had a general discussion on the Board Report, including matters such as the differences on performance between the routes and the resources allocated to the level crossing closure team (which would be discussed in detail at the Safety Health & Environment Committee on 16th July) and the need to further improve and refine the information provided on Renewals. It was noted that in the quest for conciseness some safety related milestones were no longer being reported at Board level and it was agreed that the Executive Performance Report would be reviewed to identify those milestones that should be included in the Board Performance Report.

MC (GH)

Patrick Butcher then addressed the finance update. Highlights included the regulatory accounts that had received a clean opinion from Arup, the regulatory auditor.

Patrick Butcher commented that, at the end of this financial year, the profit and loss accounts would need to be integrated into DfT numbers for the first time. This may create some issues due to the different historic accounting treatments.

The Board discussed the report, including opex and financial measures by Route, including the creation of a "composite" Route which would include the best individual metrics from each of the eight routes as an exemplar and as evidence of the deliverability of the business plan. It was agreed that more route based analysis, especially in respect of opex was needed in future reports.

PB

Richard Brown raised the differences between the Company's and DfT's accounts and reporting of FPM versus P&L. It was agreed that visibility for government of our accounts was needed and the best way to achieve this would be considered.

Richard Brown was then asked to provide his view on his role within the Board, and his views on the Company's relationship with its key political stakeholders.

The Board then discussed the implications of the Shaw review.

STRATEGIC THEMES

15/98 BUSINESS PLAN 2015/16 UPDATE

Patrick Butcher presented paper 40/15(i), the purpose of which was to update the Board on the 2015/16 plan and financial risks to its delivery and to sign off the 2015/16 Score Card as part of reaching final agreement with the DfT.

In April 2014, the Board had approved a plan (BP14) for CP5. During 2014/15 it became clear that the company faced a number of significant challenges in delivering the committed outputs (PPM, asset renewal volumes and the enhancement programme) within the fixed financial envelope. A complete review of the plans for the rest of CP5 had been undertaken in early 2015, culminating in a revised draft plan for CP5 produced in April 2015 (BP15).

The Board had chosen to set a very stretching plan. A further piece of work, covering all elements of the CP5 plan as a whole was being done and was scheduled to complete in September 2015. However it was now critical that the 2015/16 plan was signed off so that the business could be held to account for performance.

The Board discussed the tabled options for amendment to the 2015/16 Score Card in respect of the Financial Performance Measure (FPM) and the concerns remaining within the DfT regarding the measures in respect of PPM. It being noted that the Board was being asked to comment on the Score Card as the prime business performance management tool. There then followed an extensive debate on the various options that could be considered. The Board concluded that the Score Card would be amended as follows:

- PPM "worse than target" would be 89.7%, "target" would be 90.0% and "better than target" would remain at 91%
- FPM - the ranges would be widened as per the recommendation in the paper.

Sir Peter Hendy would be taken through this revised Score Card and would then meet with the Secretary of State to conclude the approvals process. In addition the Remuneration Committee would then be asked to consider the Score Card from an Executive Remuneration perspective.

PH

Graham Hopkins and Ben Edwards joined the meeting

15/99 CONTROL PERIOD 5 PLAN UPDATE

Patrick Butcher presented paper 40/15. The purpose of the paper was to update the Board on the current state of the CP5 Business Plan and to describe the work planned (including engagement with DfT and ORR) over the coming months to produce an updated plan for the last three years of the Control Period. This would be a key input to the Hendy Review, following which the Company would seek to agree the plan with the DfT.

The Board was reminded of the many discussions on the topic of the CP5 Business Plan over the last six months. In the last few months, the position on the Enhancements programme had become clearer. In addition, a further review of the stretch included in the core OMR plan had suggested that there were further cost challenges.

The Board discussed the work streams and plans in some detail and noted that wherever possible all elements of the plan had to be priced at the P80 level. The Board discussed in some detail the work undertaken by the STE Directorate to review the asset safety, reliability and sustainability implications of the revised Maintenance and Renewal volumes incorporated in BP15. It was confirmed that the ORR had also looked at this aspect and had reached the same conclusion, namely that the volumes in the plan were consistent with sustainably and safely managing the assets.

The Board agreed that the current Business Plan would deliver significant improvements to the Railway. The work proposed to be done on assets should be sufficient to maintain them in a safe and sustainable condition, although the plans could not yet be demonstrated, in all cases, to be optimal from a whole life cost basis. It was noted that the plan was built on the assumption that change programmes would deliver benefits in line with projections and the structured continuous improvement programme would drive further performance and other benefits in years 4 and 5.

However it was also noted that the current plan was not affordable and there was a gap that needed to be closed. An extensive programme of work was underway including significant interaction with the DfT on the Enhancements programme and several enhancement related reviews both internal and external in particular, and a full report would be brought back to the Board in September.

Graham Hopkins and Ben Edwards left the meeting

15/100 CORPORATE FINANCE INITIATIVES – NON CORE ASSET STRATEGY UPDATE

Patrick Butcher presented paper 41/15, updating the Board on work undertaken to further explore strategic options for releasing cash from existing assets or activities to relieve cash and capital constraints. It was noted that a non-core asset strategy steering board had been created to advise, challenge and support the Board in developing an overarching strategy for the Company's non-core asset portfolio

The Board discussed the report, noting the need to be proactive in this area and not defensive, whilst at the same time noting the need for some red lines, in particular to protect the safety of the railway when disposing of any assets. Patrick Butcher confirmed that these were all being taken into account. The Board was supportive of the direction of travel.

15/101 STRATEGIC LAND & PROPERTY REVIEW

Patrick Butcher presented paper 42/15, briefing the Board on recent developments with the DfT regarding property and station operations, and in particular long term asset management, commercial exploitation, development and wider regeneration of stations and station property.

It was explained that all government departments are required to carry out a Strategic Land and Property Review to ensure that surplus land is not held unnecessarily. During May and June, working with Rapleys, the DfT's property advisor the Company undertook a review of all existing property. The initial report identified assets that could potentially be sold as 'surplus' however many of these are directly connected to the operations of the railway and so would require considerable effort to release. All property disposals would require clearance through the regulatory mechanism, covered in Licence Condition 7. A more detailed review by NR property had identified properties that could be sold in a first tranche and work on this continued. Again the Board was supportive of the direction of travel.

15/102 MONEY FLOWS – UPDATE POST-BUDGET

Paul Plummer presented paper 43/15, updating the Board on the implications of the Chancellor's July 8th 'Emergency Budget' announcement on money flows, providing background and context. The Budget had confirmed government's intention to change the way it channels public money through the industry, directing it through the train operating companies.

The Chancellor's announcement was one of intent. It was based on discussions Network Rail, the ORR and DfT have held over recent months to establish the case for change.

Consistent with previous Board meeting discussions, the Board welcomed the proposed changes and fully supported the forthcoming policy debate around changes to charges and incentives.

15/103 TRAFFIC MANAGEMENT UPDATE

Jerry England joined the meeting

Jerry England presented paper 44/15 which provided an update to the Board on the progress to deploy Traffic Management (TM) on the network. The history of the tender process to date was noted as was the current focus of the Digital Railway Development team on:

- Delivering the early deployments of Traffic Management into Romford and Cardiff Rail Operating Centres (ROCs).
- Delivering TM into Three Bridges ROC to support the Thameslink programme.
- Redefining the business case for TM in advance of the overall Digital Railway (DR) business case completion.
- Creating an integrated development programme for TM with the other system technologies and core systems (ETCS/data/telecoms).
- Developing an integrated programme for TM delivery within the overall DR programme.

The Board questioned Jerry England regarding safety critical issues related to Traffic Management and staffing issues relating to who would run the system and whether the Company had sufficient resources to implement the programme. The Digital Railway programme was due to return to the Board in October 2015 and the challenge in respect of resources would be considered further in the meantime.

MC (JE)

After further discussion, the Board thanked Jerry England for his update, being supportive of the direction of travel and integration of the Traffic Management programme into the Digital Railway programme.

Jerry England left the meeting

15/104 THAMESLINK RE-AUTHORITY

Patrick Butcher presented paper 45/15. Thameslink is a CP5 Committed Enhancement which is underpinned by a Regulatory Protocol agreed with the DfT. NR's obligation is to deliver infrastructure that supports the DfT train service specification.

The redevelopment of London Bridge station was being delivered through a NR12 contract with Costain Ltd the award of which was phased with approvals by the Board in October 2011 and November 2012. To align the implementation contract with Costain Ltd for the London Bridge Station Works an authority to vary this contract was required.

The Board discussed the paper, questioning the level of detail given as to the

amount of risk that Costain have agreed to for this uplift and the penalties agreed for failure to deliver.

IT WAS RESOLVED that the Group Finance Director be authorised to vary the Thameslink contract for Costain on the basis of the commercial terms set out in the paper and that the Group Finance Director be authorised to administer the authorised risk contingency for this contract on behalf of the Board.

15/105 **IDDAS BOARD EFFECTIVENESS REVIEW**

Suzanne Wise presented paper 46/15, which provided an update on the Board effectiveness review undertaken by Clare Chalmers of IDDAS. The Board was reminded that the Nominations & Governance Committee had asked IDDAS to undertake a “light touch” effectiveness review. The purpose of the review had been to assess progress against the full Board and Committee Effectiveness Review undertaken in 2014, and to identify further areas for improvement. This being a standard part of good governance. The review had comprised structured one to one interviews with each Director and the Company Secretary and observation of the June 2015 Board.

It was noted that the review was completed prior to the Secretary of State’s announcements on 25th June and as such some of the observations and recommendations were no longer relevant.

The review had concluded that judged against best practice the Board remained effective and that steps had been made to increase that effectiveness since the previous review.

It was observed that this had been a rich report and that its conclusions resonated. The need to put customers at the heart of the review and indeed in future induction meetings for Board Directors was raised.

SEW

The Board had found the Report helpful with aspects that should be followed up. It was agreed that Janis Kong, as Senior Independent Director, would take this forward with Suzanne Wise and Sir Peter Hendy and bring back final recommendations on actions to be taken at a future Board.

JK/SEW/PH

15/106 **BOARD APPOINTMENTS**

Janis Kong presented paper 47/15 regarding the changes to the Board.

The Board was asked to **NOTE** the appointment of Sir Peter Hendy as a director and Chair with effect from 16 July 2015 and the resignation of Richard Parry-Jones as a director and Chair with effect from the end of this meeting.

The Board was also asked to **NOTE** the appointment of Richard Brown as Special Director with effect from 1st July 2015.

The Board were then updated on the search for the non-executive director with substantial UK rail experience. The Nominations & Corporate Governance Committee had conducted a further round of interviews, and had recommended Rob Brighthouse as the new non-executive director. The DfT had been made aware of this and had approved the appointment.

IT WAS RESOLVED that Rob Brighthouse be appointed as a non-executive director of the Company with effect from a date to be confirmed in January 2015.

15/107 **ANY OTHER BUSINESS**

Malcolm Brinded updated the Board on the latest meeting of the Major Projects Delivery Committee.

The Board also **NOTED** the other committee reports attached to the Board pack.

The Chair updated the Board on the status of the AGM. Due to the disbandment of the public members model, the AGM would no longer be held on 16th July and had been adjourned until 22 September 2015.

The Chair confirmed that a letter of resignation as auditor had been received from PwC, with effect from 15 July 2015.

The Chair then explained that, due to the postponement of the AGM, the Board was empowered to fill the vacancy left by the resignation of PwC as auditor.

IT WAS THEREFORE RESOLVED that the Comptroller & Auditor General be, and is hereby, appointed as auditor to the Company, in place of PwC, until the 2015 AGM, where the member would be asked to confirm the appointment by a vote.

Janis Kong then on behalf of the full Board formally thanked Richard Parry Jones for his considerable contribution and support to the Board and the Company over his 3 year tenure as Chair.

15/108 DATE OF NEXT MEETING

The next Board meeting was confirmed for 22 September 2015.

There being no further business the Chairman closed the meeting.

.....
CHAIRMAN

© Copyright Network Rail 2015