

NETWORK RAIL RESPONSE TO MARCH 2019 WILLIAMS REVIEW EVIDENCE PAPERS

Summary

The Williams Review (the 'review') is a once-in-a-generation opportunity to improve outcomes for passengers, freight users and taxpayers. We fully support the approach the review team has taken to date. In particular, we welcome its focus on understanding the key issues in the industry, based on the evidence provided, and seeking to use this evidence to inform future recommendations. This should support the review team in considering the broad range of trade-offs that need to be made (e.g. between taxpayers and fare payers, costs and revenue, and performance and capacity) when designing the future industry model.

We agree on the need to put passengers and freight users first. The industry should start making changes now rather than waiting for the review's recommendations. We have started to make changes to Network Rail which create a more customer-focussed, service driven organisation through our Putting Passengers First programme. We are moving to a new organisational model, which will better align our business with our customers and end users and seeks to remove red tape and bureaucracy.

Much wider reform is required across the industry. This includes the need for greater clarity of industry accountabilities, and the development of capabilities to support better understanding and joining-up of the industry as a whole. Critically, the Glaister review identified a gap in industry responsibilities and accountabilities for managing system risks, which contributed to the May 2018 timetable disruption. Striking the right balance between network, regional and route-level decisions and accountabilities is fundamental to the industry delivering better outcomes for users. The review should clarify industry accountabilities and should enable the industry to build its capabilities, particularly taking account of the recommendations from the Glaister review.

It will be important to consider the practical steps required to deliver short, medium and long-term changes to the industry. This should support the industry in delivering incremental improvements for passengers and freight users ahead of the implementation of longer-term reform. We look forward to exploring different options as part of the review over the coming months.

Response to call for evidence questions

The remainder of our response focuses on the four questions set out in the "Williams Rail Review call for evidence paper: objectives and assessment criteria". We would be pleased to discuss any aspect of this response with the review team.

1. The evidence papers summarise the key themes and evidence on which the Rail Review will draw in the subsequent phases of our work. Are there other themes or evidence that we should consider? If so, what are they?

We welcome the review's evidence paper "The user experience of the railway in Great Britain". It is important that the review takes account of passenger and freight user priorities as it develops its proposed reforms. This will ensure a clear link between its proposals and better outcomes for users. However, we recognise that the review team will not be able to address all passenger and freight user priorities as part of the review. It is, therefore, important that the review team is transparent when making the inevitable **trade-offs of passenger and freight user priorities** in its assessment of alternative industry models.

The "Current railway models: GB and overseas" evidence paper notes that the GB rail system is a complex blend of private and public sectors. We think that the review team could explore this

further, in particular noting that managing the interfaces between industry bodies has resulted in an **overly complex and inflexible contractual framework** (i.e. the contractual arrangements between industry bodies including franchise agreements). Risks are not always allocated optimally and there is a lack of clarity around the allocation of responsibilities between industry bodies. There is also misalignment of incentives between Network Rail and train operators. This prevents closer working arrangements which could support the delivery of better outcomes for passengers and freight users.

The current approach to **contractualisation** is a significant issue for the industry. It has led to a lack of **common objectives, clear prioritisation and misaligned incentives**. The approach to contractual specification has also resulted in a lack of flexibility in the management of franchise contracts. This has stifled the industry's ability to adapt and innovate to respond to changing passenger and freight user priorities. Where contractual change mechanisms are in place, their successful deployment depends on broader factors such as stakeholder support and a strong commitment to make change processes effective.

As the review team explores and tests options for reform during the next phase of the review, reducing contractual complexity will be important. Where possible, such complexity should be removed, and contractual specification should create a clear line of sight to passenger and freight user outcomes. Key to this will be developing a flexible model that has an appropriate level of specification together with the ability to make changes during the contract period. It should be based on shared goals, which results in industry bodies working collaboratively to improve passenger and freight user outcomes. Development of reforms that foster these behaviours across all parts of industry will be critical.

Understanding the international landscape for rail and how the GB rail industry compares could provide useful learning points. The review team should **not rely unduly on international comparisons** to inform options for rail reform in Great Britain. As the review team notes, there are inevitable challenges in making international comparisons. These include, for example, the differences between the rail infrastructure and usage in each country, and the varying political decisions / priorities for the railway (e.g. funding decisions). It is important to recognise the differences between each country to ensure that any comparisons are meaningful.

It is also worth highlighting that there have been several reviews of the rail industry in the past ten years. We encourage the review team to **reflect on the recommendations of these past reviews** and, where appropriate, use their findings to complement its own thinking.

2. Has the Review identified the right high-level objectives as set out in Chapter 2?

The current issues within the rail industry reflect a quarter of a century of growth and the declining effectiveness of the current structure of the railway that was put in place at privatisation. The review is an opportunity to seek to address issues such as political devolution, capacity constraints, industry affordability challenges, and loss of user (passengers and freight) trust.

We support the review's recognition of "**delivering better outcomes for passengers**" in its high-level objectives. This is consistent with the outcome of our Putting Passengers First programme. Industry reforms should focus on supporting a 'rail user first' approach where the railway is driven by the need to deliver a single accountable face to passengers and freight users, delivering excellent performance whilst also providing value for money.

We welcome the explicit reference to 'wider society' in the high-level objectives, given that the railway provides **benefits for society beyond its direct users**. Ultimately, we are here to connect people to places and goods, driving economic growth. The railway is part of the social fabric of our

nation and plays an important role in driving economic growth and productivity in Great Britain. It carries goods worth over £30 billion per year in an environmentally sustainable way. It also connects people with their places of work, education and family life. It is important, therefore, that the railway delivers for wider society both now, and for future generations.

We suggest that the review's high-level objectives should also make reference to **supporting freight customers**. While the wider society high-level objective includes the promotion of freight traffic, it does not explicitly recognise the importance of delivering for freight users. A specific high-level objective for freight users which recognises freight priorities (i.e. supporting freight growth and protecting rail freight sites) could also be included, consistent with the approach for passengers. This would ensure that the review delivers for all users of the network, which we discuss in more detail in response to question 4.

3. Has the Review identified the key issues constraining the success of the railway in Chapter 3? What relative priority would you place on them?

The issues identified in the problem statement align with our view of the current issues in the industry. We have suggested some additional issues in the industry which could also be included in the problem statement.

It is widely recognised that industry has somewhat lost sight of its passengers and freight users. As discussed in the evidence paper "The user experience of the railway in Great Britain", passengers and freight users do not believe that they are at the heart of the railway, which has led to a **lack of trust**. While there are many elements to this, a key driver is the lack of focus on end-users in rail objectives. It is crucial that the review seeks to address this and as an industry, we work together to restore trust.

We agree that the industry **lacks a single strategic direction**. There is a lack of common objectives, prioritisation and misaligned incentives across the industry. There is also insufficient industry focus on end user requirements. This is largely due to the complexity and lack of flexibility in the contractual arrangements in the industry (as discussed in our response to question 1, above), which prevents the industry working together.

We agree that the **industry has become fragmented** and accountabilities are not always clear. Recent problems have clearly identified the lack of leadership and accountability in the industry (e.g. the May 2018 timetable disruption). The lack of industry leadership, and the politicised nature of rail, draws government into the detail of the day-to-day workings of the rail industry. Whilst we recognise that government has an important role in setting overall strategy, we consider it should seek to minimise its role in the day-to-day running of the railway as it is not best placed to fulfil this role.

We also agree that the rail industry needs to tackle its long-term costs and deliver significant efficiencies to ensure value for money for taxpayers and users. It is important that the review's proposals enable the industry to work collaboratively to deliver efficiency savings. A key issue is that there is generally a poor understanding of the whole industry income and costs (or industry 'P&L'). This lack of understanding by organisations involved in the day-day running of the industry has resulted in misaligned decision making and the **insufficient consideration of trade-offs** across strategy, specification and delivery in the industry. In particular, rail objectives are not adequately prioritised currently to focus on end-users and do not reconcile transparently conflicting demands on a congested network. Funders and specifiers do not have sufficient advice and analysis to make informed choices for the whole industry. This has led to less efficient outcomes being delivered (e.g. increasing the number of services running on a particular route but not allocating funding to increase the capacity of the infrastructure to facilitate this change).

Having a better understanding of whole industry income and costs should support the industry in making improved whole-system decisions which fully consider the relevant trade-offs. Whilst the review recognises that trade-offs will always be required and making the right trade-offs is difficult, we suggest this is also included in the summary problem statement.

We think the summary problem statement could also recognise the industry's current **ability to manage system-wide risk**, as well as the lack of sufficient experience in both track and train operations which, in turn, limits the ability to consider the industry as a whole system. This is particularly important following the May 2018 timetable disruption and was recognised as a key issue in the Glaister review.

There are several issues in the rail industry that could be addressed as part of the review. Addressing all of these will be challenging and inevitably trade-offs will need to be made. However, the review team should be ambitious in its reforms and seek to fix the issues identified in the problem statement. As an industry, we need to make sure that we place passengers and freight users at the heart of any assessment of relative priority. Ensuring that any proposed reforms deliver against its high-level objectives should achieve this.

4. Do the broad assessment criteria in Chapter 4 capture the right issues against which the Review should test its proposals? What priority should we attach to each and how should we balance trade-offs? Are there other issues we should consider?

We recognise that assessing different industry models is difficult, with much of the assessment likely to be qualitative and subjective. However, the assessment approach should draw on evidence, where it is available. It is important that the review team keeps the assessment criteria relatively simple, where possible, so that the main advantages and disadvantages of alternative options for reform are clear. For example, any assessment should identify whether an option delivers against the review's high-level objectives.

Whilst the assessment framework should rightly assess the extent to which options address the issues set out in the problem statement, it should also take account of whether options retain positive features of the industry. We welcome, therefore, the inclusion of safety and security as one of 'the fundamentals' in its summary assessment criteria.

We have suggested some further assessment criteria that the review team could consider, as it assesses alternative industry models over the coming months. These are set out below:

- As the review team starts to assess alternative industry models, it should consider the **balance between national, regional and route level accountabilities**. Successful devolution of powers to regions and routes relies on an appropriate national framework. It is important that decisions are made at the right level. For example, decisions on competing objectives between parts of the network will likely need to be made at a national level in order to fully consider the trade-offs that will need to be made. While the current assessment criteria recognise the need to balance decisions made at a local and national level, it is important that the outcome of the review provides clarity on the accountabilities of each level.
- Any reform should enable greater **flexibility in the approach to managing contracts**. Industry contractual arrangements should also be **simplified** where possible, with a clear line of sight to passenger and freight user outcomes. As noted above, the lack of flexibility in the management of franchise contracts has stifled the industry's ability to change to meet passengers' needs. Contractualisation has also led to a lack of common objectives, clear

prioritisation and misaligned incentives. Contractual flexibility and simplification should be included in the 'Commercial sustainability' assessment criteria.

- More generally, it will also be important that reforms are designed in such a way that the industry is able to **adapt to the needs of different parts of the network, supporting innovation and responding to changing user and funder requirements over time**. We note that while passenger priorities have not changed substantially over the past 20 years, where they have changed (e.g. Wi-Fi availability at stations and on trains), the industry has not been able to adapt to deliver these improvements. Any future industry model should support the industry in adapting to meet the future needs of passengers.
- The outcomes of the review should support the industry in delivering more effective **management of system risk**, making sure that risk sits with the party best able to manage it. We suggest that an additional assessment criterion is included on managing system risk.
- Any reforms should **consider how they will facilitate private sector participation** to generate greater value for users and taxpayers, while providing an appropriate return for private sector investment.
- Future options for the railway should not **unduly discriminate** against any type of user. This is especially important where Government does not specify all services on the railway. While the current assessment criteria recognise the importance of protecting rail freight (which should also include protecting freight sites, as well as capacity availability and pathing), they should seek to protect the reasonable requirements of all users, including open access and charter operators (as noted in response to question 2 above). This could be reflected in the rail freight assessment criteria or as a new criterion under 'the fundamentals'.
- We suggest that the safety and security assessment criterion also makes reference to **improving personal safety** at stations and on trains as this was identified as a key passenger priority in the Williams Review evidence paper 'The user experience of the railway in Great Britain'.
- We suggest that the 'Workforce engagement and diversity' assessment criteria also refers to **improved capabilities** with experience of both track and train. It is important that the industry develops these capabilities to support closer working arrangements and whole-system decision making.
- As the review moves into Phases 2 and 3, it is important the review team considers the **practicability / deliverability of alternative industry models**. This should include key aspects such as industry capabilities, the impact on industrial relations, as well as other legislative, commercial, organisation and regulatory considerations. It will also be important to consider the practical steps required to deliver short, medium and long-term changes to the industry. This should support the industry in delivering incremental improvements for passengers and freight users ahead of the implementation of longer-term reform (e.g. improvements to stations and rolling stock, which are key priorities for passengers and could be delivered quite quickly without structural reform to the industry). We suggest this is reflected in the assessment criteria.

We suggest that the review team avoids assigning a relative priority to each of the assessment criteria. The relative importance of each of the criteria will depend on what each change is intended to achieve. This assessment would also involve a qualitative and subjective view of the outcome of any change. We suggest, therefore, that the review considers the trade-offs between the

assessment criteria and how each option delivers against the review's high-level objectives. Any trade-offs that are made should be done so transparently. This should ensure that the proposed industry model(s) delivers for passengers, freight users, taxpayers and wider society.