The Hansford Review

Independent review of contestability in the UK rail market to consider third party investment and infrastructure delivery on the national railway

Questionnaire – Your Views

January 2017

Introduction

Please read the accompanying Briefing Note that sets out the background and Terms of Reference for the Hansford Review.

About this questionnaire

You are invited by the Review Chairman to participate in this Review.

This questionnaire is intended to stimulate your response but is not intended to limit the range of issues or ideas you may wish to contribute to the Hansford review. The front sections of this document provide some guidance on interpretation, structure and nomenclature, followed by 8 questions.

As well as requesting that you respond to this questionnaire we may also wish to set up a further discussion, which we will arrange once we have received your response.

Specific answers received in response to this questionnaire will not be attributed to their source. We hope that within this independent and confidential framework you will be able to express your opinions openly.

Interpretations

1.1 The scope of the subject matter of the Review is set out in the following statement: - "Independent review of contestability in the UK rail market to consider third party investment and infrastructure delivery on the national railway".

1.2 To aid consistency of interpretation of the Review scope and submissions received, this section contains a number of interpretations and definition of terms.

1.3 'The Review' refers to the Independent Review chaired by Professor Peter Hansford.

1.4 'Contestability in a market', is interpreted for the purpose of the Review as a market where the following characteristics are present:

- The threat of competition exists to keep prices low
- The barriers to entry and exit should be low
- The number of competing companies is not significant

1.5 ‘National Railway’ is interpreted for the purpose of the Review as being the parts of the UK rail network in England, Scotland and Wales that Network Rail (NR) is responsible for in its role as Network Operator. Noting that this includes any connections to this network e.g. at depots, sidings etc.

1.6 Although this interpretation excludes those parts of the rail network that are controlled by other bodies like regional transport authorities e.g. Transport for London (TfL), the views and experiences of those bodies will also be sought.

1.7 ‘Third party’ is interpreted as being a third party to Network Rail i.e. another party that could be involved in the lifecycle of infrastructure investment and delivery on the National Railway.

1.8 ‘The hypothesis’ for the Review is that greater contestability in the UK rail market would provide more opportunity and encourage third parties to invest in and take responsibility for delivery of rail infrastructure improvements, which in turn is required for the UK rail network to grow and meet future challenges.

1.9 ‘Funding’ means, unless otherwise stated, funding of the Capital Cost of an infrastructure improvement, or underwriting the future repayments of Capital Cost.

1.10 ‘Financing’ is the act of providing money to meet costs (i.e. Capital Costs), with a requirement for a return on, and ultimately the return of, capital.

Structure and nomenclature

1.11 The following structure and nomenclature is intended to assist you in providing your answers to the following questions, such that a consistent set of terms are used for this review. If you wish to depart from the suggested terminology, please provide some context where possible.

1.12 Third parties are involved in various different situations/scenarios with regards to Investment and delivery of improvements to rail infrastructure on the National Rail network.

1.13 The aim of the Review is to initially take a broad perspective with regards to considering contestability within the whole range of scenarios of involvement of third parties.

1.14 There could also be additional new scenarios that arise from applying the principles of greater contestability.

1.15 It may be that as the Review progresses the focus is narrowed to a specific sub-set of scenarios of third party involvement.

1.16 To identify the various scenarios of third party involvement, the following variables are classified into a number of types:

- The types of third parties (see Table 1 below)

- The type of infrastructure improvement in terms of both scale and complexity with regards to connectivity to the existing rail network (see Table 2 below)

- The type of roles involved in progressing an infrastructure improvement project through the investment/delivery lifecycle e.g. investor, sponsor, delivery client (see Table 3 below)

- The types of funding arrangement for the Capital Cost of an infrastructure investment (see Table 4 below)

1.17 The types of third party organisations are listed in Table 1 below.

	Third Party Categories
A	Existing or potential supplier to the rail network
B	Existing or potential passenger franchise operator
C	Existing or potential freight operator
D	Existing or potential Open Access operator
E	Existing or potential train leasing or manufacturing company
F	Regional Transport Authority
G	Local Authority
H	Local Enterprise Partnership (LEP)
I	Finance Market
J	Private investor
K	Private Developer
	Other – please describe

Table 1: Classification of third parties

1.18 Types of infrastructure improvements.

Category	**Examples of infrastructure improvement**	**Scale / interface complexity**
A	Purchase of construction or maintenance equipment	Low
B	Construction of Off-Network works such as car	Low

	park improvements or building works with simple railway interface e.g. station improvements, PA upgrade	
C	Building work with complex railway interface e.g. Gatwick Airport	Medium
D	New railway infrastructure with a connection to the existing network e.g. new depot	Medium
E	Simple remodeling of tracks/platforms at a station or junction or off network siding	Medium
F	New section of railway line with a connection to the existing network e.g. opening a dis-used lines or a new line	Complex
G	Major enhancement to a sub-system on an existing line e.g. Electrification sub-system or signalling	Complex
H	Complex remodeling at a station or junction	Complex
I	Major enhancement to introduce new technology e.g. Digital Railway	Complex

Table 2: Classification of types of Infrastructure Improvements

1.19 Roles in the investment/delivery lifecycle.
(NR = Network Rail, DfT = Department for Transport)

Roles in investment, delivery lifecycle	Description	Role typically undertaken by
Promoter	The party that identifies the need/opportunity for an infrastructure improvement and seeks stakeholder support.	• NR in its Long Term Planning Role • Third Party
Case Maker	The party that develops the business case and makes the case for the improvement to the Funders. Dependent on the nature of the infrastructure improvement, various business cases may be required: • a 'UK PLC' case to account for wider economic benefits • a Transport case • A Funders case The overall business case would	• NR • Third Party • DfT

	include the benefits of the infrastructure improvement and also any dis-benefits that are predicted due to the impact of the improvement on the existing service.	
Core Funder	The party that provides the majority of the funding for the Capital Costs of the Infrastructure Improvement, without which the improvement is not viable.	• DfT • Third Party
Industry Sponsor / Integrator	The party that decides on the allocation of public funds between various candidate Infrastructure Improvements, reflecting Government Policy. The party that also ensures that infrastructure improvements are coordinated with other train service contracts e.g. franchises.	• DfT • Transport Scotland • Welsh Government
The Rail Regulator	Economic and Safety Regulator of the UK Rail Network, functions include: • Determination of the allocation of Access Rights for Open Access Operators.	• ORR
Network Operator	A role identified in the Railways Act that is undertaken by NR to broadly maintains overall safety of the UK Rail Network. This role includes the 'Asset Protection' function of NR.	Network Rail
System Operator	A role identified in the Railways Act that is undertaken by NR, which includes the following: • To undertake long-term planning of the rail network • To coordinate timetabling amongst all operators • To advise promoters and case makers of the consequences and implications of improvements on the existing network and services	Network Rail

Client Body	The party that receives the core funding from the Industry Sponsor and manages the development and delivery of the infrastructure improvement. Key functions include: • Development of the detailed requirements for the infrastructure improvement • Determining the Delivery Model • Appointing the Delivery Agent • Engaging incremental funding from other third parties	• NR • Third Party • Non Departmental Agency e.g. Crossrail Ltd • Special Purpose Vehicle (SPV)
Incremental Funder – Public funds	Third party that typically makes a fixed cost contribution to the Capital Cost of an Infrastructure Improvement from other sources of Public Funds.	• Local Authority • Local Enterprise
Incremental Funder – commercial funds	Third party that typically makes a fixed cost contribution to the Capital Cost of an Infrastructure Improvement from Commercial Funding.	Third Party
Delivery Agent	The party that is engaged by Client Body to procure and manage delivery of the Infrastructure Improvement by the supply chain.	• NR Infrastructure Projects • Third Party
Supplier	Providing products or services to deliver infrastructure improvements	Third Party
Maintainer	Providing maintenance of infrastructure assets	• Network Rail • Third Party
Operator	Operators of infrastructure assets	Network Rail
Advisor	A technical or financial advisor to any of the above roles.	

Table 3: Classification of types of role in the investment/delivery lifecycle

1.20 Types of funding arrangement for the Capital Costs of an infrastructure improvement.

Funding Arrangement Type	Description
A	Core funding from DfT directed through NR's Enhancement Funding.
B	Core funding from DfT directed through one of NR's ring-fenced funds e.g. Performance Improvement Fund, Stations Improvement Fund.
C	Core funding provided by Passenger Franchise Owner, including Direct Grant from DfT.
D	Core funding provided by Open Access Party, including freight and passenger.
E	Core funding provided by DfT directed through a non-departmental agency e.g. Crossrail Ltd.
F	Core funding from private or institutional investment.
G	Core funding Types A to F with additional incremental funding from another third party.
H	Other.

Table 4: Classification of types of funding arrangements

Your views

The Review Panel are particularly interested in your views on the following topics:

1. The current system for investment and delivery of infrastructure improvements
2. The Hypothesis of the Review
3. The barriers as you see them to third party involvement
4. What changes/solutions could encourage more third party involvement
5. Where greater contestability could be beneficial
6. Comparators in other industries

We will seek your views and ask you to clarify the context of your comments using the Structure in tables 1-4 above.

1 About you

In order to set the context for your responses please can you tell us about role/interests with reference to the scope of this Review?

Name
Chris Page
In what role or capacity are you responding? (e.g. chair of …., advisor to, ex …)
Chair of Railfuture
Are you currently involved in the rail industry?
Railfuture is an independent voluntary organisation campaigning for a bigger, better railway for passengers and freight users.
What is your experience(s) of third party investment and delivery of infrastructure improvements on the rail network? *Please use the structure and nomenclature in Tables 1 to 4 to describe the 'scenarios' that you have been involved in and your role.*
This response represents the combined experience of Railfuture members and vice presidents, which includes specifying and managing aspects of the Crossrail and Chiltern Evergreen programmes, campaigning with stakeholders for rail improvements and observing the outcome of rail infrastructure projects from the perspective of the user and taxpayer.

2 How is the current system working?

The current system of investment and delivery of infrastructure improvements has the majority of investment in rail infrastructure channelled through Network Rail or Special Purpose Bodies such as Crossrail Ltd.

How well do you think the current system works on a scale of 1 to 10 where 1 is very poorly and 10 is exceptionally well?

1	2	3	4	5	6	7	8	9	10
					X				

Please give the main reasons for your response.

(please use Tables 1 to 4 where possible to help structure your response)

The majority of rail enhancement projects are delivered efficiently and effectively, both directly by Network Rail, and in conjunction with third parties such as the Chiltern Evergreen projects. However the recent increase in demand for rail improvements has resulted in a number of high profile project failures, from the track upgrades at King's Cross and Paddington during the Christmas/New Year period in 2014/15 to the Great Western Main Line electrification.

What parts of the current system works well

(please use Tables 1 to 4 where possible to help structure your response)

The Crossrail programme is on time and budget. It has actively sought to create engineering academies and train new engineers so that on completion the rail industry will be stronger.

What parts of the current system could be improved

(please use Tables 1 to 4 where possible to help structure your response)

The key constraints to increasing the delivery capacity/capability for rail infrastructure improvements are the limited pool of skilled resources with rail experience, and the risk-averse culture of Network Rail which has led to a reliance on over-heavy processes and rigid application of standards. As a result too many mistakes are made in project definition, development and implementation, resources are not used effectively and prices are driven up. A concerted effort is required to train new engineers, cross-train engineers and project/programme managers from other disciplines, and to apply professional common sense to the interpretation of standards and processes.

3 The Review 'hypothesis'?

'The hypothesis' for the Review is that greater contestability in the UK rail market would provide more opportunity and encourage third parties to invest in and take responsibility for delivery of rail infrastructure improvements, which in turn is required for the UK rail network to grow and meet future challenges.

What are your views on this 'hypothesis'?

(please use Tables 1 to 4 where possible to help structure your response)

Whilst the introduction of more third parties to the rail market is likely to increase innovation, it will not necessarily increase UK capacity for delivery of new rail infrastructure. If entrants to the market merely compete for the existing pool of skilled resource, the effect will be that costs will rise further so less will be delivered for the available budget. It is noteworthy that in the latest high profile example of increasing contestability, the new managing director of East West Rail, Phil Verster, has been poached from the Scotrail and Network Rail alliance. New entrants to the market must commit to developing additional skilled rail engineering and management resources, and by cross-training bring innovation from other engineering disciplines.

Private sector investment comes at a higher cost than government investment, so whether that is worthwhile depends on how much risk the private sector investor is prepared to take and whether the private sector can deliver the

infrastructure more efficiently.

Network Rail formerly had a huge supplier base so would be unlikely to reverse the current consolidation to improve contestability. The Crossrail model achieved this by addressing tier 2 and 3 suppliers, ie requiring the overall contractor to act more like a programme manager requiring a visible and more diverse supplier chain at tier 2 or 3 level. Network Rail itself would not do this.

4 Barriers to third party entry/appetite?

What do you see as the barriers to existing and potential third party involvement in investment and delivery of infrastructure improvements?

(please use Tables 1 to 4 where possible to help structure your response)

The key barriers to third-party entry are the political risk (will the government agree that the improvement should go ahead), the uncertainty of whether a fair division of risk and reward can be agreed with the government, the over-complex GRIP process which unnecessarily increases the cost of project definition and development, the shortage of skilled rail engineering resources, and the potential for disagreement with Network Rail over the interpretation of standards impacting handover of the finished infrastructure.

Please provide details below of any examples where barriers to entry affected potential third party involvement in investment and delivery of infrastructure improvements?

(please use Tables 1 to 4 where possible to help structure your response)

The shortage of skilled rail engineering resources seems to have been the cause of the failure to progress with the electrification between Selby and Hull, which was to have been funded by third party First Group as owner of open access operator Hull Trains.

5 Changes to encourage third parties

What are your views on changes to encourage third party involvement and reduce barriers to entry? Please consider the suggestions in the table below and indicate your view on their significance.

	Significance: High, Medium, Low
Changes to vehicle acceptance processes	Low
Changes to asset protection arrangements	High
More abundant and/or cheaper access	Medium
More flexible standards	High
Changes within Network Rail: Reduced bureaucracy	High
Clarity on roles and responsibilities within NR so that decision makers are easily identifiable	High
Incentives within NR to encourage alternative delivery/investment methods	Medium
Other. Please specify	
Effective alliancing	Medium
Proportionate exposure to safety risk and potential liabilities	
Predictable financial risk profile	Medium
Longer term contracts such as DBFM	High
Opportunities to become Infrastructure Manager under a DBFMO arrangement	High
More comprehensive franchise or concession obligations	Medium
Creation of competing regional Network Rail clienting bodies	Low
Creation of independent regional transport authorities as clients	High
Direct investment by DfT through third parties	High
Other (s). Please specify below	

Simplify GRIP process	High

6 Greater contestability

How and where in the system do you think a greater level of competition in the current system would deliver value for money and innovation.

For example, do you think if DfT allocated more government funding to parties other than Network Rail to act as client bodies?

Do you think there is the possibility of greater contestability with the devolution of investment funding to the Routes, where for example the Route might chose a different entity to NR Infrastructure Projects to act as Delivery Agents

(please set out your views below and use Tables 1 to 4 where possible to help structure your response)

Devolution of responsibility to regional transport authorities, with appropriate funding, already works well in the case of Transport for London and Merseytravel. However it is important to note that TfL has built up the expertise necessary to act as an intelligent client over a long period of time. By making decisions locally on the infrastructure required, devolution of client responsibility to other regional transport authorities will make for better value for money, but it essential for this to start with small projects so that the necessary client expertise can be built up.

There are a number of discrete lines, for example the Wisbech, Hythe, Ashington branches, where re-opening to passengers has been proposed but Network Rail has responded with unduly expensive solutions. Railfuture proposes that one or more of these be leased long term, perhaps to the County Council or Regional Transport Authority, and developed by an aspiring promoter without reference to NR. The standards to be applied should be in accordance with the law and best practice but appropriate to the task in hand. We may well be pleasantly surprised by the level of cost reduction.

Special purpose vehicles or private venture initiatives may offer the opportunity

to test innovative alternative solutions to meeting a transport objective, particularly where the development has minimal impact on the live railway. For example, there are transport and economic needs for both western and southern rail access to Heathrow. Network Rail has proposed solutions for both. However the Windsor Link Railway and Heathrow Southern Railway, both privately financed initiatives, have put forward alternative solutions (and routes) which may be cheaper to implement or provide greater value. It is however essential that the objectives of promoters and stakeholders are aligned so that the infrastructure delivered benefits the region as a whole, not just a narrow segment of the community.

7 Comparators

Are there any models in other sectors in the UK that offer a demonstrable improvement over the way we invest in rail infrastructure?

(please use Tables 1 to 4 where possible to help structure your response)

UK light rail is not delivered through Network Rail. It has a clear client and funding stream. The model is often a concession where construction costs are securitised, not by revenue but by availability charges allowing long tern funding even if the operational concession is of a shorter duration. This depends on the development of an effective client to oversee the project as is with the case with TfL and Greater Manchester.

Are there any models in other countries that offer a demonstrable improvement over the way we invest in rail infrastructure in the UK?

(please use Tables 1 to 4 where possible to help structure your response)

8 Anything else?

Are there any further matters that we should consider as part of the Hansford Review?

The following Railfuture articles are relevant:

http://www.railfuture.org.uk/article1561-Rail-development-reset

http://www.railfuture.org.uk/article1730-Fixing-Network-Rail

http://www.railfuture.org.uk/article1732-Never-never-railways

Many organisations are potential clients and funders for rail projects. They see the process as cumbersome and expensive, requiring up-front money for "studies".

Clients such as ITAs should be principal clients not just partners or funders. The future also lies in ensuring that local authorities and local authorities in conjunction with Train Operating companies can sponsor and take forward schemes. This also requires a better mechanism than franchise residual value where investment is put in by a third party ie involving long term ownership of some assets. The massive car park/bike park at Cambridge is a good example.

Freight needs special attention to provide incentives both to freight operators and Network Rail. Freight pays incremental access charges only so Network Rail has no incentive to cooperate or take risk. They only see operational disruption. The environmental and economic benefits are outside this as was originally recognised by the freight facilities grant schemes, now largely discontinued. Freight terminal operators work within local authority planning frameworks, because in many cases road access improvements are more significant that adding a private siding. Network Rail needs to be funded or incentivised to undertake track and signalling design work as a delivery partner for freight terminal schemes.

For complex control schemes such as ERTMS, serious consideration is suggested into increasing the role of delivery partner for such schemes from that of contractor. Railfuture's phone interview on 20/2/2017 covered this area in more depth.