

Reforming Network Rail is key to delivering for passengers and taxpayers

The railways have achieved many successes since privatisation. Journeys by rail have boomed 60 per cent, while customer satisfaction and punctuality have never been higher. They are integral to Britain's future as a modern, green economy.

The key to rail's continued success is to ensure it becomes even more customer-focused and cost-efficient. Longer, smarter franchises would help do this by increasing the incentives to private sector investment and innovation in customer improvements.

But we also need to see a new approach which brings track and train closer through a change in the relationship between Network Rail as infrastructure operators and train companies. Better alignment of incentives and organisations would improve cost efficiency and produce a railway more responsive to its customers' needs.

In recent years, we have seen how a joint approach at route level between Network Rail and train companies has driven up performance. Work is also already under way to build on common ground in the industry and enable train operators to take on greater responsibility for stations from Network Rail.

We want to see these ideas go further. Train operators, with lower overheads and shorter chains of command than Network Rail, could save £250-500million on planned station spending over the current five-year investment period. They should have the chance to take on more responsibility for major stations, as well as the ones currently being discussed.

More significantly, we want to see more authority and resource within Network Rail devolved to its route directors, transforming the organisation into a number of strong sub-national units with greater transparency of costs and income at that level than today.

These units would be accountable for operations, maintenance and renewal in their areas, working much more closely with their train operating company customers. The precise form of relationship might vary across the network, but it would embrace clear joint goals not just on performance but also cost reduction and network availability or capacity, and the chance to share the benefits of delivering those goals. Nationally, Network Rail would focus on ensuring the leanest possible overhead structure to enable network-wide co-ordination between the units on timetabling and technical standards.

We believe this approach would allow business performance across the devolved units to be benchmarked, thus driving cost reduction. The opportunity for faster, more local decision making which is more aligned with the needs of passengers would also support a culture which seeks to grow industry revenue – an equally vital priority to put railway finances on a stronger long-term footing.

Another option made possible by this approach is vertical integration, that is, even closer alignment of track and train within one organisation. This may not be viable on all parts of the network: and where it is, it remains to be seen what the optimum degree of integration should be (with, say, making the train operator responsible for just signalling at one end of the spectrum, right through to full asset ownership

and responsibility, at the other). Integration would also need to address the needs of passenger and freight operators who are not the lead operator on the route. But in principle it offers greater scope if done well for competition to drive cost-reduction in the way infrastructure is provided – as well as concentrating operational decisions in one place, to the advantage of the passenger.

We also think train operators should have more of a role in the bulk of projects to enhance the network, increasing contestability and customer-focus in this area of network investment. This could be done either by encouraging operators to lead on such schemes when bidding for longer franchises; or giving responsibility to our proposed devolved Network Rail units and ensuring greater operator involvement from the outset in working with units to develop such projects.

Ultimately, change could even lead to units within Network Rail being sold off – as has been done successfully in other sectors (such as with National Grid’s national gas distribution network). But even if this is some way off in the future, there is much that we can get on with that benefits passengers and taxpayers, by implementing the other proposals for change set out above.

The current sharp focus on better value for money in rail is not the only reason why the time is right now for change. A new, pro-reform Government and signs of an emerging new spirit in Network Rail make this a great opportunity for rail, which train companies are committed to realise with their partners in the industry.