



Shaw Review into Network Rail's Future: Important Issues, Carefully Stated

Network Rail's future structure will be the corner-stone of the rail industry's shape over the next stage of its post privatisation development. Consideration of the options for that shape necessarily (and rightly) concern a large number of stakeholders, both in the industry and more widely amongst the public and politicians many of whom have strongly held views. Shaw's investigation into the options for Network Rail's structure and governance published on Budget day (16 March 2016) was therefore capable of generating high profile debates and was unsurprisingly, measured and thoughtful in its recommendations.

Emotive subjects such as privatisation of Network Rail or radical realignment of parts of Network Rail with train operators into vertically integrated service providers were not proposed as options. Instead Shaw adopted seven recommendations which clearly maintain a single infrastructure manager for the 'classic' (i.e. not high speed) network separate from train operators. The proposals put developing future rail industry talent from a wider demographic pool and focussing on the needs of the end-user (i.e. passengers and freight shippers) at the heart of structural proposals which align with and develop existing industry initiatives (a fact immediately welcomed by NR management).

While the desire for the industry to attract all available talent (including in particular more women) is uncontroversial and likely to be widely welcomed, a greater focus for Network Rail on the industry's ultimate customers is in itself a quiet but important change of emphasis. Network Rail has largely been seen as accountable to its immediate clients – largely train and freight operators. It is now being asked to look more deeply at its decisions in light of the effect they will have on the public and business (in some ways reflecting similar moves in relation to Highways England). New KPI scorecards will be adopted at route level to identify performance with operators acting as the *'reasonable proxy or spokesperson'* for their passengers. Route Management Boards will have local stakeholder panels and be expected to take note of end user requirements in relation to the projects they deliver. Any suggestion that Network Rail is at one remove from the users of the railway will no longer be acceptable.

This also reflects the other key theme in Shaw's proposals – that of increasing Network Rail's regionalisation/ localism. Network Rail's management is already on record as seeking a greater role for the routes within the business. Shaw, however, would go further. Routes within Network Rail would become near-autonomous units delivering the objectives of their local communities.

The nine Routes, including a new North Route aligned with Transport for the North's remit and the devolved Scottish and (soon) Welsh networks, will have separate funding, debt and asset allocation, performance responsibilities and enhancement strategies all independently approved by a strong independent ORR. Route management boards (delegated subsets of the NR main board) will take charge to ensure localised management.

The Routes might seek alternative finance to deliver new projects including from the EU, central funds, private investors, local authorities and LEPs who will benefit from enhancements which would otherwise not happen. Leveraging local value is a current theme with, for example, TfN seeking budgets for greater development in the North and the National Infrastructure Commission asserting that Crossrail2 must be majority funded by London. Here, while investment at a company level will not be involved, funders will be actively sought to partner with Network Rail Routes in delivering specific projects of local interest.

In the longer term, Shaw raises the option for 20-30 year licences of parts of the infrastructure to private sector operators in return for an upfront return to Government of £Billions. Perhaps an appealing option for leveraging finance from pension funds and others.

To provide central co-ordination and consistency, the increasingly independent Routes will draw services from a Route Services Directorate (within Network Rail) at an accounting cost and be subject to a system operator and technical authority. All these units will exist within Network Rail's corporate envelope.

The seven recommendations themselves are:

1	Place the needs of passengers and freight shippers at the heart of rail infrastructure management	In part as a result of the extensive consultation, Shaw highlights the importance of Network Rail's activities reflecting the actual needs of ultimate users. Route performance will in part be determined by and be assessed against the users requirements.
2	Focus on the customer through deeper route devolution, supported by independent regulation	As part of a strong theme of devolution and regionalisation, Network Rail will be expected to deliver local priorities through locally based routes and management.
3	Create a route for the North	A Northern Network Rail route will be created to align with plans for further devolution to Transport for the North.
4	Clarify the government's role in the railway and Network Rail	Government has several roles as principal funder and client and owner of Network Rail. Clarifying these in connection with a long term strategy for Network Rail will bring greater certainty for the industry as a whole.
5	Plan the railway based on customer, passenger and freight needs	Railway planning should reflect end users requirements as well as wider transport, economic and social objectives for the relevant area.
6	Explore new ways of paying for growth in passengers and freight on the railway	No private investment is anticipated at company level. However routes will be encouraged to look for other sources for enhancement funding particularly to deliver local projects. Shaw also highlights the possibility of generating value from the involvement of alternative funding through longer term licensing of the right to operate routes or the granting of concessions over the operation of routes.
7	Develop industry wide plans to develop skills and improve diversity	The future health and growth of the industry will depend on continuing to attract skilled and motivated individuals. Diversity needs to increase to ensure access to the best skills available and investment needs to be made into skills.

Overall, the report is powerful in its long term ambition although carefully positioned in the short term. It is an evolution which goes with the grain of Network Rail's current policies but takes them on further.

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