

Delivering for our customers Transformation Plan

Update July 2016



Working for you

THIS IS NOTHING LESS THAN A TRANSFORMATION PLAN FOR NETWORK RAIL



“

Not for 150 years has there been a time when the economic future of this country was so dependent on the performance of our railways. That is why transformation is not a choice, it is a necessity.”

Mark Carne, Chief Executive

THIS IS A COMPANY FULL OF ENORMOUSLY DEDICATED PEOPLE WHO COME TO WORK EVERY DAY WANTING TO HELP KEEP BRITAIN MOVING. WE KNOW THAT ECONOMIC GROWTH, BUSINESSES, NEW HOUSING, PEOPLE’S JOBS AND PEOPLE’S LEISURE TIME DEPEND ON US. SO WHY DO WE NEED TO TRANSFORM?

The reality is that despite the considerable successes that Network Rail has achieved over the years, many of our customers, the people who we are here to serve, believe we have lost focus on them. They have told us that too often we behave like a regulated monopoly – giving people what we think is best for them rather than what they actually want. That is why we must transform. Network Rail may be a public sector organisation, but my vision is that we behave like a private sector business.

What does this mean in practice? I believe it means that we have to start by being relentlessly customer focused. Customers are the life blood of private sector businesses and we must behave in the same way. We have to enable devolved route-led businesses to understand customer needs and be able to meet and exceed them. Secondly, just like private sector businesses, we must be cost competitive and efficient. We cannot hide behind our monopoly status, we have to demonstrate that we spend every penny as if it were our own. Thirdly, private sector businesses succeed by attracting investors. We need to use private capital to improve railways, not just tax payers money. That means finding commercial mechanisms to reward investors and it means attracting funding from others

that derive their benefits directly from the improved transport links, such as property developers. Fourthly, we have to modernise the culture in Network Rail. Too much of our culture and ways of working has deep roots in past practices. The culture in successful manufacturing industries today is transformed from that of years ago – it’s time for the railway to catch up. We will tackle diversity, continuous improvement, efficiency and safety.

This transformation really matters. The huge growth in railway travel continues at pace and we expect passenger numbers to double again in the next 25 years. That is why tackling the capacity problem we have, by using digital technology as well as through building new railways is so important.

Not for 150 years has there been a time when the economic future of this country was so dependent on the performance of our railways. That is why transformation is not a choice, it is a necessity.

Mark Carne
Chief Executive

29 July 2016

OUR CHALLENGE

OVER THE PAST 20 YEARS, PASSENGER NUMBERS HAVE MORE THAN DOUBLED. WE FORECAST THAT THE NUMBER OF PEOPLE THAT WILL WANT TO TRAVEL ON OUR RAILWAYS WILL DOUBLE AGAIN IN THE NEXT 25 YEARS.

Our railways are a success. Over the past 20 years, passenger numbers have more than doubled. Britain now has the safest and the fastest growing railway in Europe. Every day more than 4.5 million people depend on our network.

A successful railway generates its own challenges. Central to these is capacity. Passenger numbers are expected to double again over the next 25 years, driven by an increasing population, urbanisation and an ever more congested road network. We need to accommodate this growth on a network that, in many places, is already full at peak times. This impacts train punctuality, which has been declining for five years. On a congested network, one delay can impact tens or hundreds of trains.

THE NEED FOR CHANGE

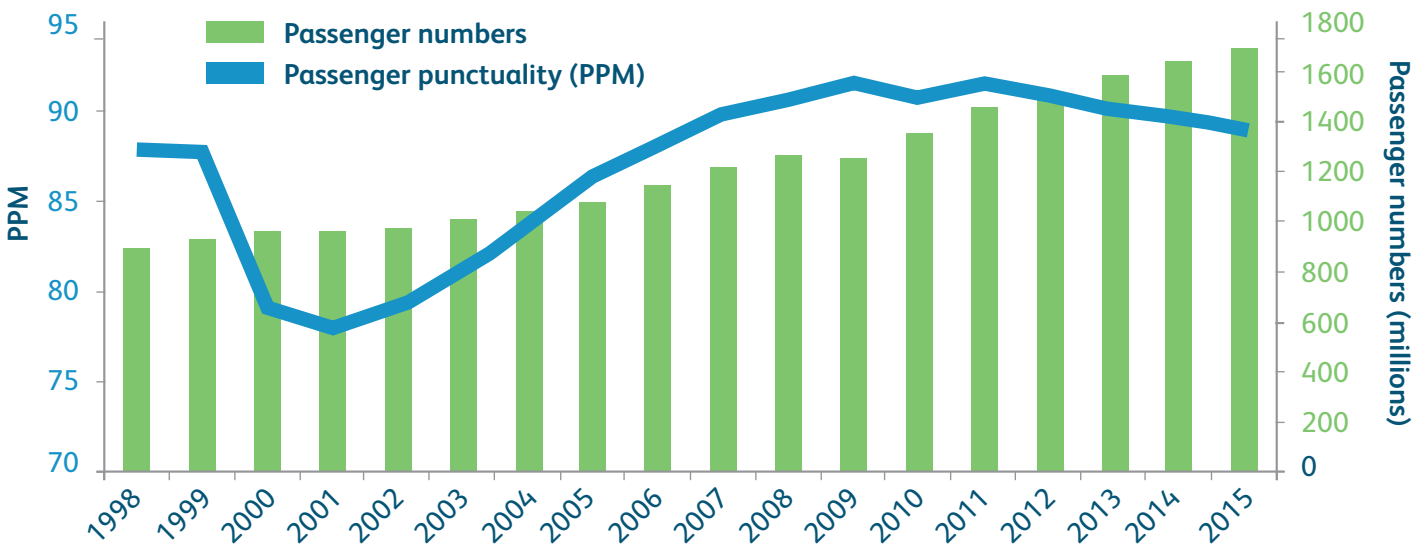
The reclassification of Network Rail in September 2014 was a fundamental change to the way the industry was funded and governed. It exposed severe weaknesses particularly in the way enhancement projects were managed. No longer could capital cost increases be agreed with the regulator and managed off the Government balance sheet. This change exposed immature project plans and poorly defined project

scopes and revealed that not everything that Network Rail had committed to deliver in Control Period 5 (CP5) could be afforded under the more stringent loan ceiling agreed with the Treasury.

The Bowe review highlighted that many things had to change in the way enhancement projects are defined and managed going forward. The Hendy review re-planned the enhancement portfolio so that it could be managed within the cost ceiling – although this also meant that delivery dates for some projects had to be extended. To create funds for the enhancement projects, Network Rail has started the process of selling £1.8bn of its property assets.

These reviews were necessary to help stabilise the business. However, at the same time, the Government asked Nicola Shaw to consider the longer term shape and financing of Network Rail. Her report was published in March 2016.

The Shaw Report concluded that Network Rail should remain a national asset. It also supported the transformation journey that the company was on. But it emphasised that our customers want us to move much faster and to focus more on their needs.



OUR RESPONSE

We can be proud of our achievements over the past decade of success. But Network Rail will have to change if we are to deliver the service that passengers want in the 21st Century.

Our vision is of a customer-focused business demonstrably meeting customer needs, with clear accountabilities, able to make decisions quickly. It is of a company founded on high-performing devolved route businesses operating within a national framework.

Our transformation plan is built around five key themes:

- Customer focused
- Cost competitive
- Commercial
- Culture
- Capacity

The rest of this document explains what we have already done under each of these themes, and what we will do next to **accelerate the pace of change**. An updated version of this plan will be published regularly.



CUSTOMER FOCUSED

IN PLANNING, MANAGING AND OPERATING THE RAILWAY OUR GOAL MUST BE TO CREATE INTEGRATED TRANSPORT NETWORKS THAT HELP USERS TRAVEL QUICKLY AND EASILY FROM DOOR TO DOOR, FACTORY GATE TO FACTORY GATE.

This means ensuring that customer, passenger and freight interests are at the heart of our railways. Network Rail must become closer to our customers, through empowering our devolved businesses to build better and more effective relationships with their train operating company (TOC) and freight operating company (FOC) customers. As devolution of power gathers pace in the UK we will also need to develop our relationships with devolved planning and funding bodies at the appropriate local and regional level.

DEEPER DEVOLUTION

At the heart of devolution is the principle that empowered leaders will be able to focus more precisely on the needs of their customers and can take decisions faster and can innovate more effectively.

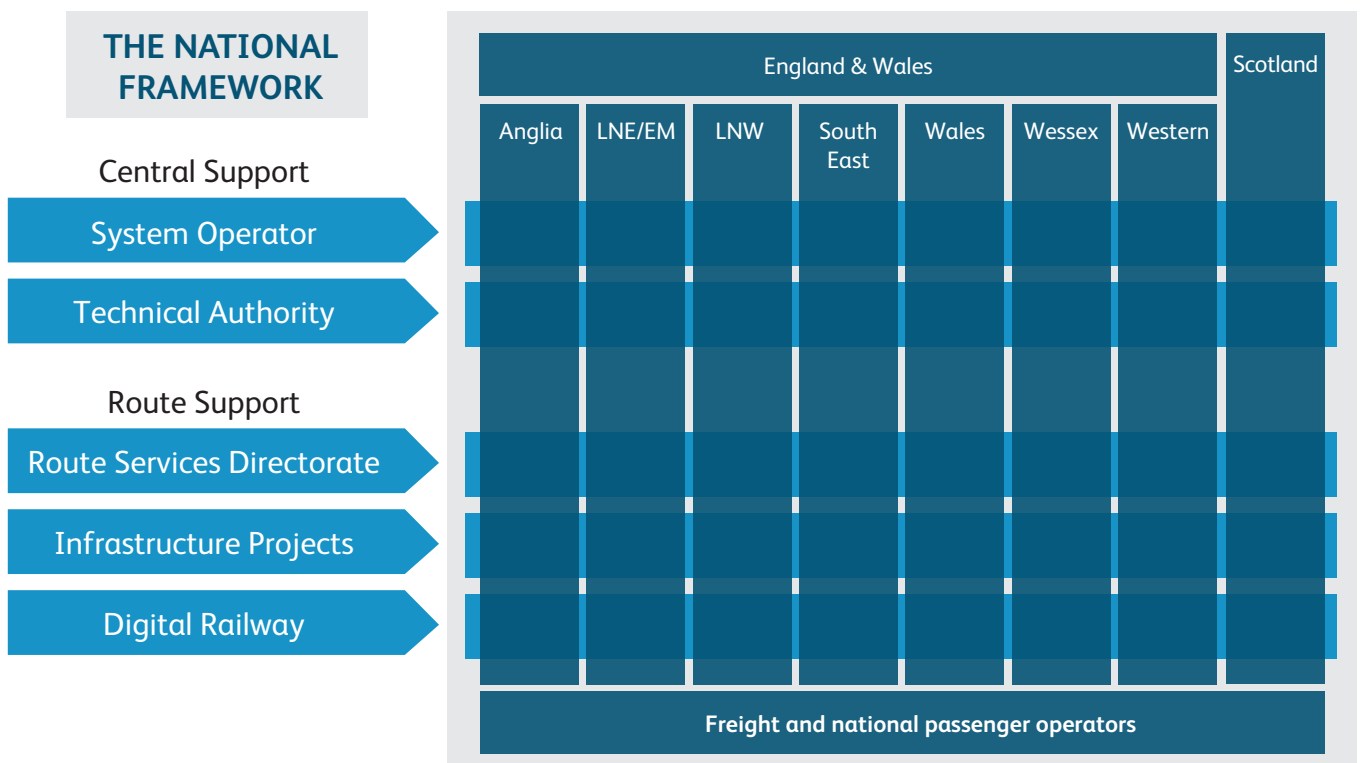
We have an established devolution programme, moving power from the centre to increasingly autonomous routes. This programme established the new operating model that we adopted in 2016. Devolved and

customer-focused businesses are the fundamental building blocks, operating in a national framework.

The Shaw Report endorsed our devolution agenda, but encouraged us to go further and faster. We agree. We are rebalancing operational responsibility, pursuing deeper devolution to routes and ensuring they are equipped with the skills, capacity and resources that allow them to run as effective customer-focused businesses. We believe that up to 95 per cent of our staff should either be based in a route, or be providing a service to it.

We are also strengthening our relationship with our freight and national passenger customers who run services across the network, ensuring their needs are balanced with those train operators who operate wholly or predominantly on a single route, with a dominant relationship with one devolved business. We are determined to continue the strong improvement in freight customer satisfaction that we have seen in the past few years.

THE DEVOLVED BUSINESSES



ROUTE-BASED SCORECARDS

In 2015/16 Network Rail introduced national and route-based scorecards, an evolution of the balanced company scorecard which sets our performance and delivery targets. Our scorecards ensure that Network Rail employees can focus on what is important to our customers, and that the reward structures for all our 36,500 staff are tied to meeting those needs.

This year, for the first time, we have consulted TOC and FOC customers to develop bespoke, customer-led scorecards for each devolved business. This step has been universally welcomed by operators, the Office of Rail and Road (ORR) and the Department for Transport (DfT).

We will continue to refine and improve route scorecards to ensure our business is driven by customer needs, we will create route-based action plans to support the scorecards. As soon as we can, we also want to see our targets becoming aligned with our customer's targets. This might extend to the inclusion of Network Rail's targets in invitations to bid for franchises. It makes profound sense for all parts of the railway to be pulling in the same direction. We are also building on our experience of alliancing on the Wessex route and in Scotland to seek new forms of alliancing in other routes.

NATIONAL FRAMEWORK

At the same time we firmly believe that the railway needs to operate as a single inter-related system.

Ensuring the network is planned and managed fairly and optimised for the benefit of all is the responsibility of the system operator. At the core of this function are our responsibilities for fair allocation of capacity on routes, timetable planning and network planning. It is also important that we run a safe and reliable railway with one part of the business responsible for consistent national standards, research and development and competency frameworks. Network Rail's technical authority will ensure that relevant technical and safety standards and competency frameworks apply consistently across the network.

ROUTE GOVERNANCE

In Control Period 6 (CP6) the devolved route businesses will each have their own regulatory settlement. This will require more businesses to significantly mature as 'independent' businesses and, as such, we need consider changes to the way that they are governed. Proposals will be put to our Board in the autumn, with options including route governance boards, route stakeholder panels and route investment boards.

LEADERSHIP CAPABILITY

As leadership capability grows in the routes, we will increase the decision making that lies in their hands. Our devolved businesses are, by any measure, big and complex undertakings. That is why we are now reviewing the capability of the devolved business leadership teams, making sure they have the skills and experience to deliver the new responsibilities they have been assigned. As the Shaw Report noted the total



remuneration for route managing directors in Network Rail is “very much at the lower end of the scale” compared to train operating companies. Over time this imbalance can be expected to degrade capability in Network Rail, precisely at a time when we need to grow capability in order to run a devolved business model. We therefore support Shaw’s conclusion that DfT and others should “swiftly determine how any necessary flexibility in pay can be provided”.

POSSIBILITY OF NORTHERN ROUTE

One of the Shaw recommendations was the possibility of a new Northern route. We have asked Michael Holden, former chief executive of Directly Operated Railways, to conduct a review into Network Rail’s structure and its alignment with its multiple customers and stakeholders. As part of his work we have spoken to key stakeholders to understand how we can best support their needs. It is clear that no single option meets all stakeholder needs. Any changes must be focused on delivering passenger benefits. We are developing options which the Board will consider in autumn 2016.

WHAT WE HAVE DONE

- **Devolution:** created devolved route businesses with scorecards set by customers.
- **Devolution:** reviewed 93 internal services and agreed that around 440 roles – previously in the safety, technical engineering directorate, route services and other corporate functions – will be devolved. Currently consulting with unions, moves due by end 2016.
- **Freight and national passenger operators:** created new ‘freight and national passenger operators route’ on 31 May. Expanded the remit of the existing team to include passenger operators, such as CrossCountry, who operate across multiple routes. Going live in summer 2016.

WHAT WE WILL DO

- We will significantly increase the **delegation of authorities to route leaders** by end of 2016.
- We will pilot **new forms of route governance enabling a stronger customer and stakeholder voice** by the start of the 2017/18 financial year.
- Decision on Shaw Report **Northern route** proposal in autumn 2016.
- Renew devolved business leadership team structure and strengthen in areas where new responsibilities have been assigned.
- Work with DfT to create franchise targets that are aligned with Network Rail targets – one railway focused on its passengers.



COST COMPETITIVE

EVERY PENNY WE SPEND MUST RETURN THE MAXIMUM POSSIBLE BENEFIT.



We have delivered sustained improvements in efficiency over the last two control periods and Government subsidy is half that in France, a third the level of Germany and continues to fall. We must continue to drive down the costs of the railway through better ways of working and by embedding structured continuous improvement but we must also explore all possible means of paying for infrastructure improvements and upgrades.

Our route businesses must innovate to find new ways of working to bring down the cost of running their businesses. We will further embed a culture of cost consciousness throughout our organisation, ensuring that we spend money wisely to deliver the best possible service for our customers.

We have embarked on a Lean transformation programme and are well on the way to transforming how we work. Lean is an important part of the company's commitment to being 'better every day' by eliminating wasteful activities, often by better planning.

It also makes sense to maximise the benefits of the economies of scale that come from aggregating services that the routes need. Our new Route Services directorate will act as a service provider to the routes, helping to secure better value for money than the routes could achieve locally and provide network-wide coordination where required. It is essential that the services provided are cost competitive in the open market, driving down costs for the benefits of our customers.

Our Infrastructure Projects (IP) group delivers more than £100m a week of railway projects improving the network, but must exist as a service to the routes. Through the route leadership team review, we are putting in place enhanced sponsorship capability in the routes, which will enable the routes to own the performance of IP. We are also committed to making it less bureaucratic for other project delivery organisations to work on the network, and to be more responsive to their needs. This will create competition on a level playing field, and the establishment of comparators that can drive efficiency and innovation and deliver long term value for money.

WHAT WE HAVE DONE

- In June 2015 we launched our Lean transformation 'better every day' strategy.
- We set up our Route Services directorate in January 2016.
- We completed our 'Efficiency and Effectiveness Programme' evaluation in July 2016.
- By July 2016, 20 per cent of company employees were Lean trained.
- In July 2016 we decided to devolve 440 central roles to the routes to deliver greater value.
- Our new head of sponsorship role was appointed in July 2016.

WHAT WE WILL DO

- By April 2017, 70 per cent of all Route Services directorate activity will be market tested.
- By April 2017, additional commercial and sponsorship capability in place with updated route leadership organisations.
- 50 per cent of all Network Rail employees will be Lean trained and actively delivering initiatives by 2019.

This is very much an operational plan focused on driving more benefit in return for the money that we spend. We continue to seek further opportunities to reduce cost, whilst driving up performance through our transformation plan. As we evolve our CP6 business plans, we will provide further definition on efficiency measures attainable.

COMMERCIAL

THE RAIL NETWORK IS A NATIONAL ASSET AND A KEY PUBLIC SERVICE. IN FUTURE, TAXPAYER FUNDING WILL BE INSUFFICIENT TO FUND ALL IMPROVEMENTS ON THE RAILWAY NETWORK.



Today almost all of the funding for our enhancement programme is provided by the tax-payer in one form or another. Working with Government, we are now exploring ways in which private capital might help deliver improvements for passengers quicker or with better value for money. That will include thinking about how infrastructure concessions that take responsibility for parts of our network might help drive innovations and improvements that can be replicated for the benefit of all. This is a conscious effort to minimise the burden on the public purse, while promoting market-led investments that will improve customer experience and build capacity.

We are also looking at how the private sector might help in the delivery, financing and operation of discrete elements of our network. This could include the installation of new systems such as digital signalling, the construction of a new piece of railway, or significant infrastructure improvement schemes such as flyovers to ease congestion and bottlenecks. And we are exploring new models for the management and ownership of our 18 managed stations with the goal of bringing improvements for both passengers and the communities they serve.

We are now actively managing our property portfolio. We have committed to generate £1.8bn of funds to help pay for the CP5 enhancement programme through the sale of our commercial estate, surplus land, car parks etc. In the future we will continue this process

of asset divestment, recycling funds into higher value railway projects without detriment to the operational railway. This sort of **portfolio management** is exactly what private sector businesses do when they reach their loan ceiling.

WHAT WE HAVE DONE

- In January 2016 we signed a memorandum of understanding with the Welsh government who are exploring the case for a concession to operate and manage the Welsh valley lines.
- In March 2016, we embarked on a programme of asset disposals so that we can reinvest the proceeds to maximise passenger benefits.
- We have set route managing directors the challenge of identifying third party funding opportunities as a part of the planning for the next control period (CP6).

WHAT WE WILL DO

- By spring 2017, we will have enhanced commercial capability in all routes by the introduction of the business development director role.
- We aim to attract private capital for CP6 and CP7 projects, focusing on digital railway projects and direct funding of projects by property developers.
- We will work with TfL to consider ways to capture a share of higher land value resulting from railway investments in London and potentially elsewhere.



CULTURE

WE ARE COMMITTED TO NURTURING A CULTURE OF HIGH PERFORMANCE, ENCOURAGING EACH OTHER TO BE BETTER EVERY DAY, AND FOCUSING ON OUR END MISSION OF GETTING ‘EVERYONE HOME SAFE EVERY DAY’.



Of course any transformational programme requires as much focus on culture and behaviour as on structure and capability. ‘Delivering for our customers’ is as much about mindset as anything else.

We need to maintain our relentless focus on driving a collaborative, caring, customer-facing culture, where safety and performance go hand in hand.

SAFETY

In the last year we reduced train accident risk by 10 per cent through hard engineering work, through good maintenance and good practices, despite some of the challenging climatic conditions that we have to deal with. We continue to be the safest railway in Europe.

We are starting to see a change in our workforce safety culture, and in turn our business performance. In the past year there has been a 36 per cent reduction in serious injuries across our network, and no workforce fatalities for the first time in the history of the railways. At the same time our project safety performance has improved significantly and in turn so has our bank

holiday hand-back performance, demonstrating how safety and performance do go hand in hand.

There is still significant room for improvement, particularly on workforce safety. Other safety critical industries have a workforce safety record that is up to ten times better than ours. We have a long way to go, but we can improve our safety record, which in turn will deliver business performance improvements as well.

BETTER EVERY DAY

We are accelerating the implementation of structured continuous improvement – better every day – so that this relentless ambition becomes the DNA of our company. We are starting to see successes coming through, demonstrating that by harnessing the ideas and contributions of everyone in our company and relentlessly driving small incremental change we can create transformation. This respect for the contribution everyone can make is at the heart of the high performance culture that we want Network Rail to be known for.

Our diversity and inclusion strategy is central to this. The Shaw Report recognised the great strides we have taken in establishing champions for under-represented groups together with staff networks and programmes.

And we must also bring the wider industry along with us. We will work with organisations across the industry to establish focused and consistent diversity and inclusion approaches. Areas to explore include a code of conduct with diversity and inclusion at the core of the behaviours, contracting relationships and agreements which include diversity requirements, diversity impact assessments, and involvement in the new Government review of black and minority and ethnic talent progression in the UK.

We are proud of the progress we have made to promote skills, leadership and diversity and we welcome the Shaw Report's reiteration of the importance of coordinated skills planning across the sector. We are committed supporters of the transport infrastructure skills strategy which explains how the industry plans to raise skills levels, improve diversity across the road and rail sectors, and create 30,000 road and rail apprenticeships. The strategic transport apprenticeship taskforce will drive this work forward, providing the collaboration, coordination and holistic approach required to deliver change.

WHAT WE HAVE DONE

- Achieved a 10 per cent reduction in lost time injury frequency in the past year, beating our target. Both passenger and workforce safety continue to improve across the whole business.
- Exceeded our highest target for Close Call reporting, a demonstration of our commitment to a culture where we all care and we all look after one another.
- Moved our apprentice scheme to a world class facility in the midlands, making it more attractive to a wider group of future employees.

WHAT WE WILL DO

- In summer 2016, as part of the wider industry rail skills plan, we will set out detailed proposals for growing talent. Plans will cover leadership development, attracting workers from other industries and supporting the delivery of 20,000 rail apprenticeships.
- In spring 2017, working with strategic transport apprenticeship taskforce, we will report our progress in delivering 30,000 road and rail apprenticeships.
- Deliver inclusive leadership training and become Stonewall equality champions as part of our diversity and inclusion strategy.



CAPACITY

THE BIGGEST CHALLENGE TO OUR RAILWAYS IS ITS SUCCESS AND THE CAPACITY CHALLENGE THIS BRINGS.

We forecast that the number of people that will want to travel on our railways will double in the next 25 years.

We are delivering over £15bn of infrastructure projects in CP5. And demand for new projects in CP6 will probably exceed this. Together with the DfT we are improving the way we specify and plan projects ensuring the scope is clear and the designs and technical standards are agreed before major project commitments are made. We are delivering a seven step enhancement improvement project. We will not enter CP6 with an immature, poorly defined enhancement delivery commitment as we did in CP5. We have also, together with DfT, changed the whole project governance arrangements, bringing funder focus to specific projects and to managing the overall portfolio within affordability limits.

In the longer term, technology can help us improve capacity and connectivity at a lower cost than building new railways. In the past train lengthening, alongside track and station improvements, have been able to help us. But there is a limit to what can be done in this way. That is why huge sums of money are now being invested in new routes, like Crossrail and HS2. These improvements are vital, but they will not solve the problem across the country as a whole. To meet burgeoning demand we must find a way to run many more trains on the existing network; to 'make the most' of what we have already got.

Other industries, from aviation, to roads, and the London Underground, have already unlocked significant additional capacity through digital control systems. We are hitting the limit of analogue signalling faster than other countries in Europe because of growth – more than 40 per cent of the European Union's officially declared 'congested railways' are in Britain. Digital technology will change the way we operate and manage our network. It could create up to 40 per cent more capacity on the most congested urban networks, while making trains more reliable, safer and greener and our network far



more resilient to disruptions. This digital transformation can also increase connectivity, using capacity to adapt services to improve overall end-to-end journeys. And we believe that this incremental capacity can be unlocked at significantly lower cost and with massively less disruption, than building new railways in dense urban centres.

It is not a question of ‘whether’ we transform our signalling technology, but ‘when’. Plans exist already, but they are piecemeal and will mean that Britain will not see the full benefits for many decades. We believe the country cannot wait that long.

WHAT WE HAVE DONE

- In September 2014 we created the Digital Railway directorate.
- In March 2016 we agreed a memorandum of understanding with the DfT that set out roles, responsibilities and governance for the programme.
- In June 2016 David Waboso CBE joined as the new Managing Director, Digital Railway.

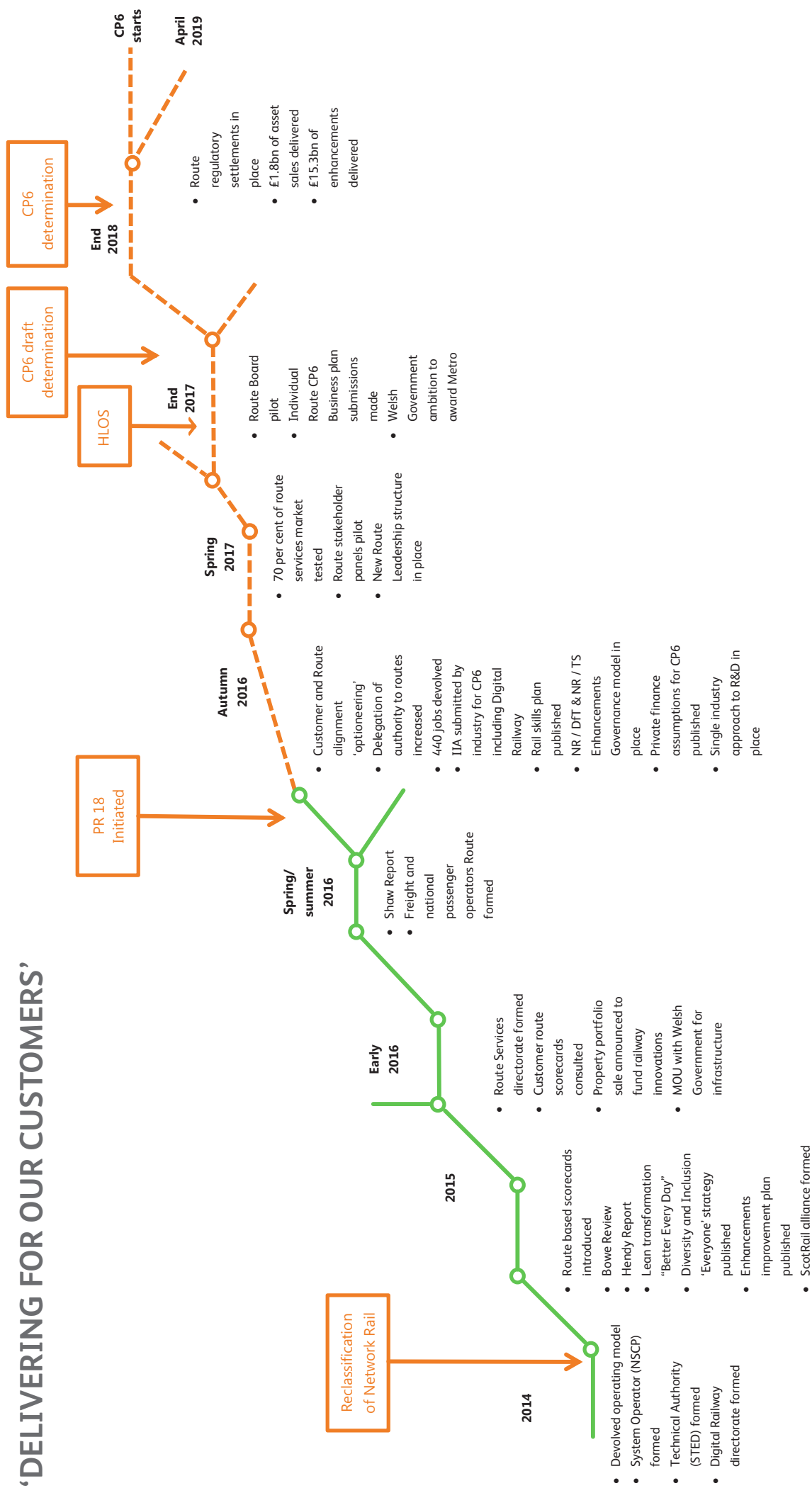
WHAT WE WILL DO

- Autumn 2016, leadership review of the DR Programme.
- Autumn 2016, identification of key geographical areas where digital railway can have the greatest impact to deliver capacity and performance benefits.
- By December 2016 initial costed options for these targeted, regional digital railway deployments to solve critical issues on the network.
- During 2017 fully developed, targeted investment schemes produced by routes.
- Develop strategy to harness third party funding and work with supply chain to develop early contractor involvement to support effective delivery.
- 2018, Thameslink will use digital train control to manage 24 trains per hour.



NETWORK RAIL TRANSFORMATIONAL ROUTE MAP

‘DELIVERING FOR OUR CUSTOMERS’



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