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Date: 17/12/07

Dear Paul

RE: Response to the Network Rail Strategic Business Plan (SBP) October 2007 Control Period 4

1. The Railfreight Interchange Investment Group (RIIG) represents a group of the UK's leading property development companies, who are investing substantial sums to create a network of rail-linked distribution sites, delivering the Government's policy on Strategic Rail Freight Interchanges (SRFI) as well as smaller satellite facilities. Increasingly this investment is being committed to enhancing the surrounding national rail network, as well as the on-site rail infrastructure. We are therefore taking a much greater interest in the management and development of the national rail network, and how our investment is then spent.
2. RIIG welcomes the current SBP, in terms of structure, approach, content and acknowledgement of Network Rail's role in the industry and nationally; it is much closer to what one might expect from a major corporation than any plan produced since privatisation. However RIIG has issues and concerns about the SBP, which relate mainly to the freight-specific content of the Plan, and to the broader question of the ability of Network Rail to deliver the necessary outputs going forward. RIIG wishes to work with ORR, Network Rail and other industry parties to resolve them.

Strategic issues

3. The over-arching backdrop to the SBP is the policy objective in the recent Rail White Paper of doubling the amount of freight traffic on rail by 2030. This can only be achieved if there is sufficient infrastructure capacity, not just in the national rail network itself, but also in key 'nodes' on the network. In this regard, there is a critical co-dependency between the SFN, ports and inland interchanges.
4. The DfT's proposed Strategic Freight Network has yet to be defined, but the investment in it can only represent value for money if the end user requirements are properly understood, quantified, specified and delivered, within a suitably holistic approach to cater for future growth and industry trends. There are clear signs of structural changes in the UK supply chain for general freight (the market where most of the growth will be achieved moving forward), changes which should ultimately benefit rail freight.

promoting railfreight interchanges - delivering sustainable distribution

Burford Group - Helios Properties - Kilbride Properties - ProLogis Developments - Shell UK

5. In the onward development of the SFN, the SBN and the RUS process, Network Rail needs to engage more widely beyond the established stakeholders such as the Freight Operating Companies. Without this broader engagement, there is a real risk that the plans are created in isolation from the needs of the ultimate end customers, be they developers, operators or users of the rail freight network.
6. The economics of rail freight versus road freight are well established, particularly in achievement of the 'level playing field' and in quantifying 'externalities'. The freight forecasting processes are being improved and developed, with correlation between different industry methodologies. We commend Network Rail for not simply relying on 'top down' theoretical modelling, but informing such forecasting through dialogue with the industry itself.
7. Whilst freight is given much better consideration in the current SBP there is still a sense that the subject is not yet well enough understood, particularly the role and function and demand / need for SRFIs and smaller facilities, to help deliver growth as part of the SFN. The backdrop of wider structural change in the freight industry is likely to mean rapid (in terms of railway planning horizons) increase in demand for freight on rail and the rail industry needs to be suitably prepared and mobilised.
8. As an example, it is apparent that the current W10 gauge programme is an entirely logical step forward for the deepsea container market, where containers can be expected to be constrained to 9'6" high and 8' wide for the foreseeable future. Yet the much greater general freight market revolves around lorries that are typically 4 metres high and 2.55 metres wide. The future proposals for W12 gauge, a gauge no taller than W10 and only slightly wider, serves no practical purpose and will not achieve the same step-change that W10 has achieved for deepsea containers. In defining the scope of the SFN in terms of specification, coverage and funding, Network Rail, working with and on behalf of the rail industry, needs to engage with the rest of the distribution industry, in order that 'joined-up' investment decisions can be achieved.
9. Moving forward, we would also like to see Government taking greater responsibility for funding the SFN, including capacity and gauge enhancement, as the current piecemeal approach is unduly opportunistic. Reliance on the private sector to fund major enhancement of the national network, sometimes across considerable stretches of the surrounding network, cannot be sustained in the long term and ultimately will disincentivise the private sector to create rail-linked port and inland interchange facilities to complement the SFN.

Relationship to interchange development and delivery

10. It is acknowledged that currently there is insufficient interchange capacity within the UK to deliver the forecast growth; and the requirement is for an appropriate infrastructure of SRFIs and other rail freight terminals; this is evidenced by the extensive and robust research conducted by various Government agencies and industry bodies in recent years.
11. Strategic Rail Freight Interchanges are now firmly embedded in Government thinking and policies. The Department for Transport has largely adopted the former SRA's Policy on SRFIs, which defines the role,

forms and functions of SRFIs together with the qualifying criteria. The new Planning Bill defines them as “Nationally Important Infrastructure Projects”, and Network Rail is increasingly engaging with interchange developers to support those schemes which the company considers best align with its own and wider Government policies. Again we commend Network Rail’s evolving process for selecting and supporting schemes, as a welcome alternative to either ‘sitting on the fence’, or giving blanket support to all projects regardless of merit.

12. There is also no doubt that there have been improvements in NR’s approach to network connection in recent years, yet our view is that there is still work to be done to improve that process, which can often be complex, lengthy and costly. Retail and manufacturing industry needs more and better access to the network, and improved responsiveness. Making best use of land controlled by NR extends not only to helping facilitate links to major interchanges (including a measured response by NR to any ‘Stokes v Cambridge’ opportunities), but also to creating local, ‘virtual’ interchange facilities, which could be used for quick and simple freight operations when not otherwise occupied, such as passenger stations at night and stabling facilities during the day. As noted earlier, RIIG would like to see a greater emphasis in the SBP on understanding the key drivers behind freight growth, including the role which can be played by SFRIs and sub-regional facilities, in supporting (and being supported by) the SFN.

NR corporate culture and structure

13. On more general issues, RIIG is concerned about the questions of ‘efficiency’, ‘maturity’, ‘deliverability’, ‘culture’ and corporate structure, going forward.
14. As NR points out, it has made great strides and considerable achievements in cost reduction and efficiency since it was given responsibility for the network. It accepts there is still much to be done to turn around the culture in the organisation to be a World-Class company. RIIG can confirm that there has been improvement recently in the engagement with NR in some areas; unfortunately both from direct experience and anecdotally there is still room for improvement.
15. With regard to efficiency and maturity there is a sense that, having picked the ‘low-hanging fruit’ in terms of efficiency, NR may be unnecessarily defensive in challenging ORR and Government assumptions and targets for the current and next Control Periods. There are potentially serious differences of opinion in this area, at a time when NR is asking for further funding for HLOS targets and the ‘7-day railway’. Whilst we appreciate there is a (public) negotiating process, as a group of investors with around £2 billion to invest in infrastructure to service the railway, such fundamental differences do not inspire confidence. Therefore RIIG would like to see a clear statement of the economics and the business case both for Government and Regulatory assumptions and targets, and for the NR case, so that reasoned conclusions can be drawn by a broader group of stakeholders.

16. RIIG understands that there is considerable evidence, both factual and anecdotal, that while NR believes it has made the 'easy and obvious' cost reductions there is still great scope for further efficiencies. While it is accepted that the railway network is a unique infrastructure, and that safety is a very important consideration, it would be desirable for NR costs to be transparent to the outside world and capable of third-party scrutiny.
17. As investors who have to pay for NR works to connect to, and sometimes enhance, the Network, we would like to have clear evidence and confidence that value for money will be delivered. This applies as much to NR's internal costs, as to being suitably robust with contractors to avoid exploitation of NR, particularly in the current climate where resources in key areas such as signalling are in short supply. Whilst the railways have suffered from endless cycles of 'feast and famine' with investment, we would now like to see more emphasis placed on creating core competencies within NR; areas such as signalling, new connections, gauge clearance assessment and gauge enhancement would benefit from sufficient scale and stability of resources to yield faster project turnarounds, greater purchasing power and reduced wastage.
18. Network Rail was created in great haste to respond to an industry crisis and stabilise the Network quickly. In that it has undoubtedly succeeded. However, the issues raised above lead us to question whether the current structure and funding of NR (eg the fragmented approach to funding) is right for delivering the Network going forward.

Document structure

19. The summary section of the SBP, often a key point of reference, should be more balanced in this respect, with more emphasis on the profile of freight, demonstrating a clearer understanding of how the growth is to be accommodated on and delivered by the Network.
20. The SBP should also note the fundamental difference between the planning horizons and business models for passenger and freight, contrasting the relatively short-term perspective of the TOCs with the longer-term objectives for the FOCs. Such a statement is critical to ensure a balanced debate for new rail freight infrastructure (where the TOCs may respond with concerns about short-term impacts) and new passenger infrastructure (where FOCs will be concerned about longer-term implications).

Conclusions

21. Finally, in providing a positive and pragmatic response to the Strategic Business Plan and associated industry processes, RIIG wishes to confirm our strong mutual interest in working alongside ORR, NR and other industry stakeholders, to ensure that rail continues to be a competitive alternative to road, to see that the rail industry recognises and understands change, and is responsive to it.

Yours faithfully

Keith Rodwell
RIIG Chairman