

Delivering for our Customers: Transforming Network Rail

Whitehall and Industry Group, London

Mark Carne, CEO Network Rail

18 October 2016

Thank you for inviting me to speak today. Network Rail is well suited to this forum, with our own unique history of being part industry and part Whitehall.

And as it happens, our reclassification from 'Industry' to 'Whitehall' marked the start of my time at the business – and continues to impact and influence strategy today. When I joined in February 2014, we were just a few months off the ONS reclassification of the business. And I'd been offered the role at a time when there was no sign of it.

We'd been a rather uniquely structured organisation for a decade - a private company, funded in the most part by Government, but not on the Government books. As a result of the 2014 reclassification, we were abruptly brought onto the books. For better or worse – for us, and the Chancellor's books.

Some days - it's easy to forget that rail is actually one of the country's success stories of modern times. Every day more than 4.5 million people, our customers, depend on the network. They rely on us to get to work in the morning and to get home at night. Over the past 20 years, passenger numbers have more than doubled. And rail freight is booming too. Last year we moved 18bn tonnes of freight, equivalent of nine million lorry journeys. We're seeing a rail renaissance. After many decades of decline, the rail sector is growing; and it's growing fast. It is now the fastest growing railway in Europe. And it is the safest too.

But, we must face facts - this growth can be challenging. Not only have passenger numbers doubled over the past 20 years, but they are expected to do so again. This is driven by an increasing population, urbanisation and an ever more congested road network pushing people from cars and buses onto trains.

We have to find ways to provide enough trains for the demand. And we have to do this on a network that in some places is already full at peak times of the day. We know that half of Europe's 'congested' railways are right here in the UK. This has meant timetables are being squeezed to full capacity, with no slack in the system for delays of any sort. There are more trains and passengers than ever before. And as the network becomes increasingly congested, any delay can impact tens of hundreds of trains across the network.

To tackle this, today, we're delivering our Rail Upgrade Plan to help create a better railway for the future. We know that we need to invest in the reliability of our existing rail infrastructure. And we're doing this. After decades of underinvestment, this government is investing record amounts in improving and upgrading the railway. Our 'Railway Upgrade Plan' represents the biggest investment programme in the railways since Victorian times. We're investing £40bn between 2014-2019. It's £100m per week – spent by our delivery teams on passenger improvements. £100m per week! A simply stunning amount. And right now, 20% of all the UK's new infrastructure spend is on rail infrastructure. This means massive upgrade programmes such as Thameslink and the comprehensive modernisation and electrification of the Great Western mainline. And new lines such as the Borders line to Edinburgh and the new Chilterns line into Marylebone. It also means completing Crossrail and commencing HS2.

But even with this record breaking level of investment that we're seeing – there will still be more work to do in the years beyond 2019 if we're going to meet the forecast demand. We've had to ask ourselves some big questions. About how we will fund this work and how we deliver it. On funding – we know that the ONS reclassification was a seismic shift. Aspects of this were positive. We now have a defined borrowing limit from the Government and we have to live within our means. This is a positive. It forces us to have financial discipline. But on the other side, we're now subject to more layers of governance and with layers of bureaucracy come some risks, including the risk of duplication of effort and a risk of a diffusion of accountability. Neither of which are good for our customers.

On delivery, we need to look at ourselves, with a critical eye and ask whether we do have the right skills and talents in our business to deliver for our customers over the decades ahead. We have a significant task in front of us - to transform from the Network Rail of years gone by where we were essentially 'an independent company that acted like a regulated state monopoly' - to the future, where we must become a forward looking, vibrant, innovative, collaborative 'public sector organization that acts like a private business'.

We know that the challenge is great, but the rewards are greater still. Transformation for Network Rail is not an option. It is a necessity. We all know transformation can come in many guises. And, as many in industry and Whitehall know well - not all change will be good change. So, we must transform with a steady hand, a steady head and, in some ways even a steady heart. And I say heart, because we should never forget that within our workforce, over 30,000 strong, we have some of the most dedicated, passionate railwaymen and women that you would ever wish to meet. So heart - and their hearts - do matter. They matter a lot to me, personally. We must transform as a business, but we will not do so successfully if we forget to take our own colleagues with us. Our transformation plan, I hope, does respond to this challenge. And with some steadiness, we have now identified five core areas where we intend to transform, and transform with some speed. Because, as Nicola Shaw identified in her review for Government, our customers want and, frankly, need us to pick up the pace.

We must become more customer-focused

At the heart of all successful private sector organisations, you will find an undinting focus on end users, customers. It is this dedication to customers that we must now better import and embed in our business. We must strive to be as in-tune, as responsive and as close to our customers as the best examples in industry and in Whitehall today. To achieve this we're deepening our devolved structures, passing more autonomy to Route Managing Directors and route leadership teams. They are the closest to local customers, and are best placed to understand the needs, wants and aspirations of the communities in which they operate. In our next control period, each of our routes will have its own regulatory settlement – so we're devolving both power and finance. As clearly the two must go hand in hand.

We know we need to be more cost competitive too

Every penny spent must be done so wisely, to return the maximum possible benefit. We should be proud of the fact that we have delivered efficiencies for our customers over the last decade. Government subsidy here is half that of subsidy in France. It is a third of the level of the subsidy in Germany. And it continues to fall. But we can, and we will do more to embed a culture of cost consciousness throughout our organisation: We're embedding Lean within the business. We've appointed a new Head of Sponsorship to work with existing teams to strengthen our approach to clienting, sponsorship and project management, better supporting and equipping our local teams leading on projects with the necessary skills and behaviours to manage budgets most effectively. And, we've restructured our procurement practices to make sure we secure best value for money.

And as I said earlier, we must stop thinking of Government as our only source of funding.

Today, almost all our funding for enhancements is provided by the tax-payer. Working with Government, we're now exploring ways that we can introduce more private capital to the railway. This is a conscious effort to minimize the burden on the public purse. The fixed loan ceiling caused by reclassification is one of its best outcomes – fixed capital allocation is the life blood of industries – and, for us, it means we're now forced to be disciplined.

As part of this, we're exploring new models for the management and ownership of our 18 managed stations. In addition, we've committed to generate £1.8bn from our property portfolio through sale of commercial estate. We'll be selling car parks, surplus land and more. Again, we will mimic the best of private sector behaviours. This sort of portfolio management is exactly what those of you in Industry would be expected to do when you hit a loan ceiling. And we will be no different. But, we'll not be selling the family silver. We'll only commit to a sale when we can genuinely say that we have better use for the cash to serve passengers, customers.

And it's not just about releasing value from existing assets through sale. It is about better sweating the assets we have as well. Getting them to work better for us in terms of revenue and also for society in terms of what we can provide for communities. As part of this strategy, we're working with partners, including TFL, to capture higher land values that inevitably result from rail investment here in London and elsewhere in the country as well. And, I'm pleased that we recently committed to releasing land to enable the construction of 12,000 homes by 2020. 5,000 here in London.

This is just the start. As we look ahead to beyond 2019, I'll be challenging everyone in the business to reach out to third parties, to communities, to local businesses and insisting that they come together to innovate to create alternative viable funding mechanisms that can deliver rail improvements with lasting economic benefits to local communities and businesses. So, to any of you in the room that may have an idea of how we, the railway and you, your business, could work together. Please speak to us. We're open for business. And through collaboration I think there is much we can deliver together.

We also need to change some of the aspects of the way we work at Network Rail.

We need to change some of the culture in our company. I am passionate about workforce safety. Safety conscious businesses are the best performing ones. It's clear - safety and performance go hand in hand. Network Rail is an organisation with a safety record that is 10 times worse than the oil and gas sector – where I was before I joined. This tells me that there is still a huge opportunity to be more efficient, and to work better, to be safer. We have the opportunity to create a culture in Network Rail that strives to be better every day. This should be the hallmark of our business.

And it is not only here that we have huge opportunities. We have significant opportunity to open up the rail sector, to attract the brightest and the best into our industry. Like many organisations, we see a disparity between the number of men and women employed. Just 15% of our workforce are women. It cannot simply be that there are so many more men equipped with the skills required to do the jobs that we have on our books. We need to take action here to make sure our culture is inclusive and attractive to all prospective employees, not just those of one particular demographic.

Like many of your own organisations, our diversity and inclusion strategy is critical to unlocking the talent within our business and attracting more in. We have thriving staff networks, championing previously underrepresented groups and providing tremendous mentoring and support. But, we do not intend to stop there: We've modified our recruitment questions for apprentices to remove any elements of unconscious bias. We're delivering inclusive leadership training to all our managers and are on our way to becoming Stonewall equality champions.

Now, returning to where I started – our challenge - the need for transformation at Network Rail is based on our urgent need to create additional capacity on our already 'full-in-parts' infrastructure.

So, if you think it's a problem today getting a seat, we estimate that in the next 25 years, the number of people travelling by rail will double again. We're going to have to be bold about our solutions. In particular, we need to be bold about how we use technology. The tube, TFL – you've led the way with this. The Victoria Line, the Northern Line and the Jubilee Line here in London – you no longer run for a train. You wait for the next one. And it comes - within 60 seconds. That's digital signaling. Signaling fit for a 21st Century transport network. We need to adopt more of this tech for our above ground rail network. And we need to step up and do this now. Because doing so could unlock capacity on our network. And this is most important in the urban setting where, as here in London, where we have shown that building new hard infrastructure in a live environment (like London Bridge) can be complex, costly and at times incredibly disruptive to our customers. Digital rail is a massive opportunity for us at Network Rail and for the industry as a whole and bluntly one that we must seize today.

So, to conclude before we move on to the Q&A - I've tried this morning to give you a flavour of the journey that we're on at Network Rail. We've had a successful couple of decades. Doubled our passengers.

Delivered vast improvements – Kings Cross, Borders, Reading, Birmingham, Crossrail on the horizon. But we have to do more in the years to come, as our services are about to become doubly full all over again.

And we're restructuring to be fit for the future. We're committed to moving away from our past approach, where we were ostensibly a private company, but acted like an archaic, static public sector monopoly. And we're heading towards a brighter future where we're on Government books, but embed the best of private sector practices – lean, innovative, inclusive, technological advanced, truly customer focused.

From a personal point of view, I don't actually believe that either privatization or nationalization have all the answers. Neither can alone deliver 100% for customers, 100% of the time. I believe much more in the power of public private partnership to deliver our essential public services. And in the spirit of this partnership, I really look forward now to the Q&A – I have no doubt I'll have as many questions for you all as you do for me.

Thank you.