Insourcing maintenance:

from Railtrack to Network Rail

MIKE LEVERY, MIEE AND MANAGING DIRECTOR OF MCL CONSULTANCY LTD, BLOWS THE WHISTLE ON HOW OUR NATIONAL TRAIN COMPANY TURNED OUTSOURCING INTO INSOURCING

Network Rail has resolved to insource all its maintenance activities. Once again a single organisation will have direct control over all the work done on railway infrastructure assets. This decision presents a major challenge to the way asset management has developed since the early 1990s, particularly the progressive outsourcing of maintenance to service providers across all market sectors.

This article asks: What went wrong with Railtrack's outsourcing practices? Is the Network Rail model the right solution? And, is full reintegration of train and track the right long-term outcome?

OUTSOURCING MAINTENANCE

The development of maintenance as an outsourced activity grew rapidly in the 1990s, with Railtrack being one of the major organisations to adopt this policy in full. Railtrack outsourced tens of thousands of directly employed maintenance personnel to a number of contractors – predominantly civil engineering companies operating in the construction sector. Railtrack's new approach to maintaining its infrastructure was widely criticised, the more so after a number of high profile maintenance-related accidents, in particular those at Hatfield in October 2000 and at Potters Bar in May 2002. The government then decided to establish Network Rail, a 'not-for-profit' mutual company, as a replacement for Railtrack. One of the early decisions Network Rail made was to take back the maintenance of the London-to-Reading section in-house. Within a few months, Network Rail decided to insource all maintenance across the whole of the rail network, and to re-employ the personnel associated with it.

In recent years, the rail industry has not been alone in driving an outsourcing policy for maintenance then reversing it – there are also examples in the electricity sector. The water industry has been more cautious in its drive to outsourcing and the results have been mixed. Benefits have been achieved on the 'below ground' assets. For 'above ground' assets, and in particular mechanical and electrical maintenance, there have been few examples of demonstrably effective contractual arrangements.

RAILTRACK TO NETWORK RAIL

Since privatisation of the Rail Industry, there has been a vigorous debate about how the industry was broken up and the problems associated with 'separating the wheel from the track'. There are, of course, merits in the proposition that responsibility for all aspects of a railway, from rolling stock through to the network, should lie with one organisation. Separating the wheel from the track is not, however, the main reason for Railtrack's failure to perform effectively.

My involvement with the rail industry shortly after privatisation, and in particular with Railtrack, led me rapidly to the conclusion that their philosophy for running an infrastructure company was seriously flawed. Railtrack's *raison d'etre* was to provide an infrastructure on which the Train Operating Companies (TOCs) could provide a service to their customers. Railtrack's task was to maintain the infrastructure and invest in its development with the Strategic Rail Authority (SRA). How, then, could one of its early decisions be to outsource the direct maintenance work – its core task?

The answer is that this was an act of self-deception: a straight-forward cost cutting measure to deliver immediate benefits in operational expenditure (OPEX) with no real understanding of the impact on capital maintenance expenditure (CAPEX). And that was not the only impact on railway performance. As well as the thousands of former British Rail employees who were outsourced to contracting companies, many experienced and committed employees were lost to the industry altogether through redundancy and early retirement. These were the people who knew how things worked.

In March 1998, I was asked to assist in the resolution of an issue in a partnering arrangement between Railtrack and two infrastructure contractors. Railtrack had established a partnering arrangement with the two →

contractors, outsourced the employees and established new contractual arrangements. Railtrack then informed both companies that the volume of work was to be reduced by 40%, and only one company would be required in future. My role was to achieve an amicable way forward between all parties within the spirit and objectives of the arrangements that had been established.

Despite the inauspicious circumstances, an agreement was achieved. However, what caused me the greatest concern was Railtrack's decision, with no obvious rationale in terms of the impact on asset performance, to cut the volume of work by such a large amount. There was bound to be an immediate financial benefit, but what were the long-term implications of a decision such as this? How would the recently outsourced workforce feel towards Railtrack, having been transferred to contractors and then faced with redundancy through reduced work volumes? It is easy to deliver short-term savings on maintaining infrastructure assets that are inherently robust, but the long-term effects will always surface, sometimes sooner than expected.

I spoke at a conference in December 1998 on the subject of "win/win partnerships" at a forum of potential rail

> **"The answer was a straightforward cost-cutting measure to deliver immediate benefits with no real understanding of the impact"**

maintenance contractors. The conference was titled '*Winning rail infrastructure maintenance contracts'* with the aim of enabling organisations to "examine the practicalities of putting together successful bids". Railtrack were to give the keynote address explaining the criteria on which maintenance contracts would be awarded. All the potential maintenance contractors to Railtrack were present and there was certainly an air of expectation from the delegates.

Railtrack failed to attend. In fact, no-one from Railtrack turned up at any stage of the two-day conference.

When I had finished my presentation on developing successful working relationships between client and supplier in maintenance contracts, I was asked in the Question and Answer session how contracting companies should respond to Railtrack's request to develop the asset management strategy for the network. I must admit to having been astounded by this question. No matter what asset management model you look at, the development of the asset management strategy is a long way away from the day-to-day maintenance work carried out in the field. My response was to question whether this requirement was a contractual obligation and, if not, it could not be considered the responsibility of the contractor. It is right that maintenance contractors should support the development of their client's asset management strategy, but not to develop it for them. Alarm bells were ringing!

It was in 1998 that I wrote an article entitled '*Outsourcing Maintenance – a question of strategy'* which queried the seemingly endless rush to outsource the maintenance activity, and focused in particular on the changes in the rail industry. Needless to say I have done no work in rail since 1998, but have remained an interested observer of recent developments.

The demise of Railtrack was not unexpected, particularly as the government had lost confidence in a Plc which continued to demand significant increases in public funding whilst delivering a perceived poorer service. Further, the media presented Railtrack's contractual arrangements as being poorly managed, with contractors' personnel inadequately trained for carrying out maintenance work on the railways. It was only a matter of time before an alternative to Railtrack would be sought.

The decision to establish Network Rail was, in my view, the only option for the rail infrastructure, as it removed the drive to reduce OPEX to meet shareholder aspirations and therefore cut costs on maintenance. Network Rail's focus is purely to maintain the infrastructure efficiently without needing to seek cost-cutting initiatives to deliver shareholder value.

The key requirement for a 'not-for-profit' mutual company is the capacity to raise capital investment for renovation of the infrastructure. This capacity had already been demonstrated by Welsh Water. Following the collapse of Hyder Plc, Welsh Water was acquired by a 'not-for-profit' company called Glas Cymru, and successfully secured private capital to fund the investment programme it had agreed with the regulator. Similarly, Network Rail now had the freedom to raise its capital resources to meet the railway's long-term infrastructure investment needs.

FUTURE DEVELOPMENTS

Re-integration pressures: There continues to be a degree of dissatisfaction with shape of the Rail Industry, particularly with policy making and regulation. Train Operating Companies (TOCs) continue to peddle the maxim of re-connecting the wheel to the track, and with Network Rail aligning its operating structure to the TOC franchises, this strengthens the argument for the TOCs to take on their own rail infrastructure.

One example now quoted is that of the Wessex Integrated Control Centre at Waterloo, where Network Rail's track managers work together with South-West Trains' managers to improve operational performance – just as happened with BR's Southern Region ten years ago. Is this not a case where this degree of co-operation should naturally lead to one organisation being formed to do everything as per pre-privatisation on a regional basis?

> Maintenance contractors should support the development of their client's asset management strategy, not develop it for them

One thing that the integrated control centre won't be doing, however, is managing short, medium and long-term maintenance requirements of the infrastructure assets. Somehow the pundits once again have failed to understand one of the core reasons for establishing Network Rail, and subsequent in-sourcing of all maintenance work, namely the necessity to directly manage infrastructure assets.

TOC take-on of rail infrastructure: If Railtrack as a Plc lost credibility as an infrastructure management company, why should a TOC do a better job? Merely stating that they will have accountability for every aspect of the railway doesn't necessarily mean that infrastructure maintenance will be a high priority. Let's face it, all Railtrack had to do was operate and maintain the rail infrastructure. Would this take priority over customer service and train punctuality? Somehow, I doubt it, and track and infrastructure maintenance would once again suffer the financial cost cutting pressures in order to deliver a value for money service to the fare paying customer.

It is true, however, that accountability – particularly for all aspects of performance and punctuality of the rail service and infrastructure – will lie with one organisation. But when it comes to investment, what will take priority – new rolling stock or new rails? And when it comes to infrastructure maintenance will the temptation to outsource and reduce costs be too great to resist?

MANAGING MAINTENANCE INFRASTRUCTURE ORGANISATION

It doesn't matter whether it's gas, electricity, water, roads or rail; the principal approach to maintaining infrastructure assets should be similar in every case. Although the customer is the final recipient of what the infrastructure provides, they have little or no interest in the workings of the infrastructure organisation in order to achieve the end product.

How many customers in the water industry are interested in the treatment and disposal of waste water? The same is the case in the rail industry. Customers are interested in the timeliness and conditions of the trains themselves and not in the rail signalling and infrastructure that the trains operate on. The priorities and drivers in an infrastructure company such as Network Rail are significantly different to those of the TOCs.

Asset management and effective maintenance of the assets should be the fundamental driver in any infrastructure organisation. Regardless of the financial models applied to secure investment, the operational business model must show alignment between operating and maintenance costs, capital maintenance to maintain the infrastructure, and strategic investment to replace the infrastructure on a long-term basis. It is only through demonstrably operating in this way that the travelling public can gain confidence that the infrastructure assets are in safe hands.

TRAUMATIC CHANGE

The rail industry continues to go through a traumatic process of change post-privatisation, to such an extent that the travelling public are now starting to yearn for the old days of British Rail – better the devil you know! Yet when we finally get to an operational model that starts to make some sense of the privatisation debacle, the reintroduction of the possibility of one organisation managing both trains and the rail infrastructure opportunistically being promoted by the TOCs, is merely pandering to the justifiable insecurity the public have with previous privatisation models.

Now is the time to resist further change and focus hard on making Network Rail a success as an infrastructure management company. The failure of Railtrack to recognise that its primary role was to manage infrastructure must not be forgotten and Network Rail

should be allowed to get on with their job quietly and effectively.

After all, how many road transport organisations are demanding to take control of the maintenance of the UK's road infrastructure? ■

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