

July 8, 2012 7:44 pm

Network Rail board sees breakdown of trust

By Mark Odell, Transport Correspondent



There has been a breakdown in trust between the board of Network Rail and its members, the quasi-shareholders who are meant to hold the taxpayer-funded company to account, according to its outgoing chairman.

In one of his last acts before stepping down, Rick Haythornthwaite has laid bare the problems of corporate governance at

the owner of the UK rail network. The company, which receives £4bn in government subsidy, is technically part of the private sector, but has no shareholders – a structure designed by the last Labour government to keep its £27bn in debts off the national balance sheet.

In a letter seen by the FT, Mr Haythornthwaite wrote:

“Members appear to the board to believe that a presumption of mistrust is a necessary launch pad for their role and the board does not trust the instinct of members to stick to their role and always act consistent with a commitment to the success of the company.”

His comments come as the company seeks to win the support of the 80 members, who are unpaid volunteers made up of private individuals and representatives from the rail industry, to halve their numbers at the annual general meeting on July 18. The reduction to 40 is designed to give the representative body more focus in holding the board to account.

The letter levels a series of charges at the members, including failing to act in the best interests of the company, lacking confidence in their role and conducting a “narrow ‘external’ trial” of the company in the press.

The attack comes as Network Rail has been plunged into a row with the regulator over a new executive bonus scheme against a backdrop of falling punctuality in long-distance rail services.

Mr Haythornthwaite will step down at the AGM after three years as chairman to be replaced by Richard Parry-Jones, a former senior executive at Ford.

The outgoing chairman's tenure was notable for the departure of the former chief executive Iain Coucher, whose confrontational management style led to widespread criticism and a backlash over executive remuneration.

Lord Berkeley, the Labour peer and one of the public members, said: "I am hoping we get a better working relationship with the new chairman but it has to be two-way. Our job is to hold [the board] to account but he [Mr Haythornthwaite] doesn't like that."

Mr Haythornthwaite told the FT over the weekend: "The members are an essential part of Network Rail's governance but the current structure, introduced when Network Rail was created over 10 years ago, has never been ideal. It's cumbersome size does not lend itself to create a strong relationship built on trust, which is why we have been working with members, who are supportive of the principle of change, to create something better."

Sir David Higgins, who took over as chief executive in early 2011, has been widely praised for changing the culture of Network Rail and is central to driving the government's policy to cut the costs of running the railways by working more closely with train operators.

However, Network Rail's attempt last week to put in place a new executive bonus scheme, which is required to have as part of its licence conditions, were attacked by Labour. Maria Eagle, shadow transport secretary, said in the current climate the proposals showed the board was "hopelessly out of touch".

On-time performance has slipped from record levels on long-distance rail routes recently and Network Rail has warned that it will struggle to lift performance on a network that in many places is close to capacity.

Punctuality is running at above 90 per cent with more than 1.3bn passengers a year, the highest levels since the late 1920s when the rail network was twice the size.

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July 10, 2012 9:47 pm

Rail chairman wades into pay storm

By Mark Odell, Transport correspondent

The constant sniping at Network Rail about its executive bonus scheme has to stop or the organisation will lose talent to the private sector, its outgoing chairman has warned.

Labour last week attacked plans by the owner of the UK rail network for a new incentive scheme that could see top managers get payouts of more than £14m, after it emerged the regulator had questioned whether the new scheme met all the criteria.

Rick Haythornthwaite, who steps down as chairman later this month after three years in the role, cautioned that any intervention by politicians would seriously damage the company's ability to attract talent.

"This is a very, very complex company," he told the FT. "The main question is where do we recruit talent from and lose it to and that is undoubtedly the private sector. And that sets the competitive challenge we have to try to meet. That doesn't mean blindly matching [bonuses paid elsewhere] but it sets the context.

"We have two choices here. We either make as much of the pay as performance-related as we can or you bake it into fixed costs. Given that choice why would you bake it into fixed costs? If you look at it that way round, it becomes foolhardy not to have performance-related pay in there."

His comments reflect a strong feeling at the top of Network Rail that it has unnecessarily been pulled into the row over bankers' bonuses. Earlier this year, Sir David Higgins, chief executive, and five directors waived their annual bonuses amid sustained political pressure and the storm over City pay.

The board also shelved plans for a new long-term incentive scheme after the intervention in February by Justine Greening, the transport secretary, who called for restraint. This time round the government has remained silent on plans for a new bonus scheme, not least because Network Rail is required to have a scheme as part of the licence conditions set by the regulator.

“In the end we have always been quite clear that we pay you a salary to deliver success and we only pay you a performance payment to deliver exceptional success,” said Mr Haythornthwaite.

The 55-year-old, who is also chairman of MasterCard, said politicians and the public seemed to perceive Network Rail and the wider industry as a failure, ignoring the achievements of the past decade. “I have only been in the industry for a brief period but if you look at it relative to 10 years ago, it has 1m more trains running, half a billion more passenger miles, record levels of performance and record levels of safety. Why doesn’t that feel like a success?”

Network Rail, which receives £4bn in taxpayer funding a year, has been warned by the regulator recently that it is missing punctuality targets on long-distance routes.

But Mr Haythornthwaite warned that Network Rail would struggle to lift performance on a network that in many places is close to capacity and called for a wider debate about the future shape of the industry.

Punctuality is running at more than 90 per cent on a network that carries 1.3bn passengers a year – the highest levels since the late 1920s when the network was twice the size.

PUNCTUALITY CHANGE

Commuters and regular train users, used to frequent delays, can finally stop wondering why their perception of reality seems to jar with industry claims that punctuality is hitting record levels of more than 90 per cent.

On Tuesday, under pressure from the government, the UK railway industry is thought to have become the first in the world to publish a measure of on-time arrivals to within a minute.

This more accurate measure of how services performed according to timetable shows that fewer than 70 per cent of trains were classed as on time in the 12 months to the end of March.

The government said it would stick to the standard measures of punctuality – which allows a leeway of five minutes for commuter services and 10 minutes for long-distance trains – as it gave the industry “essential flexibility to manage minor disruptions”. But Norman Baker, transport minister, said he would be “urging train

operators to go that extra mile” and push real on-time performance “up even higher”.

Tuesday's figures show that 69.8 per cent of trains arrived within 59 seconds of their scheduled time in the past 12 months, close to the record of 70.2 per cent two years ago.

But things have got a lot better than a decade ago when “real” on-time performance stood at just 46.9 per cent. At the same time the network has got much busier, carrying 40 per cent more passengers and 1m more train services.

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