



# **Network Rail Public Members Annual Statement of Activity 2012 - 2013**

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## Introduction

Network Rail's purpose is to deliver a safe, reliable and efficient railway for Britain. It is a 'not for shareholder dividend' company with all profits going back into improving the railway network or to the UK and Scottish governments. As a company limited by guarantee, it is a private company operating as a commercial business. Although Network Rail is not listed on the London Stock Exchange, the company follows Listing Rules and Governance Codes. Accordingly, the Network Rail Board is directly accountable to Public Members instead of shareholders. The Department for Transport is also a Member but does not customarily attend meetings of Members.

The Board provides the primary governance of Network Rail, with Members providing 'secondary governance' holding the Board to account for its leadership and management. However, it is not the role of Public Members to set the strategic direction or engage in management of Network Rail. The role of Public Members is similar to the role of shareholders in public limited companies, except that Public Members have no financial interest in Network Rail.

This is the first Annual Activity Statement (the "Statement") compiled by Network Rail Public Members. Following good governance practice the statement records the activities of the Public Members in their role of "holding the Board to account" as set out in the Articles of Association of the company. Public Members are appointed as individuals and are able to challenge and communicate with Board members on a personal basis. This statement does not attempt to report on all dialogue between Public Members and the Board but rather it seeks to summarise the main activities undertaken by the membership over the course of the year. It demonstrates how members have discharged their responsibility to hold the Board to account for its management of Network Rail and monitored Network Rail's management against high standards of corporate governance.

New Members are appointed in late November each year and for 2012-2013 this statement covers the period 26 November 2012 to 25 November 2013.

## Summary

The year 2012/2013 has seen positive progress in the development of the Network Rail governance model. Following the reduction in the number of Public Members agreed at the 2012 Annual General Meeting, the breadth and depth of engagement between members and Network Rail has developed further. A revised membership policy, a service level agreement, the creation of engagement groups and increased administrative support have all significantly enhanced communication and relationships between Public Members and the company. A substantially revised and enhanced Public Member Induction course has also enabled new members to make early contributions to member activities. There are currently 43 Public Members, plus the Department for Transport (DfT) which is a Special Member. During the period of this report, the DfT has not attended any Members' meetings.

The focus of Members is primarily on the Board and how it provides effective corporate governance, particularly the non-executive directors in their role of providing effective challenge. All Member events have generally been well supported by directors and the record of attendance of non-executive directors is set out in Appendix 3. It remains difficult for Members to gauge the contribution and impact of those directors who do not subject themselves regularly to the non-executive scrutiny sessions.

The effectiveness of Public Members is to an extent dependent on the openness of the Board and its preparedness to provide appropriate information in good time. At present the scrutiny and challenge which Members can offer is often retrospective and the reasoning and rationale behind board decisions is not always evident. Whilst the non-executive director scrutiny sessions are essential the exchanges are not always adequately supported by information to explain and expand on the issues addressed.

In further enhancing the governance model in 2013/14 Members are aiming to:

- systematically examine the challenge and oversight the Board gives to different aspects of the business through jointly agreed agendas for member workshops and engagement groups;
- encourage the Board to take an increasingly pro-active approach to demonstrating robust governance by the provision of appropriate, timely information and evidence which demonstrates how the Board provides effective oversight and challenge to executive management.

## The Role of Public Members

Public Members are appointed as individuals with the role of holding the Board to account for its management of Network Rail by:

- Monitoring the Board's management of the performance of Network Rail against:
  - high standards of corporate governance;
  - government operational output specifications; and
  - its regulatory operational and financial targets.
- Engaging with the Board to raise queries or express views objectively and in an informed way where Board performance falls below the above standards, outputs or targets and acknowledging progress and success where achieved.
- Seeking assurance as to the governance procedures and processes designed to facilitate the delivery of the strategic objectives of Network Rail.
- Participating actively in meetings of Public Members
- Attending and voting at general meetings of Network Rail

The role of the Public Member is further explained in [The role of a Public Member](#) (PDF) on the Network Rail website.

Public Members are recruited on an annual basis and currently appointed for a three year term. The recruitment process commences around March each year with the successful applicants commencing their appointment in late November.

Public Members of Network Rail are selected and appointed in accordance with a [Members Policy](#). An independent Membership Selection Panel (MSP) oversees the process of publicising the opportunity to become a Public Member, analysing the applications and making recommendations to the Network Rail Board.

Public Members agree to comply with a [Public Members' Code of Practice](#) when carrying out their role. Public Members are volunteers; but can claim expenses in line with an expenses policy. Summaries of expenses incurred by Public Members and the expenses policy are available on the Network Rail website at [Expenses](#).

Profiles of all of the Network Rail Members can be found on the Network Rail website at

<http://www.networkrail.co.uk/structure-and-governance/members/biographies/>

## **How Members work.**

### **Members' Coordinator**

Although appointed as individuals the Members have agreed to establish the post of Coordinator to act as the single point of contact when needed and to facilitate relationships between Members and the Board of Network Rail. The Coordinator is elected by Members for a 12 month period, and is eligible to stand for one further 12 month term.

The role of the Members' Coordinator includes setting up Members' meetings, setting the agenda for those meetings after seeking Members' input, chairing the meetings and following up as appropriate on the priorities identified by Members; the Coordinator also works with Network Rail to establish the agendas for future consultation/workshops, seeks to ensure that arrangements for such consultations are as effective as possible, and chairs the scrutiny sessions with non-executive directors.

The Members' Coordinator produces a written update for Members following meetings with the Chairman and Company Secretary and at other intervals.

Currently the position of Members' Coordinator is held by Peter Skyte who has been elected for a second 12 month term until October 2014.

### **Members' meetings**

A programme of regular meetings involving all Members is arranged each year. This typically includes:

- Member workshops - where Members receive reports on a range of business issues and have the opportunity to scrutinise the Board about its activities and company performance;
- Site visits – when Members visit one of Network Rail's operational sites to keep in touch with key business developments;
- Meetings with the Office of Rail Regulation (ORR), the rail regulator, to receive updates on their perceptions of Network Rail performance;
- Members Half Year meeting in December - to receive the Half Year company report; and
- The Annual General Meeting in July - to receive the Annual Report and appoint directors.

In addition, in 2012-2013 special Engagement Groups have been established for specific business areas. At present these cover People, Safety, Finance and Risk, Future and Performance. These groups each provide the opportunity for a smaller group of members to probe and scrutinise business issues in more depth. Typically these groups have met twice during this year with the exception of the Future Engagement Group where a planned meeting was postponed.

A list of the Member and Engagement Group meetings and other activities conducted between 26 November 2012 and 25 November 2013 is set out in Appendix 1.

### **Network Rail support for Members**

The work of the Members is supported by a dedicated team within the Company Secretariat.

We wish to place on record our thanks for the assistance given by these staff and also the Chairman, Board and Senior Executives of the Company.

## Activities of Members in 2012-2013

A list of member events and activities in 2012/2013 is set out at Appendix 1, together with a list of attendances of Members at Appendix 2. This section aims to highlight the key issues which members have addressed in the year.

### Background and Context

As this is the first Annual Statement produced by Members, we include some background on matters which have a bearing on current events and activities. In previous years Members have been active in challenging the Board and some of these issues remain live and inform current Member activity and attention. These include:

#### Underreporting of Accident Events

In 2010/11 against a Member view of some resistance from the Board, Members challenged the underreporting of accidents and potentially dangerous safety incidents. A subsequent independent inquiry by the [Rail Safety and Standards Board](#) (RSSB) confirmed the nature and extent of the underreporting. Network Rail has addressed the problem though it has taken some time to fully resolve. Members maintain oversight of this issue.

#### Resolution 24

At the AGM in 2011, Members carried Resolution 24. The Non-Executive Directors were commissioned by the Members to review how the company's internal audit, investigatory and response processes could be improved.

A review was initiated in early 2012 focusing on two areas:

- Part 1; a Review of Early Warning Process, and
- Part 2; a Review of Assurance Framework

A report was received in autumn 2012 and discussed with Members at the October 2012 Members' meeting. The recommendations are being implemented by a new Governance Risk Assurance (GRA) process.

#### Appointment of new Chairman as a Director

Members voted to elect Richard Parry-Jones as a Director of the Network Rail Board at the 2012 Annual General Meeting.



## **Summary of key matters raised with the Board of Network Rail in 2012/13**

The following (non-exhaustive) list of topics indicates matters raised by Public Members with the Board over the course of the various meetings listed in Appendix 1

### *Issues raised at Members Workshops and the Half Year meeting*

1. Executive remuneration and the Management Incentive Plan, including challenge to the structure of directors' Long Term Incentive Plan (LTIP) and Annual Incentive Plan (AIP) bonus schemes
2. Strategic Business Plan
3. ORR Periodic Review 2013 and Draft Determination of Network Rail spending
4. Board Governance
5. Half year and full year financial results
6. Financial strategies including debt and hedging policy, mitigation of financial risk, and Financial Value Added (FVA) as a measure of financial performance
7. Operational performance
8. Asset management
9. Technology and innovation strategies
10. Management of the Corporate Risk Register
11. Discussion of efficiency measures
12. Blacklisting of potential employees - a Board initiated review concluded that they had found no evidence of such practice at Network Rail.

### *Issues raised by Members in Scotland*

Scottish Network Rail Members met separately with the Network Route Director for Scotland and Transport Scotland, who are part funders of Network Rail, to discuss safety and operational matters. Of particular interest was the progress being made in the major Glasgow-Edinburgh Improvement Project, level crossing safety and improvement in Inverness and Aberdeen services.

### *Annual General Meeting*

The 2013 AGM was held in Cardiff on 18 July. Topics covered in the general session were;

1. Chief Executive's review
2. Group Finance Director's review

The AGM business resulted in resolutions being carried as follows:

1. Thirteen Directors were either elected (for the first time) or re-elected.
2. PriceWaterhouseCoopers LLP were re-appointed as the company's auditors

3. The three existing members of the Membership Selection Panel were all re-appointed
4. The Directors' Remuneration Report was approved by a substantial majority of Members
5. The Management Incentive Plan was approved by a substantial majority of Members
6. Authorisation for the incurring of political expenditure was approved although Network Rail gave assurances that they do not make any donations to any political party.

A summary of voting on resolutions at the AGM is provided in Appendix 4.

#### Issues raised at the Safety Engagement group

There were two Safety Engagement Group meetings in the year. At the first Members were briefed on the new long-term safety strategy, the 'bow-tie' methodology of risk analysis and the key safety risks, the safety culture programme and the revised assurance arrangements. Members' questions centred on:

- The scope of the strategy and how it applied to contractors;
- The impact of infrastructure failures such as embankment collapse and how this affected train accident risk;
- How climate change had been factored into the strategy;
- The limits of using only event data to monitor those measures to control the risk of train accidents and the potential benefits of the 'bow-tie' approach.

At the second meeting Members concentrated their attention on the catastrophic train accident risk and examined the activities of the Safety, Health and Environment (SHE) Committee of the Network Rail Board, and in particular:

1. how the SHE committee planned its work to give proportionate attention to the key components and mitigating systems identified in the bow-tie risk analysis;
2. the purpose and methods of the SHE Committee's 'deep-dives' and what the Committee has covered and learned from the process so far;
3. how structures are monitored as part of managing train accident risk;
4. strategies for improving train accident risk and how strategy implementation and success is measured;
5. how assurance activities proportionately address the train accident risk and the recent findings;
6. the development of new approaches to measuring train accident risk and the plans and progress being made;

Issues raised at the People Engagement Group

1. Executive remuneration including the Management Incentive Plan and Long Term Incentive Plan (LTIP)
2. Succession planning and talent management

Issues raised at the Finance and Risk Engagement Group

1. Efficiency reporting with consideration of the pros and cons of using Real Economic Efficiency Measure (REEM) and Financial Value Added (FVA)
2. Debt and hedging
3. Governance, Risk and Assurance programme
4. Enterprise Risk Management (ERM) in Network Rail

Issues raised at the Performance Engagement Group

1. Challenges of growth, access, capacity, weather and costs
2. Control Period (CP) 4 targets and actual achievements
3. Infrastructure development
4. Future performance and planning programme

### ***Meetings with the Office of Rail Regulation (ORR)***

Since November 2012, Members now meet with the ORR twice a year. This represents a change from the past when there was only one meeting a year. At these meetings, the ORR is represented by the Chair, other Board members, the Chief Executive and other Executive Directors. Topics covered at the June meeting, the only meeting in the period covered by this Statement, included:

- Network Rail delivery in 2012-13, covering health and safety, performance and efficiency
- Periodic Review 2013
- Network Rail Management Incentive Plan

These meetings provide a welcome opportunity for Members to question and challenge ORR, and also for a mutual exchange of views and information about the operation and delivery of Network Rail.

## Appendix 1

### List of Public Member Events and Activities 2012-2013

Date	Event	Key Issues Addressed
4/5 December 2012	New Members Induction	New and existing members were briefed on: <ul style="list-style-type: none"> <li>• The structure of Network Rail (NR)</li> <li>• The scope of NR responsibilities and its role in the UK Rail industry</li> <li>• The governance structure of NR and the role of members</li> </ul>
13 December 2012	Members Half-yearly Meeting	<ul style="list-style-type: none"> <li>• Executive Remuneration – Market Data</li> <li>• Resolution 24</li> <li>• Half Year Performance</li> <li>• Non-Executive Director Scrutiny Session</li> </ul>
16 January 2013	People Engagement Group	<ul style="list-style-type: none"> <li>• Executive Remuneration</li> </ul>
24 January 2013	Members Workshop	<ul style="list-style-type: none"> <li>• Public Member Recruitment 2013</li> <li>• Strategic Business Plan</li> <li>• Non-Executive Director Scrutiny Session</li> </ul>
5 March 2013	Safety Engagement Group	<ul style="list-style-type: none"> <li>• Safety Strategy</li> <li>• Key Risks</li> <li>• Performance</li> <li>• Assurance and Governance</li> <li>• Culture and Behaviours</li> </ul>
5 April 2013	People Engagement Group	<ul style="list-style-type: none"> <li>• Succession planning and talent management</li> <li>• Remuneration</li> </ul>
9 April 2013	New and re-appointed Members meeting with ORR	1. Briefing on role and approach of ORR
23 April 2013	Members Workshop	<ul style="list-style-type: none"> <li>• Update on Board Governance</li> <li>• Update on the Strategic Business Plan</li> <li>• Remuneration, the Long Term Incentive Plan (LTIP), and Financial Value Added (FVA).</li> </ul>
15 May 2013	Members Site Visit to Network Rail National Centre, Milton Keynes.	Asset Information and the enhancement the ORBIS programme to build a system, to deliver a single railway infrastructure network

		model, and decision support tools for customer
24 May 2013	Extra Members' Workshop	Executive remuneration and Long Term Incentive Plan
29 May 2013	Performance Engagement Group	<ul style="list-style-type: none"> <li>• Challenges – Growth, Access, Capacity, Weather, Costs;</li> <li>• CP4 Targets versus Actual Achievements;</li> <li>• Infrastructure Development;</li> <li>• Future Performance Planning Programme</li> </ul>
31 May 2013	Finance and Risk Engagement Group	<ul style="list-style-type: none"> <li>• Efficiency mechanisms</li> <li>• Financial Value Added (FVA), Process and calculations</li> <li>• Debt and hedging issues</li> <li>• Update on progress with Governance, Risk and Assurance programme</li> <li>• Discussion on Enterprise Risk Management and Key Risks</li> </ul>
20 June 2013	Members Meeting with ORR	<ul style="list-style-type: none"> <li>• Network Rail delivery in 2012-13, covering health and safety, performance and efficiency</li> <li>• Periodic Review 2013</li> <li>• Network Rail Management Incentive Plan</li> </ul>
2 July 2013	Members Workshop	<ul style="list-style-type: none"> <li>• Periodic Review 2013 – Update</li> <li>• Full Year Results</li> <li>• Technology and Innovation Strategies</li> <li>• Non-Executive Director Scrutiny Session</li> </ul>
17/18 July 2013	Company Annual General Meeting	See fuller report on page 10
5 September 2013	Safety Engagement Group	<ul style="list-style-type: none"> <li>• Overview of safety performance</li> <li>• Train accident risk <ul style="list-style-type: none"> <li>○ Bow-tie process</li> <li>○ Deep dive process</li> <li>○ Measuring train accident risk</li> </ul> </li> <li>• ORR Annual H&amp;S Report</li> <li>• Assurance</li> <li>• SHE Committee programme of review</li> </ul>

12 September 2013	Members Site Visit to Birmingham New Street station	Tour round site and detailed presentation and explanation of works being carried out to modernise and upgrade the station
9 October 2013	Members Workshop	<ul style="list-style-type: none"> <li>• Safety: <ul style="list-style-type: none"> <li>○ Half Year Performance 2013/14</li> <li>○ Safety-Related Culture Change Programme</li> </ul> </li> <li>• Progress Update on Periodic Review Process and CP5</li> <li>• Remuneration Update</li> <li>• CEO Succession Process</li> <li>• Non-Executive Director Scrutiny Session</li> </ul>
23 October 2013	Finance and Risk Engagement Group	<ul style="list-style-type: none"> <li>• Depot Project</li> <li>• Governance, Risk and Assurance</li> <li>• Enterprise Risk Update</li> <li>• Managing Risk in Large Capital</li> </ul>
15 November 2013	Performance Engagement Group	<ul style="list-style-type: none"> <li>• Infrastructure Projects <ul style="list-style-type: none"> <li>○ Organisation Chart</li> <li>○ Ambition, Objective and Strategy</li> <li>○ Completed Programmes</li> <li>○ Ongoing Programmes</li> </ul> </li> <li>• How is Network Rail performing? <ul style="list-style-type: none"> <li>○ 2012/13</li> <li>○ 2013/14</li> <li>○ CP5 profile</li> </ul> </li> <li>• Impact on Train Performance.</li> </ul>

## Appendix 2      Potential and actual attendance at Network Rail plenary meetings by Public Members

Members are required to attend the AGM each year either in person or in proxy, and also encouraged to participate in other meetings between Public Members and members of the Board of Network Rail and other key stakeholders.

Public Member	Potential No. of Attendances	Actual No. of Attendances
Mohammed Aslam	7	7
Tony Berkeley	7	5
Nigel Bicknell	7	7
David Brew	7	7
Noel Burton	7	7
Peter Bury	7	7
David Campbell	7	6
Roger Clutton	7	3
Tara Davies	7	3
Judith Donovan	7	7
Patrick Donovan	7	2
Arnab Dutt	7	4
Louise Fluker	7	5
David Gartside	7	5
Stephen Greep	7	1
Rhys Jarvis	7	6
Oliver Johnson	7	2
Patricia Leahy	7	5
Chris Lewin	7	7
Jane Linney	7	6
Peter McIntyre	7	5
Neil Menzies	7	5
Peter Morgan	7	6
Helen Munro	7	0
Saker Nusseibeh	7	4
Keith Oates	7	7
Ric Piper	7	3
Richard Poppleston	7	4
David Porter	7	7
Clare Potter	7	6
Simon Reed	7	0
William Robinson	7	6
Tony Roche	7	5
Ted Sangster	7	2
Ivan Sedgwick	7	7
Peter Skyte	7	7
Brian Smith	7	5
Kate Stross	7	7
Christine Tacon	7	5
George Taylor	7	6
Steve Tyson	7	6
Sara Vaughan	7	3
Nicholas Ward	7	5
Kevin Williams	7	6



## Appendix 3

### Attendance at plenary meetings by Non-Executive Directors

Name	No. of Meetings Attended
Malcolm Brinded	3
Graham Eccles	4
Mike Firth	5
Lawrie Haynes	3
Janis Kong	3
Keith Ludeman	2
Michael O'Higgins	5
Richard Parry- Jones	7
Bridget Rosewell	4

## Appendix 4

### Summary of Voting on Resolutions at 2013 AGM

#### Announcement of Network Rail's annual general meeting (AGM) poll votes

Following the Network Rail Limited AGM held on 18 July 2013, the results are as follows.

Resolutions numbered 1 to 22 (inclusive) were proposed as ordinary resolutions.

Resolution	For		Against		Withheld*
	Number	%	Number	%	
1. To receive the annual report and accounts	41	100	0	0	0
2. To approve the directors' remuneration report	37	94.87	2	5.13	2
3. To elect Michael O'Higgins as a director	22	91.67	2	8.33	16
4. To re-elect Malcolm Brinded as a director	41	100	0	0	0
5. To re-elect Patrick Butcher as a director	40	97.56	1	2.44	0
6. To re-elect Mike Firth as a director	41	100	0	0	0
7. To re-elect Robin Gisby as a director	41	100	0	0	0
8. To re-elect Lawrie Haynes as a director	39	100	0	0	2
9. To re-elect David Higgins as a director	41	100	0	0	0
10. To re-elect Simon Kirby as a director	41	100	0	0	0
11. To re-elect Janis Kong as a director	26	78.79	7	21.21	8
12. To re-elect Keith Ludeman as a director	40	100	0	0	1
13. To re-elect Richard Parry-Jones as a director	41	100	0	0	0
14. To re-elect Paul Plummer as a director	40	100	0	0	1
15. To re-elect Bridget Rosewell as a director	24	85.71	4	14.29	13
16. To reappoint PricewaterhouseCoopers LLP	41	100	0	0	0
17. To authorise the directors to determine the auditors' remuneration	41	100	0	0	0
18. To authorise the incurring of political donations	36	90	4	10	1
19. To appoint Elizabeth McMeikan as a member of the membership selection panel	40	100	0	0	1
20. To appoint Sheila Drew Smith as a member of the membership selection panel	40	100	0	0	1
21. To appoint Penny Boys as a member of the membership selection panel	40	100	0	0	1
22. To approve the management incentive plan	32	86.49	5	13.51	4