Back on track

AS HE DEPARTS NETWORK RAIL AFTER MORE THAN 30 YEARS IN THE RAIL SECTOR, OUTGOING GROUP TREASURER TREVOR WINTER TELLS **GRAHAM BUCK** HOW THE INDUSTRY'S FORTUNES WERE REVIVED.

Ten years ago, Britain's railway system was in crisis. A spate of accidents in the years after privatisation exposed structural problems that culminated in the Hatfield crash of October 2000. It became clear that the railways had lost many of the skilled engineers that understood the problems. By October 2001 the government had lost patience and Railtrack, the company that had taken over the infrastructure and most of the stations from British Rail, was put into administration.

A decade on, while the public still grumbles about trains, Railtrack's successor Network Rail can claim to be a much more efficient organisation. Between 2004 and 2009 it reduced operating costs by 29% and is on course to achieve a further 22% saving in the current five-year period to 2014.

"We now carry more passengers than at any time since the 1920s on a network little more than half the size it was then," says Trevor Winter, former group treasurer at Network Rail, who spent more than three decades in the industry.

"Rail is now Britain's safest form of transport and performance has improved from 78% of trains running on time to 92%. So we've grown our business, while improving performance, cutting costs and improving safety. Think of the joy if the NHS or Royal Mail achieved a similar combination!"

Has Britain's traditional reluctance to match the levels of train subsidy of some European neighbours made that achievement tougher?

"Different countries fund their networks in different ways," replies Winter. "Frankly, it doesn't matter where that money comes from – it is regulated and guaranteed. The challenge is that of efficiency, and demonstrating ever greater value for all our funders."

Winter's career has been almost entirely in railways. He joined British Rail in 1977 when it was a much maligned institution, although as he notes wryly "the public now looks back on it nostalgically".

However, his career began a year earlier when he joined Eurosteel as a shipping clerk at the age of 16. As he recalls, this first job was an important one; not only was it where he met his wife-to-be but he took on a level of responsibility "that was out of keeping for a young chap fresh out of school. I was clearing major consignments of steel through Customs into the UK, getting the necessary paperwork completed and organising deliveries to stockyards."

His first position at BR was in its central banking unit, as director of the funds department. His next role was as management accountant at BR subsidiary British Transport Hotels and he moved to "a fabulous converted Edwardian style drawing room" at St Pancras station in London. Five years in this role was followed by three years as finance manager for BR's rail projects division, which was then engaged in electrifying the East Coast main line and building new rolling stock.

"I learned much about project-managing from my boss, who was one of the industry's finest," says Winter. "It was all about getting commitment from those involved in the project and making them responsible for their outputs. If you didn't deliver as promised, people didn't forget that failure."

His move into treasury came in 1988, as leasing manager within BR's treasury function. The leasing department aimed to raise funds more cheaply than the Gilts plus one-eighth it could get from the government's Loans Fund.

Winter reviewed BR's tax position and the most favourable option was to raise money, using plant and machinery as the assets. "With hindsight, BR did a decent job given that it laboured under massive financial restrictions," says Winter. "Cash was managed well but its major failing was that it had little perception of customer service."

Privatisation came after the 1992 election. Treasury mandarin Sir Steve Robson, chief architect of the Railways Act 1993, saw trains as a drain on the public purse. The decision was taken to divorce control of the track from that of the trains and replace BR with separate companies, so the track authority, maintenance companies, train operators and train leasing companies were independent of each other.

"I was asked to set up a treasury department from scratch for the new company Railtrack," says Winter, who became its assistant treasurer. "Although I gained familiarity with the business, its structure and the markets it was still a steep learning curve – we were given no more than nine months to set up Railtrack as a fully functioning business."

Despite the challenging deadline, Railtrack began operating on 1 April 1994 – as a government company contracted to BR and with a full treasury department in place. Just over two years later, the company was floated on the stock market and the treasury team took on a heavy workload of preparing the offering prospectus.

The company quickly joined the FTSE 100 and was an investor favourite in the early days. "Railtrack was regarded as a reliable utility and thus a defensive stock," says Winter. "So all went swimmingly at first, concealing what were inherent weaknesses in the new structure."

However, as BR's engineers worked for the maintenance companies

their expertise was dispersed. Railtrack sought to cut costs further, without realising the impact on its assets until a series of accidents revealed that upkeep of signals and track was suffering.

"BR was permanently on a tight financial leash and effectively underfunded, so its ability to invest was restricted by managers and it couldn't invest for the long term," he adds. "Railtrack had access to a full range of funding, but the model ultimately failed as its subsidy was regarded as lining shareholders' pockets through dividends."

Network Rail differs from its predecessors as neither the government nor shareholders wields control. "The group is owned by members from all parts of the rail industry and mandated to run itself as if it was an FTSE 100 company," says Winter, who took up the post of head of treasury operations.

"Treasury is run in the same way as a FTSE blue chip, acting as a cost reduction centre. The big difference is that our debt is backed by government guarantee. When we approach the market the focus is on fineness of price and our ability to access liquidity isn't an issue."

Another big change is Network Rail's five-year control periods for funding, which gives it certainty of income in return for agreed outputs and investments. The group established a £20bn debt issuance programme in 2004 (since grown to £35bn) covering all forms of debt, and in 2008 launched into the index-linked bond market. The group routinely borrows around £4bn each year.

The next step will be to move Network Rail away from its government guarantee and closer to the private sector for its fundraising. "This will impose a greater financial discipline that should negate the extra cost of raising debt without the guarantee."

Despite the organisation's size – and an investor relations programme requiring regular global travel – Network Rail's treasury team is no more than seven people, including secretarial support. "To manage our large debt and derivatives book, we've recruited excellent young talent," says Winter. "If you can recruit the right people and give them hands-on practical experience while allying this to the ACT's study course, then you get a potent combination.

"My philosophy is that if you get the right people and get them suitably qualified, then you have the quality you need without unnecessary quantity, which is something the ACT provides. I was lucky enough to be at the receiving end of this mentoring style of management when I began my career so I'm a great advocate of it."

As he steps down from Network Rail's treasury team to take a short sabbatical and consider where he wants his career to take him next, Winter says his experience has taught him many rewarding lessons.

"If there's one saying a treasurer should observe it's 'make hay while the sun shines'," he advises. "You should always raise your finance today – not wait until tomorrow."

He will remain chair of the company's £4bn pension scheme and continue his voluntary work with charity Mencap. "After dealing with sometimes aggressive investment banks, it's a nice contrast to take a group of young people to the bowling alley for an evening out," he says. "It provides a sense of balance and perspective."

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Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR COLLEAGUES? "How much is that going to cost us?"

WORDS YOU MOST OFTEN SAY TO YOUR TEAM? "Well done and thank you."

DOUBLE DIP OR GROWTH AHEAD? Flat growth for the next year then a pick-up around the 2012 Olympics.

WHAT'S YOUR ADVICE TO TREASURERS? If you can borrow a little more than you need, do so, and leave the last couple of basis points on the table.

DEBT OR EQUITY? Both have their place but I have always been a debt man myself.

FIXED OR FLOATING RATE? With my utility background, two-thirds fixed and one-third floating.

YOUR BIGGEST SUCCESS? Overcoming the administration of Railtrack and helping Network Rail become a borrower of the year.

PROUDEST ACHIEVEMENT? Chairing the company's £4bn final salary scheme.

MOST VALUABLE PART OF THE ACT MEMBERSHIP? Access to a wide range of people, all facing the same challenges as you.

REASON FOR ATTENDING ACT CONFERENCE/EVENTS? Learning and networking.

GADGET THAT IS ALWAYS WITH YOU? Blackberry.