House of Commons
Transport Committee

Investing in the railway

Seventh Report of Session 2014–15
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Report, together with formal minutes relating to the report

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The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its Associate Public Bodies.

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The Reports of the Committee and the formal minutes relating to that report are available in a printed volume. Written evidence is published on the internet only.

Committee staff

The current staff of the Committee are Gordon Clarke (Clerk), Nick Beech (Second Clerk), Alexandra Meakin (Committee Specialist), Adrian Hitchins (Senior Committee Assistant), Stewart McIlvenna (Committee Assistant), and Hannah Pearce (Media Officer)

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Summary

The Government has committed to a record level of funding for Network Rail for the five-year period from 2014–2019, for the operation, maintenance and enhancement of the rail network. This welcome investment on enhancements—at a time of limits on public spending—is aimed at meeting the demand for both passenger rail and freight services which has grown substantially year-on-year. Network Rail’s capacity to deliver this ambitious programme has been brought into question following the Christmas 2014 overrunning engineering works, which caused chaos for thousands of passengers expecting to travel to and from Paddington and King’s Cross. The continued disruption at London Bridge has compounded these concerns: Network Rail must demonstrate that it can deliver the objectives it has been funded to deliver.

We have also called for the benefits of this record investment to be maximised by setting the 2014-19 work programme into a longer-term strategic vision, which sets out provisional objectives for future spending, and considers the rail network as part of an integrated transport strategy, which takes a route-based approach to road and rail investment, and prioritise connectivity to ports and airports. A revised—and published—criteria for allocating funding will take into account the wider economic and social objectives of rail investment, and help to ensure a fairer distribution of spending across the country.

Finally, this inquiry has focused on the classic rail network. But we repeat our recommendation that the benefits of HS2 will only be maximised by ensuring connectivity between the classic and high-speed network, including improving East-West rail links across the country. The Department should clarify its future plans for improving trans-Pennine links—the Chancellor’s proposed HS3—and consider such plans alongside its proposals for future investment in the classic network.
Investing in the railway
1 Introduction

1. Over the next five years Network Rail will receive £38 billion to operate, maintain and improve the railway in England, Wales and Scotland. In announcing the spending in March 2014, the Secretary of State said it would “generate growth, create jobs and boost business while delivering faster journeys, greater comfort and better punctuality for passengers”. The funding settlement covers Network Rail’s Control Period 5 (CP5)—1 April 2014 to 31 March 2019—and was developed through a complex and lengthy process: the Periodic Review 2013 (PR13).

2. This is a record amount of spending from the Government for the railways, and we launched this inquiry to consider the potential for this investment to transform connectivity across the country: increasing links between cities and helping to make jobs accessible, and improving links from ports and airports, for both passenger rail and freight. We considered the Government’s strategy for rail, as set out in the 2012 High Level Output Specification. We assessed the criteria for the allocation of funding—mindful of concerns that rail investment has focused disproportionately on London and the South East. We also considered whether Network Rail has the capacity to deliver the major engineering works planned—an issue made timely by the disruption faced by passengers over the Christmas period, and at London Bridge station in the New Year. Questions about Network Rail’s performance, and the way funding is allocated also brought in the role of the Office of Rail Regulation (ORR)—which serves the dual function of economic and safety regulator for the railway network. Requests for a Select Committee inquiry on these issues were made by members of the public and our stakeholders as part of our consultation on our work programme for the 2014-15 session of Parliament.

As we set out in our Future Programme Report, this inquiry has focused on the classic network building on our January 2013 Report, Rail 2020. The performance of the classic rail network is critically important to the millions of people who rely on it every day to get to work and see family and friends: 1.59 billion passenger journeys were made in 2013-14, compared to 957 million in 2000/01, and 735 million in 1994/95. Growth far outstripped the national average in places such as Leeds and Birmingham: highlighting the importance of connectivity between the classic network and high speed rail—both HS2 and a potential HS3. We have considered how this connectivity—a key recommendation from our December 2013 report High Speed Rail: On Track—will be developed in the next five years.

3 Transport Committee, Twelfth Report of Session 2013-14, Future Programme 2014, HC 1143, para 2
5 Office of Rail Regulation, Passenger journeys by year – Table 12.5, accessed 13 January 2015
6 pteg (IRW0036) para 2.2
7 Transport Committee, Ninth Report of Session 2013-14, High speed rail: on track?, HC 851, para 32
3. We launched this inquiry in June 2014. We received some 70 pieces of written evidence, and held six oral evidence sessions (all those who gave evidence are listed at the end of the Report). We would like to thank all of those who contributed to our inquiry, and particularly our specialist advisers, Bob Linnard and Richard Goldson.  

8 Bob Linnard was appointed as a Specialist Adviser on matters relating to rail on 11 March 2011. He has declared the following interests: non-executive director of Passenger Focus; and advisory work for Steer Davis and Gleave on work for BAA. Richard Goldson was appointed as a Specialist Adviser on matters relating to rail on 26 April 2011. He has declared the following interests: Trustee of the RPS; Chair of RPMI Ltd; some small private shareholdings in some transport related companies; and a consultancy contract with Oxera.
2 Government policy on rail

4. In March 2012 the Department published a Command Paper on rail: *Reforming our Railways: Putting the customer first*. This stated that previous governments “became too involved in the detail of the rail industry on too many occasions”, citing issues of train service specification and the deployment of rolling stock. It called for “clarity” on the role of Government, arguing that “ministers need to remain responsible, and accountable to Parliament, for setting a top-level strategic direction for rail and for the use of public funds”. It added:

We now need the role of Government to focus on a core strategic role, setting the rail industry the right incentives and giving it the responsibility to shape its own approach to meeting diverse passenger needs across different franchises.

5. The Command Paper made clear the Government’s intention to reduce Government subsidy for rail—and a “railway that in time covers more of its own costs”. It did not want a “subsidy-free railway, limited only to profitable services”, adding that:

There will always be a strong case for subsidy to secure services which deliver wider social, environmental and economic benefits but which would not be commercially viable without support.

The Government has made progress on this ambition. The subsidy of the railway, which had increased in the mid-2000s—attributed in the main to the costs of addressing the maintenance deficiencies revealed by the fatal accidents at Hatfield and Potters Bar—peaked at £7 billion in 2007-08. In 2012-13 the subsidy figure was £4 billion. The Campaign for Better Transport told us that fares revenue will cover 103% of the operating costs (separate to the improvements to infrastructure) of the railways by 2018, compared to 80% in 2009. The reduction in subsidy has led to public concern about the level of fares: since 2004, the average cost of a rail season ticket has risen by 56.3%. Campaigners have warned that, despite

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9 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 9
10 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 3
11 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 3
12 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 3
13 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 12
14 Department for Transport, *Reforming our Railways: Putting the customer first*, Cm 8313, March 2012, p 9
16 Office of Rail Regulation, GB rail industry financial information 2012-13, April 2014
17 Campaign for Better Transport (IWR 27)
19 Rail Delivery Group, “RDG comments on 2.2% average increase in 2015 fares”, 2 January 2015, accessed 15 January 2015
the limits applied to rail fare increases, the cost of a season ticket from Milton Keynes Central to London has risen from £3,958 to £4,888, an increase of £930 (23.5%) in the course of this Parliament.\textsuperscript{20} A season ticket from Newcastle to Middlesbrough has risen by an increase of £483 (26.3%) over the same period.\textsuperscript{21} When we questioned the Secretary of State on this issue he argued that he had to “bear in mind” that rail passengers received a greater subsidy than motorists.\textsuperscript{22}

6. The Government sets out its priorities for the rail for each five year control period in its High Level Output Specification (or as the Minister preferred to call it, the Rail Investment Strategy).\textsuperscript{23} The need to increase capacity and accommodate growth in demand was “at the core” of the High Level Output Specification, which forecast average growth during the five-year period as 16% in passenger demand, and 23% in freight.\textsuperscript{24} The rail network is required to provide for an additional 120,000 commuter journeys into London and 20,000 commuter journeys into other cities—using passenger forecasts from “recognised modelling systems”.\textsuperscript{25} The evidence we received from Passenger Focus indicated that the high-level passenger priorities for the railway network were around “capacity, performance and frequency”.\textsuperscript{26} Jeremy Long, representing the train operating companies through the Rail Delivery Group, suggested that there was a balance to be struck between performance and punctuality, and capacity, arguing that many passengers were more concerned about the latter, than the former.\textsuperscript{27}

7. The Campaign for Better Transport cautioned that “the railway in 2019 will still not be linked up closely to other modes of transport and therefore won’t give people the door-to-door journeys they need”.\textsuperscript{28} It called for road and rail investment to be considered together, as part of a route-based transport strategy.\textsuperscript{29} We have repeatedly called for this to be achieved through a clear and comprehensive strategy for transport.\textsuperscript{30} This view was recently supported by Sir David Higgins, Chair of HS2 Ltd, who argued that only by dealing with transport in a less ad hoc, short term way “can we address the conflicting pressures and trade-offs any transport system faces”.\textsuperscript{31} Jon Lamonte, representing One North, called for the Department to take a “multi-modal approach”, considering rail

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\textsuperscript{20} Campaign for Better Transport, \textit{January rail fares: Ticket price hikes continue to outstrip wages}, January 2015, accessed 15 January 2015


\textsuperscript{22} Q442


\textsuperscript{25} Q34 [Clare Moriarty]

\textsuperscript{26} Q139

\textsuperscript{27} Q99

\textsuperscript{28} Campaign for Better Transport \textit{(IRW 37) para 2.8}

\textsuperscript{29} Campaign for Better Transport \textit{(IRW 37) para 5.3}


\textsuperscript{31} HS2 Ltd, \textit{Rebalancing Britain: From HS2 towards a national transport strategy} (October 2014) p 14
alongside the strategic road network, and connectivity more generally. Clare Moriarty, Director General of Rail Executive in the Department for Transport, reported that the Rail Executive was looking at how rail could be “properly integrated with the investment that is going into roads”.

8. The Government has set out an ambitious investment programme for the classic rail network. The record amounts of funding committed demonstrates a welcome commitment to meeting the high demand for rail, even at a time of limits on public spending.

9. The stated ambition of successive governments has been to reduce the subsidy to the rail network. This has been achieved to date, but given the forecast growth, and need to increase capacity, has prompted the question of to what extent passengers will be required to pay for long-term infrastructure improvements, on top of inflation increases to fares, which principally cover operating costs. Many passengers have no option other than to use the train.

10. We remain concerned that rail policy is considered in isolation, and repeat our recommendation for the Department to commit to a wider transport strategy.
3 Planning for rail investment

11. Funding for railway infrastructure is allocated on a five-yearly basis following a review—in this case Periodic Review 2013 (PR13)—by the Office of Rail Regulation of the outcomes Network Rail should deliver, and how much funding it requires to deliver these outcomes. In Control Period 5 (CP5) the £38 billion allocated to Network Rail has been divided between capital expenditure projects (£13 billion), replacing and renewing older parts of the network (£12 billion) and day-to-day maintenance and operating costs (£13 billion).34

12. The process for allocating investment is by necessity complex, reflecting the separate responsibilities of the Government, Network Rail and the ORR, and the planning work undertaken by the rail industry. The ORR told us that while it provided advice, it was for “the Secretary of State to make a judgement on which projects go ahead”.35 This judgement occurred after “an extensive period of industry and stakeholder consultation and detailed scrutiny and analysis”.36 Clare Moriarty, Director General, Department for Transport, told us that where the Department had in the past had a tendency to “do things and then hand them over as a finished product”, it now believed that its work was improved by input from the train and freight operators and other stakeholders.37 Paul Plummer, Group Strategy Director at Network Rail, told us that the company had worked hard to ensure that the investment plan for CP5 was “much better owned, much more detailed and supported” by stakeholders, than in previous years.38 An example of the new collaboration in the industry is the Rail Delivery Group (RDG), which was established in 2011, following a recommendation by Sir Roy McNulty in his report, Realising the potential of GB Rail.39 The RDG brings together Network Rail, the train operating companies and the freight operating companies, to produce plans and strategies “for the coherent management of the rail industry”.40 Rail North, the collection of local authorities that will be managing the Northern and TransPennine Express franchises, cautioned, however, that the Rail Delivery Group was “not accountable to the public”.41

13. There was a broadly positive response to the planning process for CP5. Richard Price, Chief Executive of the ORR, told us that “by and large, it is a pretty inclusive programme”.42 The ORR recognised, however, that improvements could be made for the next control period—CP6, running between 2019 and 2024—by drawing in the views of

34 Office of Rail Regulation, Periodic Review 2013: Final determination of Network Rail’s outputs and funding for 2014-19 (October 2014), p 30
35 Q137
36 Office of Rail Regulation (IRW0024)
37 Q41
38 Q22
39 Department for Transport and the Office of Rail Regulation, Realising the potential of GB Rail, May 2011
40 Rail Delivery Group (IRW0029) para 1
41 Rail North (IRW0016) para 14
42 Q137
passengers and freight customers at an earlier stage.\textsuperscript{43} In particular, the ORR will change how it engages with the freight industry, having accepted that PR13 “could have been conducted better as far as the freight issues were concerned”.\textsuperscript{44} This reflected the serious concerns we received about the setting of freight access charges for CP5. Witnesses described the ORR’s original PR13 proposal to increase some freight access charges by “well over 100%” as “very surprising”, and added that the industry would not have been able to sustain the increases.\textsuperscript{45} Maggie Simpson, Executive Director of the Rail Freight Group, spoke of the “trench warfare” the industry had to engage with to change the minds of the ORR, describing how they “begged, pleaded and wrote letters” until “sense prevailed”.\textsuperscript{46}

14. The allocation of funding is for a five year period, which the ORR told us reflected a “general view” that five years was the right length of time for committing the funding for the specific projects that made up the overall investment programme.\textsuperscript{47} Our witnesses generally agreed with this, but called for Network Rail and the Department to publish its longer-term priorities for funding. At present, the Institution of Engineering and Technology warned, the plan for CP5 aimed only “to deliver short-term results without addressing long-term integration and investment”.\textsuperscript{48} Isabel Dedring, the Deputy Mayor (Transport) of London, called for “much greater clarity” beyond the immediate control period, adding:

> What is the long-term prioritisation that exists within this vast laundry list? All of us have our own laundry lists, and if we had more visibility of how that was prioritised, it would help everybody.\textsuperscript{49}

Ms Dedring told us that she understood there to be a plan to take the rail network to 2043, but that it was not published, and as a result, local authorities and other stakeholders “have no idea what is on the list and how it is prioritised”.\textsuperscript{50} She added that the lack of transparency from Network Rail’s prioritisation process had resulted in a “crazy” process, which wasted the time of all involved, and prompted attempts to secure political influence over the process, to decide which project secured investment.\textsuperscript{51} Tracey Lee, representing the Peninsula Rail Task Force (representing local authorities, local enterprise partnerships in Cornwall, Devon and Somerset, and the University of Plymouth) agreed, and called for a longer-term plan which would clarify how the control period investment would fit together over a longer period of time.\textsuperscript{52} Mark Pendlington, Chairman of New Anglia Local Enterprise Partnership, added that a long-term strategy, backed by investment, would be

\textsuperscript{43} Q186
\textsuperscript{44} Office of Rail Regulation (IRW0068)
\textsuperscript{45} Oral evidence taken on 1 July 2013, HC (2013-14) 266, Q53
\textsuperscript{46} Q405
\textsuperscript{47} Q123
\textsuperscript{48} The Institution of Engineering and Technology (IRW0031) para 1
\textsuperscript{49} Q273
\textsuperscript{50} Q303
\textsuperscript{51} Q303
\textsuperscript{52} Q302
welcomed by passengers, who would understand that it would take several years to implement, if it was well-communicated. The freight operating companies shared similar concerns. John Smith, Managing Director of GB Railfreight, told us that investment in freight infrastructure had to be carried out “on a very piecemeal basis”, because of the control period funding process. As a result, he cautioned, there was no confidence that “someone has a high-level view of what it will look like when it is finished in CP6 or whenever it may be”.

15. We heard evidence calling for this long-term plan to improve disability access to the rail network. Transport for All argued that while achieving full accessibility would take years, announcing such a plan would send out “a strong message of commitment to full equality”. London TravelWatch has called for accessibility to be the biggest priority for CP6.

16. Witnesses called for this long-term plan to consider the railway network as a whole, rather than looking at individual business cases in isolation. Tracey Lee said that the current system meant that local authorities “all put our cases to Government and it feels a bit like, ‘Pick me, pick me.” Mark Pendlington called for a “strategic plan”, stating that no rail line should fail to receive any line speed improvements or major capacity increases in a twenty-year period, as had happened with the Great Eastern Main Line.

17. We heard that such planning did take place inside Network Rail, and on occasion has been published. The Rolling Stock Strategy, developed by the rolling stock operating companies with Network Rail, the Department and the train operating companies does look forward to 2043. The route studies and market studies also look for 2043, as part of Network Rail’s Long-Term Planning Process, and seek to forecast and respond to passenger growth (although the quality of these passenger forecast numbers were questioned by witnesses: Tracey Lee told us that Network Rail’s forecasting of passenger numbers “left a lot to be desired”, with actual passenger numbers exceeding all forecasts.)

In evidence to us Network Rail and the Department set out a picture of the railway in 2044 where passengers will have access to more real-time information about the services, on a network that has been be electrified to a greater extent, and where the “Victorian” way trains are controlled has been overhauled. Roger Jones, Deputy Director, Rail Network Outcomes, Department for Transport, spoke of this railway as a “dynamic” network, with growth where it is “sensible and cost-effective”, but also allows for decline, and the closure

53 Q312
54 Q409
55 Q409
56 Transport for All (IRW0003)
57 London TravelWatch (IRW0033) para 10
58 Q285
59 Q286
60 Q323
61 Q302
62 Q93
of stations where “markets have effectively moved on [...] where it is no longer appropriate to have a station”.63

18. The existence of this long-term planning did bring into question the division of Network Rail’s work into five year “control periods”. Paul Plummer suggested that the industry could “get a little hung up on control periods”, and noted that a number of projects are intended to span CP4 and CP5.64 Roger Jones confirmed this, and stated that it had been “quite deliberately” planned.65 Two of these projects—Crossrail and Thameslink—account for nearly a quarter of the funding allocated for enhancements in CP5.66 Mr Plummer and Mr Jones described the funding for some projects as “a continuous process”.67

19. With the exception of the confusion and concerns over freight access charges, witnesses were broadly positive about the Periodic Review 2013 process. It is concerning, however, that witnesses representing key stakeholders for the rail industry feel that there is no clear long-term plan for the railway. We call on Network Rail to publish a vision for the railway up to 2043, with a breakdown of the work expected to be carried out in each Control Period. The plan should set out confirmed objectives and plans for the next five years, with provisional plans for each five year period. Consultation and flexibility should be built into this plan, allowing adjustment through the periodic review process, and to respond to changing costs and demand. This flexibility would increase as the plan looks further into the future, but the clarity of objectives—and the advanced planning that should be underway for the next two control periods—will provide much-needed certainty for the rail industry and stakeholders. We believe that publishing this long-term plan is vital for transparency, and will help to secure all-party agreement and effective engagement with the periodic review process.

The Enhancements Cost Adjustment Mechanism

20. Once allocated as part of CP5, rail investment projects have faced a new ORR mechanism designed to reassure the Department of the value for money, scope and delivery of the project—the enhancement cost adjustment mechanism (ECAM).68 We heard that the ECAM was necessary as several key projects committed to by Ministers for CP5 had been at too early a stage to produce costings when the funding package was determined.69 This was despite evidence from Network Rail—supported by the ORR—that at the start of CP5 the investment plan was more advanced than the equivalent plan at the

63 Q94
64 Q6
65 Q36
66 Q6
67 Qq 6, 36
68 Office of Rail Regulation (IRW0024)
69 Q111
start of CP4.70 Jeremy Long, representing the Rail Delivery Group, told us that the plans for investment in CP5 were “as formed as they could be”.71

21. The ECAM process appears to have added an element of uncertainty to some rail investment projects—including the electrification of vital lines in the North and North West of England. For the electrification in the North West, Network Rail was asked to submit revised costings in September and November 2014, and then in March 2015.72 By the end of March the ORR will have received 75% of the whole-life costings for the project, allowing it to consider whether the costs are within the overall “cost envelope” for CP5.73 At that point, if the costs have risen too high, the ORR told us that it would not be a case of the project not going ahead, but instead a choice for Department whether it happens in CP5 or CP6.74 Clare Moriarty told us that if the costing of the projects was higher than the budget allocated for CP5 then, “the Department can decide whether to put in more money, or to have a discussion about the phasing and scope of the projects”.75 When asked whether the projects promised for CP5 were going to be delivered, however, Ms Moriarty replied: “absolutely”.76 She argued that flexibility to carry out detailed costing work had been built into the process, because of the length of the control period.77 Rail North recognised that it was “proper” for the ORR to scrutinise Network Rail’s plans to ensure value for money and efficient delivery, but argued that it was “essential” that the process did not “compromise the outputs that the investments produce in the name of efficiency, such as by inappropriate ‘de-scoping’ of essential enhancements”.78

22. There have been reports of delays and rising costs for the electrification programme in CP5, raising concerns over the timetable and costing for future electrification projects, including the north trans-Pennine route, and the Midland Main Line. The Rail Minister, Claire Perry, told the House last month that the latest estimate of the cost of the Great Western Main Line to Bristol and Cardiff was £1.7 billion.79 The original estimate of the cost had been £600 million, rising to £1 billion by 2011.80 The Permanent Secretary, Philip Rutnam, told us that while the costs had risen from the 2008-09 estimates, he had received “very clear reassurance from Network Rail that it will deliver to time”.81 There have also been media reports that the completion date for trans-Pennine electrification could be delayed by three years, from 2018 to 2021.82 The Permanent Secretary told us that he did

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70 Qq 49, 172
71 Q4
72 Q114
73 Qq14, 19
74 Q123
75 Q14
76 Q21
77 Q3
78 Rail North (IRW0016) para 16
79 HC Deb, 16 December 2014, 218298
81 Q453
82 “Trans-Pennine rail upgrade ‘faces delay’”, Yorkshire Post, 7 December 2014; “TransPennine electrification ‘unlikely to hit 2018 completion date’”, Rail Technology Magazine, 13 January 2015
not know if there would be delays but warned that “the challenge is very large”.\textsuperscript{83} Sheffield City Region noted that while the Department had originally planned for electrification of the Midland Main Line to be delivered during CP5, Network Rail has now stated it will be completed in early CP6.\textsuperscript{84}

23. \textit{We are concerned that key rail enhancement projects—such as electrification in the North and North West of England—have been announced by Ministers without Network Rail having a clear estimate of what the projects will cost, leading to uncertainty about whether the projects will be delivered on time, or at all. This could be avoided through greater clarity of the status of each announced project. Network Rail should publish a “traffic light” status update for each project committed to in a control period, which would make clear whether, for example a project had been provisionally approved subject to detailed costings, finally approved but without a start date or approved and ready to start. When a project is announced, the Department and Network Rail must be clear and transparent about how it is to be funded, and how advanced it is in costings. This will provide confidence in the delivery of enhancement projects. Electrification of lines in the North West, the North trans-Pennine line, and the Midland Main Line, should not be put at risk due to the projected overspend on the Great Western Main Line. If a rail electrification project is announced for delivery in a set time period, there should be an expectation that it will be delivered on time.}

\textbf{Value for money and priorities}

24. The investment planned for CP5 cannot, we heard “do everything”. Roger Jones, Deputy Director, Rail Network Outcomes, at the Department for Transport, emphasised the limits on both amount the Government had to invest and the resources Network Rail (and its suppliers) had to carry out the improvement work.\textsuperscript{85} In making the choices about which projects to support, Mr Jones argued that all the investment had the aim of developing the economy, reacting to both existing and potential demand.\textsuperscript{86} Our evidence questioned this. The Industrial Communities Alliance argued that the process used by the Treasury to allocate rail investment should be revised as it tended to “skew investment towards areas with high population densities and high wages”, rather than helping to reinvigorate regional economies.\textsuperscript{87} Pteg—the organisation which represents the six Passenger Transport Executives in Tyne and Wear, West Yorkshire, South Yorkshire, Greater Manchester, Merseyside and the West Midlands—agreed, arguing that an “increasing focus on narrow financial criteria for scheme prioritisation”, which fail to recognise the wider social and economic benefits of the rail network” was part of the process for allocating investment.\textsuperscript{88} Isabel Dedring questioned whether Network Rail considered the Government’s wider objectives when prioritising projects. She used the proposed extension of the London Overground to Barking Riverside as an example: the

\begin{thebibliography}{99}
\bibitem{83} Q455
\bibitem{84} South Yorkshire Passenger Transport Executive (IRW0009) para 12
\bibitem{85} Q79
\bibitem{86} Q59
\bibitem{87} Industrial Communities Alliance (IRW0062)
\bibitem{88} pteg (IRW0036)
\end{thebibliography}
extension, she said, “would trigger 10,000 new homes”, but this was not taken into consideration by Network Rail when allocating funds, as house-building “is not a transport objective”. Network Rail did not prioritise these schemes, she said, as the outcomes were seen as “peripheral to the main business of transport”. Separately from the control period process, principal heads of terms for a loan of £55 million to fund the extension was confirmed in December in the Government’s National Infrastructure Plan.

25. It was also not clear if the Department considered alternative methods of achieving an outcome, when assessing bids for rail investment. For example, John Smith, Managing Director of GB Railfreight, told us that reducing the number of off-peak passenger services on the Felixstowe line “would create as much capacity [for freight] as £30 million of infrastructure investment”.

26. The Treasury’s Alignment (Clear Line of Sight) project has reformed the Government’s financial reporting to Parliament. Its stated aim is:

> to create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government’s fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage.

27. The Department for Transport should increase transparency around rail spending and projected outcomes. It should publish the criteria it uses for allocating spending and clarify how it decides which projects will get Government funding. To assess whether the Government has allocated spending appropriately, and to achieve maximum benefits, there must be a transparent way of tracking the investment—and outcomes—in each control period. We recommend:

   a) The development of an “outturn statement” for each Control Period making clear work agreed to, work done, work carried over along with financial outturn, and the split of spending between operations and enhancement projects.

   b) Funding announcements for Control Periods should differentiate more clearly between spending on operating the network—the running costs without any capacity/infrastructure work—and enhancements.

   c) Each spending announcement made by Government, Network Rail or the train operating companies should make it clear where the funding has originated—through the Control Period funding, separate Government funding (e.g. the Local Growth

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89 Q282
90 Q282
91 HM Treasury, National Infrastructure Plan, December 2014, p 27
92 Q410
93 HM Treasury, Alignment (Clear Line of Sight) Project, Cm 7567, March 2009, p 3
94 HM Treasury, Alignment (Clear Line of Sight) Project, Cm 7567, March 2009, p 3
Fund), or private investment from train operating companies or the rolling stock operating companies.

This approach fits with the Treasury’s Line of Sight principles. We think that this information could be published by the Department at no, or minimal extra cost, as all this information should be already easily available internally for accounting or management purposes.
4 Regional investment

28. Paul Plummer, Group Strategy Director, Network Rail, was clear: from Network Rail’s perspective, there is “one network”, covering long-distance and commuting passenger trains, high speed rail and freight. Tracey Lee, Chief Executive of Plymouth City Council, and representing the Peninsula Rail Task Force, questioned whether it was a national service, asking:

What is our expectation for different cities and areas of the UK? We talk about a national rail service, yet we are not quite clear what those national standards are.

The Minister accepted that “one of the big challenges” was making sure “that every part of the country feels that it is getting its fair share”. David Brown, Chief Executive of Merseytravel, who represented Rail North in evidence to us, told us: “the North gets less than you would expect for a significant percentage of the population of England”. Treasury statistics show that there was wide variation between different English regions for on spending on rail per head in 2012/13, as below:

<table>
<thead>
<tr>
<th>Region</th>
<th>Rail spending per head for 2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>52</td>
</tr>
<tr>
<td>North West</td>
<td>89</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>101</td>
</tr>
<tr>
<td>East Midlands</td>
<td>37</td>
</tr>
<tr>
<td>West Midlands</td>
<td>50</td>
</tr>
<tr>
<td>East of England</td>
<td>58</td>
</tr>
<tr>
<td>London</td>
<td>294</td>
</tr>
<tr>
<td>South East</td>
<td>69</td>
</tr>
<tr>
<td>South West</td>
<td>41</td>
</tr>
</tbody>
</table>

29. Clare Moriarty stressed that the Northern Hub programme was aimed at “creating a railway that will serve all of the northern cities to maximise the potential for economic growth”. The Industrial Communities Alliance argued that “nearly a century of relative neglect now needs to be addressed” in the cross-region and local lines in the north. Councillor Chris Shaw, Leader, North East Lincolnshire Council, told us how the rail infrastructure in the region “cannot cope with demand”, highlighting the restrictions this has on the amount of freight that can be carried, and on the speed of passenger services, which he stated were restricted to only 42mph, despite having a top speed of 100mph. The Peninsula Rail Task Force stated in written evidence that the South West peninsula railway had been “starved” of rail investment, due to a focus from the DfT on investment

95 Q54
96 Q274
97 Q477
98 Q195
99 Q62
100 Industrial Communities Alliance (IRW 62) para 17
101 Q196
in the Paddington-Bristol-South Wales line.\textsuperscript{102} The West Midlands Integrated Transport Authority noted the “lack of significant new investment” in the region for CP5, which it warned would lead to an increase in overcrowding on services.\textsuperscript{103}

30. The investments proposed to tackle this underfunding would, we heard, deliver value for money for the taxpayer. Mark Pendlington told us that the return on the Great Eastern Main Line would be eight or nine times the investment, making the region “free to become the California of Europe”.\textsuperscript{104} The Greater London Authority called for “further significant infrastructure investment” in the capital’s rail network, arguing that the Government would “get a fantastic return on this investment”.\textsuperscript{105} The One North project—led by the city regions of Leeds, Liverpool, Manchester, Newcastle and Sheffield—has called for a £15 billion, fifteen-year investment plan for transport in the north, including fast and frequent intercity rail network joining the centres of the city regions, through a new 125 mph trans-Pennine route. The economic benefits of such a scheme, it was claimed, would far outweigh the costs.\textsuperscript{106}

31. We welcome the substantial investment in CP5, and the commitment to electrification and increasing commuting capacity in a time of austerity. We support the Northern Hub programme, and welcome the indications that the Department for Transport will listen to the case for investment in the North and East of England. We remain concerned that the Benefit Cost Ratio used to allocate rail spending has failed to give sufficient weight to the wider economic and social benefits of rail investment. Focusing simply on passenger numbers and the short-term economic return from rail investment will inevitably continue to focus investment in London and the South East. Instead, we recommend the Department for Transport adopt and publish broader criteria for allocating funding, which consider the contribution to the Government’s wider policy objectives—such as long-term economic regeneration, environmental policy or social need. Rail funding must still deliver value for money for the taxpayer, with the economic case for each project subject to rigorous testing against the revised criteria. This approach, however, will result in a fairer allocation of rail investment across the country; other regions, such as the far south west, have been “starved” of investment.

**The Northern and TransPennine Express franchises**

32. The tendering process is currently in progress for the two main rail franchises in the north of England—the Northern and TransPennine Express franchises, which carry some 114 million passenger journeys each year.\textsuperscript{107} The last two Northern franchises were let on an assumption of zero growth, whereas in practice there had been “significant growth” in

\textsuperscript{102} Peninsula Rail Task Force (IRW0027), para 14

\textsuperscript{103} West Midlands Integrated Transport Authority (IRW0021), para 2.1

\textsuperscript{104} Qq306, 307

\textsuperscript{105} Greater London Authority (IRW0042)

\textsuperscript{106} Manchester City Council, One North: Region’s cities unveil joint plan for improved connections, 5 August 2014, accessed 15 January 2015

\textsuperscript{107} Department for Transport, Growth and Opportunity: TransPennine Express Prospectus, June 2014, p 22; Department for Transport, Transformation in partnership: Northern Prospectus, June 2014, p 20
passenger numbers.\textsuperscript{108} We heard that this growth had occurred without any significant investment in rolling stock or infrastructure, resulting in capacity problems, significant overcrowding and people not being able to make the journeys they need to make.\textsuperscript{109}

33. The consultation document for the Northern franchise stated that “trade-offs” may need to be made between different aspects of the North’s rail services. In particular it is argued that while many fares in the Northern franchise are comparable with those in other parts of the country “some prices are significantly below the norm”.\textsuperscript{110} The consultation suggested that one option for the new franchises could be an increase in fares to help to pay for better services.\textsuperscript{111} The DfT officials we heard from stressed the level of subsidy that the current Northern and TransPennine Express franchisees received, and argued that the Government had “to look at what is reasonable in terms of the overall money that flows into the northern region”, in terms of value for money for the taxpayer, as well as the passenger.\textsuperscript{112} Anthony Smith, Chief Executive of Passenger Focus, suggested that “trying to explain to somebody on Leeds station who cannot get on to a 25-year-old Pacer train that their fares might have to go up for a service they might never use in the future” would be “a tough sell”.\textsuperscript{113} David Brown told us that Rail North had been clear that fare increases on the Northern franchise could not considered before the frequency and quality of services and rolling stock were improved, stating that “you cannot expect people to pay more for a deteriorating level of service”.\textsuperscript{114}

34. Passengers on some Northern Rail services have already faced substantial price increases, separate from the yearly inflation increase. Northern Rail announced last year that there would be a change in the rules around off-peak tickets during weekday evenings, at the request of the Department for Transport, with the aim of reducing “the cost of the railway to taxpayers by reducing subsidy to Northern”.\textsuperscript{115} The subsidy paid to each Train Operating Company is published annually by the Department for Transport, and does show that Northern Rail receives both the largest total subsidy, and the largest subsidy per passenger mile, at 51.5p per mile. (For comparison, the subsidy paid to TransPennine Express was 16.8p per mile, and 12.4p to Southeastern. South West Trains pays a premium of 1.7p per mile.) The Campaign for Better Transport has argued that the majority of this figure is payment to Network Rail for maintenance to rails, signalling and other infrastructure, outside the control of Northern Rail.\textsuperscript{116} The Campaign argued that the subsidy figure for the Northern Rail franchise was “misleading”, as it overestimated the costs of running the franchise; for example, by allocating the same costs to a two car Pacer

\begin{thebibliography}{99}
\bibitem{IRW0030} Merseytravel, (IRW0030), para 4,Q213
\bibitem{R213} Q213, Department for Transport, Transformation in partnership: Northern Prospectus, June 2014, p 36
\bibitem{RailFranchise} Department for Transport Rail Executive, Stakeholder Consultation: TransPennine Express Rail Franchise Northern Rail Franchise, June 2014, para 2.32
\bibitem{RailFranchise1} Department for Transport Rail Executive, Stakeholder Consultation: TransPennine Express Rail Franchise Northern Rail Franchise, June 2014, para 3.41
\bibitem{Q78} Q78, 81
\bibitem{Q150} Q150
\bibitem{Q242} Q242
\bibitem{RailFranchise2} Northern Rail, “Changes to off-peak tickets”, 11 August 2014, accessed 15 January 2015
\bibitem{Campaign} The Campaign for Better Transport, North of England rail services: Busting the myths, August 2014
\end{thebibliography}
train travelling at 75mph, as an 11 car Pendolino train travelling at 125 mph. The Campaign also noted that the more profitable routes in the north were included in the TransPennine Express franchise, rather than Northern Rail—arguing that this was “highly unusual”. The ORR also provides the subsidy figures per passenger mile for each of Network Rail Operating Routes. These figures report that the lowest subsidy figure is for the Wessex, Sussex and Anglia routes, and the highest figures are for Scotland and Wales. The Passenger Transport Executive Group (pteg) has noted that “virtually no part of the rail network operates without government subsidy, once infrastructure spending is taken into account”. As we have noted in paragraph 5, our evidence raised questions over the general subsidy level, and the proportion of operating costs paid by fares and taxpayers.

35. The consultation for the TransPennine Express franchise proposed an end to the direct service between Cleethorpes and Manchester Airport: a proposal Dr Ian Kelly, Chief Executive Officer, Hull and Humber Chamber of Commerce, said would be “a failure” of policies promoting economic growth. A local campaign, highlighting concerns about the impact on the region’s economy, was successful in persuading the Minister to pledge to retain the direct service.

36. The franchise consultation stated that the Department expected to require bidders for the Northern franchise to specify how “driver only operation” may be introduced on suitable services. For TransPennine Express services, it is expected the bidder will have discretion to introduce driver only operation, but will not be expected to do so. The RMT argued that guards on trains were essential for keeping trains running efficiently, and for the safety of passengers, particularly in the event of an emergency. In response to questioning about driver-only operation the Secretary of State said that the way staff were deployed by operators was “very important”.

37. The consultation for the Northern and TransPennine Express franchises has been designed in partnership with Rail North Ltd—the organisation comprising 30 northern Local Transport Authorities “working to devolve from Whitehall the responsibility for decision-making for railways in the North, in pursuit of better transport and economic outcomes”. Rail North will design and manage the re-franchised Northern and TransPennine Express services, but the Secretary of State will retain ultimate responsibility for all design and procurement decisions, including the final decision on the franchise. The transparency of the process was questioned by some witnesses. Councillor Chris Shaw, Leader of North East Lincolnshire Council, told us that he was concerned that the “smaller

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117 The Campaign for Better Transport, North of England rail services: Busting the myths, August 2014
118 The Campaign for Better Transport, North of England rail services: Busting the myths, August 2014
119 Department for Transport (IRW0071)
120 pteg (IRW0036), para 2.8
121 Q208
122 National Union of Rail, Maritime & Transport Workers (IRW0011) para 7.2
123 Q487
124 Rail North (IRW0016) para 1
125 Q77
areas [in the North] do not have a voice and are not sitting around the table making the decisions.”126 We heard that Rail North’s meetings with civil servants were only attended by officers from the core cities, who were then forbidden by a confidentiality agreement from discussing the content of the meetings with the smaller authorities.127 This had resulted in a “two-tier level of involvement […] those who are in the know and those who do not get to know”.128 Councillor Liz Redfern, Leader of North Lincolnshire Council, described the situation as “not collective” and “not fair”.129 Rail North accepted that the confidentiality agreement it had signed with the Department was a “constraint” on keeping all the local authorities informed on progress.130 Rail North is currently formalising its operational structure.

38. Councillor Shaw told us that these concerns were shared by local authorities including Derbyshire County Council, East Riding of Yorkshire, Hull, Lincolnshire County Council, North East Lincolnshire, North Lincolnshire, North Yorkshire and Nottingham.131 He called for “a more open and transparent partnership in Rail North”, and warned that, without this, the outcome of the Northern and TransPennine Express franchises could be “detrimental” to parts of the north.132 The Industrial Communities Alliance warned against focusing investment solely on the cities in the north, noting that “only 20% of the population of the three northern English regions lives in the North’s five ‘core cities’ (Leeds, Liverpool, Manchester, Newcastle and Sheffield)”.133 In our Rail 2020 Report we stated that there was “scope to devolve control over some rail franchises to local or regional bodies”, and suggested that the Northern franchise was a “prime candidate for this approach”.134 We warned, however that that the interests of rural communities and towns “must be taken into account alongside those of the big cities”.135

39. We are disappointed that the consultation proposals for the Northern and TransPennine Express franchises have not focused on increasing capacity and improving rolling stock, but instead suggested that passengers in the north must make trade-offs between fares and decent journeys. While the devolution of the franchises to Rail North is welcome, it stops well short of devolution. The consultation document suggests that the body’s powers will be limited—indeed, the Secretary of State will retain the final decision-making powers. Rail North was clear that fare increases on the Northern franchise could not be considered prior to improvements in rolling stock and services. If devolution is genuine, Rail North’s stance should be reflected in the Invitation to Tender. The Department must also set out how the interests of rail passengers outside the North’s city regions will be protected under the devolution to Rail North. Network Rail must also set

126 Q203
127 Q256
128 Q256
129 Q265
130 Q257
131 Q206
132 Qq203, 206
133 Industrial Communities Alliance (IRW 62) para 11
134 Transport Committee, Seventh Report of Session 2012-13, Rail 2020, HC 329-I, para 65
135 Transport Committee, Seventh Report of Session 2012-13, Rail 2020, HC 329-I, para 65
out why its payment—which makes up part of the stated subsidy to each Train Operating Company—allocates the same costs for maintaining the rails to much smaller Pacer trains, as it does to the larger and faster Pendolino trains.
5 Rolling stock

40. A repeated theme of the evidence we received was the lack of a clear answer to the simple question: who is responsible for ensuring that there are trains available to run on new and electrified lines? DfT official Roger Jones told us that “there would be no point in Government investing very substantial sums of money in electrifying the railway and then not seeing electric rolling stock there”.136 This appears to have been exactly what has happened on the Todmorden Curve (which will reduce journey times between Blackburn, Burnley and Manchester), and on the Liverpool to Manchester electrification, where there is likely to be a year between the completion of the electrification of the line and the operation of a full electric service, due to a shortage of rolling stock.137 As a result of this experience, David Brown, representing Rail North, told us that a theme of the Department for Transport’s electrification programme is that “the infrastructure is there, but there is a shortage of rolling stock to provide train services across the infrastructure”.138 Mr Brown was clear that the only way to gain the economic benefits of investing in infrastructure was to ensure that there would be running additional, longer or electric trains on the new or upgraded lines.139 Leeds City Region and North Yorkshire County Council warned that there was a “real risk that the railway infrastructure in 2019 may be electrified and upgraded, but the service patterns and rolling stock running on it will not correspond to the needs and expectations of passengers wishing to use it.”140 Malcolm Brown, Chief Executive Officer of Angel Trains, called for more “joined-up thinking” from the rolling stock operating companies, train operating companies and Network Rail, building on a long-term strategy from Government to “align investment in the infrastructure with both new train procurement and the refurbishment of trains”.141 Pteg argued that the fact that decisions on rolling stock and decisions on infrastructure were “often made by separate people at distinct points of time” was “an important weakness” in the rail network.142

41. An additional factor has been the length of franchises, which does not always match the length of leases of rolling stock. Paul Francis, Managing Director at the rolling stock operating company, Porterbrook, told us of new investors who wanted to purchase more rolling stock, but instead were having to be told to wait until the franchise was re-let.143 This lack of alignment has been a particular problem in the last two years, following the decision to issue short-term “direct awards”, extending the life of a franchise, during the suspension of the franchising process following the failed competition for the Intercity West Coast Line.144 This was demonstrated in March 2014 when it was announced that nine Class 170 Turbostar trains in the TransPennine Express fleet would be transferred to

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136 Q74
137 Merseytravel (IRW0030) para 7
138 Q214
139 Q222
140 North Yorkshire County Council (IRW0039), Leeds City Region (IRW0017) para 5
141 Q317, 318
142 pteg (IRW0036)
143 Q354
144 Q321
Chiltern Railways. The lease of the rolling stock had been aligned with the franchise, until a direct award extended the franchise from April 2015 to February 2016. As the lease had been due to end at the end of the franchise in April 2015, the rolling stock operating company, Porterbrook, signed a contract with Chiltern Railways to lease the trains on a long-term basis. The short-term direct award to TransPennine Express left concerns that the transfer of trains to Chiltern Railways would leave a shortage of trains on the line. There was confusion among who was ultimately responsible for preventing this from occurring. Nick Donovan, Managing Director of TransPennine Express, told *The Times* in October that “the Department for Transport should have intervened” in the case, noting that a shortage of replacement trains could result in services no longer being able to run.\(^{145}\)

The Secretary of State stated that the Department for Transport could not “unreasonably withhold consent” for Chiltern Railways to lease the stock for use on the soon to be introduced Bicester to Oxford services.\(^{146}\) Paul Francis, Managing Director of Porterbrook, told us, however, that the Department had been involved in all the discussions around the transfer of the fleet and that the physical transfer of the trains will not happen “until the DFT and the operator have agreed that it is the appropriate thing to do”.\(^{147}\) This would be, he suggested, “maybe 2016”, when other diesel trains have been cascaded to the region.\(^{148}\) Mr Francis sought to clarify further:

> TransPennine Express has the right to continue to operate and sub-lease those vehicles on that particular line until such time as Chiltern and the Department for Transport decide that it is no longer an appropriate thing to do.\(^{149}\)

42. When asked directly whether there would be a repeat of the rolling stock transfer from TransPennine Express to Chiltern Railways, Clare Moriarty emphasised that while the Department worked very closely with the industry, and was “watching like a hawk” for potential problems, the rolling stock was owned by the rolling stock operating companies and leased to the train operating companies.\(^{150}\) Ms Moriarty added that it was “very difficult” for the DfT to give a categorical assurance on the issue as it did not have direct control over the parties involved.\(^{151}\) The Secretary of State told Parliament in January 2015 that the Department has “reached agreement” for new rolling stock on routes in the North of England, to maintain services following the transfer of TransPennine Express trains to Chiltern Railways, and also add an unspecified number of new carriages on other routes.\(^{152}\) The Rail Minister, Claire Perry, has stated that the average age of the carriages which form

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145 “*Signals of decline mount for rail route*”, *The Times*, 20 October 2014

146 Transport Committee, *Publications 2013-14 Session*, Letter from Patrick McLoughlin, Secretary of State for Transport to Mrs Louise Ellman MP, Chair, Transport Committee, 2 April 2014

147 Q327

148 Qq 325-328

149 Q346

150 Qq70, 76

151 Q76

152 HC Deb, 8 January 2015, HCWS175
part of this “new rolling stock” is 22 years old, and that the £20 million cost will be borne by the Department.”

43. The TransPennine Express/Chiltern Railways issue was in part due to a shortage of diesel rolling stock. David Brown of Rail North used the Northern and TransPennine Express franchises as an example, noting that there would be a shortage of 220 carriages over the franchise, if services were maintained at their current level. To achieve the economic benefits promised by the new infrastructure, some 460 additional carriages would be required. Mr Brown warned that this meant that bidders able to offer a long-term lease for rolling stock would be more likely to secure the trains. Councillor Shaw reported that TransPennine Express passengers were having to use “antiquated” diesel trains because there simply were not enough carriages for operators to use. The Department accepted that there was “currently” a shortage of diesel trains, which we heard would last until 2016/17, when electrification was due to result in a surplus (we were warned that delays to electrification would then prolong the shortage of diesels). Until electrification of lines resulted in the cascading of trains, the Department stated that it would work with the rail industry to “manage the short-term issues”.

44. While the cascading of trains was seen as the answer to rolling stock shortages, witnesses questioned the very principle of cascading older trains from the South East to other parts of the country, following the delivery of brand new rolling stock to the South East. Rail North noted that “most of the diesel units concerned are aged and in many cases of poor quality”. Mr Brown suggested that “constantly being at the end of a cascade to take trains that are fairly old from elsewhere into the North is not the best way of making the most of electrification”. Paul Francis of Porterbrook argued that extending the life of diesel trains by redeploying them in other parts of the country gave the network a “more economically attractive service”. It was, he said, a decision for the Department when they set the specification for a franchise, and for the train operating companies bidding for a franchise, to assess whether a franchise would get new or cascaded rolling stock. The Secretary of State said that “part of the job” of the franchising team in the Department was to “press” the train operating companies on the issue of rolling stock. Mr Francis was clear: as a commercial business his interest was to ensure his rolling stock “is deployed wherever it can be deployed most effectively”.

153 HC Deb, 13 January 2015, 220238; HC Deb, 13 January 2015, 220240
154 Q221
155 Q221
156 Q226
157 Q230
158 Q373
159 Department for Transport (IRW0020)
160 Rail North (IRW0016) para 29
161 Q219
162 Q332
163 Qq 332-333
164 Q519
165 Q335
45. We heard that the responsibility for ensuring the rolling stock is available appears to be divided. The Secretary of State answer failed to clarify this point:

Well, at the end of the day, it is between the Office of Rail Regulation and the Secretary of State, and when the tracks are ready as far as Network Rail is concerned […] The Secretary of State, ultimately, takes a lead in what is happening in the rail industry.166

The ORR told us that “rolling stock procurement is a matter for Government”.167

46. The rolling stock operating company involved in the proposed transfer of trains for the TransPennine Express franchise to Chiltern Railways sought to reassure us when he told us that the trains would stay with TransPennine Express until Chiltern Railways and the Department decided to transfer them. This has only blurred the lines of accountability, as the Department was keen to stress that the factors involved in this case were outside its control, before announcing that it had worked with the franchisees to resolve the situation. We welcome the Department’s commitment to making sure there will not be a shortfall of trains on the TransPennine Express line but we expect current capacity and schedules to be maintained. The Department must continue to accept responsibility for rolling stock, and ensuring that there are sufficient trains to operate timetabled services.

47. The TransPennine Express/Chiltern Railways transfer of rolling stock has been symptomatic of a fundamental weakness in the way rolling stock is leased and managed. This has also been demonstrated during the electrification programme, where a disconnect between the funding of new or enhanced infrastructure and the procurement of rolling stock risks leaving passengers stranded with no trains running on newly electrified lines. The Department must take responsibility for aligning infrastructure, franchises and rolling stock procurement. This is necessary so that uncertainty can be reduced for industry and investment made rather than deferred.

### Pacer trains

48. Paul Francis, Managing Director of Porterbrook, was keen to stress that the UK had “one of the youngest train fleets in Europe”.168 The rolling stock operating companies set out the average and oldest age of the trains they lease on the UK network:169

<table>
<thead>
<tr>
<th>ROSCO</th>
<th>Average age</th>
<th>Oldest trains &amp; location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel</td>
<td>19 years</td>
<td>29 years. Wales and North of England</td>
</tr>
<tr>
<td>Eversholt</td>
<td>Around 19 years</td>
<td>40+ years. Govia Great Northern line.</td>
</tr>
<tr>
<td>Porterbrook</td>
<td>17 years</td>
<td>40 years. Midland Mainline and Great Western.</td>
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</tbody>
</table>

This did not allay the concerns we heard about the quality of rolling stock on the rail network. In particular, witnesses called for the replacement of the “Pacer” trains used in the

166 Qq 505-506
167 Office of Rail Regulation (IRW0024)
168 Q384
169 Qq360-366
North and South-West of England, and in Wales. The Pacer trains were built between 1985 and 1987 at "relatively low-cost", and were intended only for short-term use.\(^{170}\) They are unpopular with many passengers and do not comply with accessibility regulations due to come into force in 2020—Persons of Reduced Mobility Technical Specification for Interoperability (PRM).\(^{171}\)

49. In the Autumn Statement the Chancellor of the Exchequer said that by tendering for the new Northern and TransPennine Express franchises the Government would be “replacing the ancient and unpopular pacer carriages with new and modern trains.”\(^{172}\) The Green Book—which sets out the details of the Autumn Statement—stated, however that while the franchises will “include new rolling stock fit for the 21st century” they will “encourage” but not require “bidders to replace the outdated pacer trains with modern, better quality trains; [and] bring all the trains that remain up to modern standards”.\(^{173}\) It also stated that the Invitations to Tender will specify upgrades including “modern trains in order to phase out the outdated Pacer trains”.\(^{174}\) No details have been given for taking the Pacers out of service in the South West or Wales. In evidence the Secretary of State refused to give a date for when the Pacers would be taken out of service, stating:

> If I give you a specific date, you will then for ever be holding me to account to say it was not that particular date.\(^{175}\)

Instead, the Secretary of State could only say that he hoped the Pacers had had their day.\(^{176}\)

50. Malcolm Brown, Chief Executive Officer, Angel Trains, told us that Pacers were still running because there was not a replacement for them.\(^{177}\) The Long-Term Rolling Stock Strategy produced by the rolling stock operating companies, Network Rail and the train operating companies stated that no new diesel trains would be required to be built in CP5 or CP6 if electrification continued.\(^{178}\) We heard that there was “no manufacturer of trains, either in or outside the UK, who will commit to building a new, low-cost DMU [diesel multiple unit] for the UK market”, as they believe that electrification will result in a surplus of diesel trains.\(^{179}\) Paul Francis accepted that this was not a satisfactory situation for passengers.\(^{180}\) Mary Kenny, Chief Executive Officer, Eversholt Rail, told us that the company were sounding out manufacturers to see if there is a specification for a DMU

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170 Porterbrook Leasing Company Limited (IRW0061); South Yorkshire Passenger Transport Executive (IRW0009)
171 The Institution of Engineering and Technology (IRW0031) para 27; Peninsula Rail Task Force (IRW0027) para 27; NECTAR (IRW0023) para 2;i; Porterbrook Leasing Company Limited (IRW0061); Rail North (IRW0016) para 30; TravelWatch NorthWest (IRW0017) para 10
175 Q509
176 Q507
177 Q348
179 Q347
180 Q348
which it could invest in, and have a manufacturer prepared to build. Porterbrook is spending £800,000 to demonstrate that a Pacer train can be modified to comply with PRM regulations to provide a “back-stop”, in case of any delays with electrification. In 2011 the ORR reported concerns about the safety of “the ongoing use of Pacers beyond their intended design life”. Mr Brown told us, as far as he was concerned Pacers were safe but because of the views of passengers and operators, Angel Trains are not planning to refurbish their Pacers, and plan instead to retire them in 2019. Mr Brown noted, however, that delays to electrification would require him to “re-evaluate” his position.

51. By refusing to give a date for when the Pacer trains will be taken out of service and simply saying that he “hopes” they have had their day, the Secretary of State has suggested that he does not have the powers to ensure a decent quality of train for passengers in the North and South West of England or in Wales. Alternatively, his admission that he would not like to be held to account for the Pacers’ withdrawal suggests that he does have these powers, but is unwilling to match his rhetoric with action. We find it concerning that the rolling stock operating company Porterbrook is prepared to spend £800,000 refurbishing the Pacer to extend its use on our network. It is unacceptable that Pacer trains—built in the mid-1980s and of questionable safety—are still in use on busy rail lines. We recommend the Secretary of State uses his franchise specification powers to require the removal of Pacer trains from the rail network by 2020 at the latest.

52. The cascading of train carriages out of the South East may provide the most efficient way for the rolling stock operating companies to manage their rolling stock. It is concerning that the Department has chosen to order brand new trains for passengers in London and the South East, while expecting passengers in the rest of the country to be content with reconditioned older trains—cast-offs from more prosperous areas.

181 Q350
182 Q376
183 Office of Rail Regulation, Health and Safety Report 2011 (July 2011), p 4
184 Qq 368, 380
185 Qq 381-382
6 Freight

53. The amount of freight transported by rail has grown by 70% in the last twenty years, generating more than £1.5 billion a year in economic benefits for the UK.\(^{186}\) Rail freight takes the equivalent of 7.6 million lorry journeys off our roads each year with potential for growth and further modal shift.\(^{187}\) The Rail Freight Group (RFG) stated in written evidence that the sector had received “significant investment” in recent control periods through the Strategic Freight Network and Transport Innovation Fund. The RFG viewed this investment as “a strong sign of Government’s support for the rail freight sector”\(^{188}\). Other witnesses were less enthusiastic. Lindsay Durham, Head of Rail Strategy at Freightliner, stated that the Government’s support was “fairly low-key”.\(^{189}\) In her oral evidence, Maggie Simpson, Executive Director of the Rail Freight Group, said that there was high-level support from the Government in principle for rail freight, but that this was not matched by resources or commitment within the Department.\(^{190}\) John Smith, Managing Director, GB Railfreight, told us that “the rhetoric is certainly there, but the intelligent, pragmatic understanding of what is then needed is sadly lacking”.\(^{191}\) As a result, he cautioned that freight could get marginalised as the Department was “almost writing timetables [for passenger rail] that the infrastructure cannot support”.\(^{192}\) As a result, we heard, freight was viewed as “an inconvenient side-effect”.\(^{193}\) The Secretary of State told us he was “disappointed and sorry” about the feelings of the freight sector.\(^{194}\)

54. While welcoming the freight-specific investments on the network, Freightliner’s written evidence argued that the investment was “still small in comparison to passenger investment”.\(^{195}\) Freightliner argued that, at most, the freight investment accounted for just 3.2% of the enhancements fund, while freight trains account for 7.5% of all train miles on the network.\(^{196}\) Nigel Jones, Head of Planning at DB Schenker and the freight representative for the Rail Delivery Group, cautioned about separating the funding for freight-specific enhancements from the work on the network as whole. He argued that while the freight-specific funding appeared “relatively small […] the vast majority of general network investment and enhancement benefits rail freight as much as it benefits passengers”, noting station enhancements as the only improvement specific to passenger rail.\(^{197}\) Mr Jones also said that to gain maximum benefit from freight-specific investment it

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186 Rail Delivery Group, *Keeping the lights on and the traffic moving* (May 2014), pp 4-5
187 Rail Delivery Group, *Keeping the lights on and the traffic moving* (May 2014), p 4; Freightliner Group (IRW0038); Campaign for Better Transport (IRW0037) para 2.4
188 Rail Freight Group (IRW0006) para 3
189 Q387
190 Q389
191 Q409
192 Q409
193 Q389
194 Q465
195 Freightliner (IRW 38) para 23
196 Freightliner Group (IRW 38) para 24
197 Q53
needed to be implemented alongside the investment on the rest of the network. As an example, he cited the need for coordination between the investment on the freight route from Felixstowe and the Midland Main Line. Dr Lamonte argued that freight had “played second-fiddle to passenger services for so long”, and called for freight to be treated as a priority when considering investment in trans-Pennine links. Councillor Chris Shaw, Leader, North East Lincolnshire Council noted that while most UK-manufactured cars are exported through Grimsby, “none of them” travelled to the port by rail. Cllr Shaw also told us that all trains coming out of Immingham docks had to go through a junction “still operated by semaphore signalling”.

55. We heard that the freight operators had been working far more closely with Network Rail through the Rail Delivery Group, delivering “big improvements in performance”. The ORR reported that when it had consulted the freight sector on Network Rail’s performance, it had been “very supportive” of Network Rail. In turn, we heard that the freight operators had made progress in releasing unused train paths.

56. We have already noted the concerns of the freight companies over the proposed increases to track access charges. While the increases were less than originally proposed, we heard the charges have still increased by 17% during the time that road fuel duty—the main charge paid by road hauliers—had been frozen. Furthermore, our witnesses argued that it was not just the increases that had affected rail freight, but also the complexity and lack of long-term certainty over the access charges, compared to fuel duty. Maggie Simpson described the system as a “hugely complicated beast”, noting that “the spreadsheet of track access charges has 4,000 entries for freight”. In addition, the current system was set up, we heard, without an incentive for Network Rail to take measures such as investing in higher-quality track—which reduces damage to the track, allowing for a reduction in track access charges and benefits for all track users.

57. Our witnesses also highlighted the obstacles to wider electrification of freight lines. We heard that there is, at present, no high-powered electric freight locomotive suitable for the UK available. Freightliner said that a large order of electric locomotives would be required to make the cost of designing and testing a new electric locomotive affordable. Such an order would, Freightliner suggested “require a step change in the electrification of the UK network to either be in place or committed”. GB Railfreight has called for

198 Q53
199 Q236
200 Q237
201 Q265
202 Q99
203 Q182
204 Q185
205 Q388
206 Q398
207 Q407
208 Q421 [Lindsay Durham]
209 Rail Freight Group (IRW0006), para 29
Network Rail to “prioritise the right schemes to encourage freight operators to invest in electric locomotives now”, arguing that while the electric spine will be useful in the medium term, there are routes for which electrification would have a more significant impact in the short term. GB Railfreight identified these routes as Nuneaton to Hams Hall and Felixstowe to Ipswich, and for CP6, Ipswich to Nuneaton via Ely.\textsuperscript{210} 

58. A further issue with freight rolling stock is that the non-road mobile machinery European Directive requires any new locomotives purchased after 14 December to meet emission standards IIIb—for which there are no compliant locomotives suitable for UK gauges. The Rail Freight Group warned that “it is difficult to see how manufacturers will respond to this given the small UK market”.\textsuperscript{211} 

59. Our witnesses were clear that delivering a modal shift from road to rail for freight would require a supportive Government policy: through grants, or certainty about access charges.\textsuperscript{212} Lindsay Durham, Head of Rail Strategy, Freightliner Group, told us that none of the freight sector’s customers would “choose to use rail freight just for the environmental benefits”, stating it was a prerequisite that rail freight had to match or better road freight on price.\textsuperscript{213} The Secretary of State confirmed that the Department was looking at road and rail freight together, but added that he was “not sure” if there was “a grand central plan as such”.\textsuperscript{214} 

60. Rail freight is a crucial part of our economy, and its needs must be balanced against that of passenger rail. The Government should produce a freight strategy, considering road and rail freight together, to ensure a coherent and fair policy. It must also set out and consult on the practical steps required to achieve its strategic outcomes, including the modal shift from road to rail and the decarbonisation of freight transport. We believe the Office of Rail Regulation must consult on the track access charging regime with a view to reducing the current complexity. 

\textsuperscript{210} GB Railfreight (IRW0014) para 3.6 
\textsuperscript{211} Rail Freight Group (IRW0006) para 31 
\textsuperscript{212} Qq398,416 
\textsuperscript{213} Q397 
\textsuperscript{214} Q434
7 Resilience

61. Storms at Dawlish on 4 and 14 February 2014 caused a 100m breach in the sea wall, exacerbated by a 25,000 tonne landslip at Teignmouth and a further landslip on 4 March. The railway line, which ran just behind the sea wall, was closed for eight weeks while 300 engineers repaired the line at a cost of £35 million. Mark Carne, Network Rail Chief Executive, told us in June that around half of the money spent to repair Dawlish was met from insurance, and the other half was from Network Rail’s own resources. Network Rail told us that it thought the rail network had “performed well” during the 2013/14 winter, but argued that the weather during the last control period (2009–2014) was “far worse and caused far more delays than expected”. Network Rail has stressed that while investment will make the railway more resilient to weather, it cannot make it weather proof.

62. Paul Plummer described Dawlish as “an extraordinary situation” which, despite the site being on the agenda of Network Rail, nobody had expected “to happen in that extreme way”. The closure of the line has been estimated to cost the economy in Plymouth alone over £600,000 a day. Tracey Lee argued that it should be “a basic right to have a railway line that is not severed”, and that keeping the line through Dawlish open through future winters would cost “at least £350 million” in resilience work. The Minister said there was a “question” around whether the investment in resilience could be delivered in CP6 or during CP5. In July Network Rail published a West of Exeter Route Resilience Study looking at sustainable routes between Exeter and Plymouth. The study proposed five options, including continuing the current maintenance regime, strengthening the existing railway, and three alternative routes costing between £470 million and £3.10 billion. The study estimated the benefits and costs of the alternative routes. The DfT assessment criteria rank investment proposals with a benefit-cost ratio (BCR) of greater than 4.0 as offering very high value for money; schemes with a BCR of less than 1.0 are considered to offer poor value for money. None of the alternative routes received a BCR of higher than 0.29.

63. Witnesses questioned whether these assessment criteria were correct. The Peninsula Rail Task Force told us that Network Rail had “not prioritised wisely” when allocating investment on resilience. Isabel Dedring told us that TfL had struggled to get Network Rail...
Rail to accept its case for investment in resilience, as it was not valued correctly through Network Rail’s current business case assessment process.226

64. We commend the work of the “Orange Army” of Network Rail engineers who rebuilt the seawall and re-opened the railway line at Dawlish, following the devastating storms. While the tireless work of the engineers limited the length of the closure of the line, the economic impact on the region was still severe. It is not clear whether the Treasury’s cost-benefit assessments take the cost of such closures, or the cost of doing nothing, into account, when prioritising investment on resilience or alternative lines. We call on the Department to state whether it is prepared to fund schemes which do not meet the required cost-benefit ratio, if the alternative is a closed line. Where lines are closed, as in the case of Dawlish, the necessary costs incurred in re-opening the line should not jeopardise or delay the long-term work to improve the resilience of the network or deliver promised enhancements.
8 Connectivity with HS2

65. The benefits of the enormous investment in HS2 will only be realised fully if the benefits of HS2 are spread as widely as possible, by building additional links between the conventional and high speed network and if the capacity released on the West Coast Main Line can be used to best effect. Witnesses warned however that CP5 has not prioritised this connectivity. The Association for Consultancy and Engineering warned of a “significant lack of connectivity to the classic network” with HS2 Phase 1, a concern shared by the Institution of Engineering and Technology.\(^{227}\) The Freight Transport Association cautioned that clarity on the use of the additional capacity released by HS2 was “absolutely missing”.\(^{228}\) Lindsay Durham, Head of Rail Strategy at Freightliner, expressed concern that, as there was no transparent procedure for allocating the released capacity on the West Coast Main Line, freight would lose out to passenger rail.\(^{229}\) John Smith, Managing Director, GB Railfreight, cautioned that when capacity had been increased on lines in the past, it had been “consumed by increased passenger usage”.\(^{230}\) Ms Durham said the economic benefits of extra capacity for freight needed to be considered alongside increase passenger capacity.\(^{231}\) Even on investments which had been specifically funded through the Strategic Freight Network, we heard that there was no way of reserving the increased capacity for freight, in light of increased demand for passenger services.\(^{232}\)

66. Clare Moriarty, Director General, Rail Executive, Department for Transport, told us that work with Network Rail and the rail industry to maximise the connectivity between HS2 and the rest of the rail network was “one of the central planks” in the early planning for Control Period 6.\(^{233}\) Ms Moriarty also sought to reassure us that the planning for HS2 will consider how released capacity on the classic network can be used for freight.\(^{234}\) That this only emerged from our questioning demonstrates the need for the Department for Transport to make its long-term plan and thinking about the railway public, as we recommend in paragraph 19.

67. In June the Chancellor of the Exchequer, the Rt Hon George Osborne, said that the “transport network in the north” was “simply not fit for purpose”, noting that it was quicker to travel by train between London and Paris than to travel less than half that distance between Liverpool and Hull.\(^{235}\) The Chancellor added that the Government was undertaking “a series of massive investments in the transport infrastructure in the north”, but that it was necessary to consider a “new high speed rail link east-west from Manchester.

\(^{227}\) Association for Consultancy and Engineering (IRW0050), The Institution of Engineering and Technology (IRW0031) para 31
\(^{228}\) Freight Transport Association (IRW0041)
\(^{229}\) Q395
\(^{230}\) Q396
\(^{231}\) Q395
\(^{232}\) Q409 [Lindsay Durham]
\(^{233}\) Q23
\(^{234}\) Q54
to Leeds”. The route would be based on the existing route, but would have new tunnels and infrastructure to increase speed—the Chancellor described it as “a third high speed railway for Britain”. This prospect has blurred the lines between the classic and high speed rail network. While the Chancellor has spoken of HS3 the DfT civil servants we heard from made clear that he was not referring to a new line, but instead “the potential on an existing alignment to find ways of speeding up services significantly so that you get a high-speed service.” Maggie Simpson warned that while needed, the freight opportunities from greater trans-Pennine connectivity would come from a new line, not simply an enhancement of the current line. The length of the new route—or improvements to the existing lines—was not clear. The Chancellor’s initial speech referenced a new line between Manchester and Leeds. The Secretary of State, told us, however, that “Manchester and Leeds are used as shorthand for the most important cities in the north”, adding Ministers meant to include Liverpool, Sheffield, Newcastle and Hull, in addition to Leeds and Manchester.

68. We welcome the proposals to improve East-West connectivity. We call for clarity on whether these proposals will be truly East-West: extending from Hull to Liverpool, with the benefits that would bring for freight and passenger rail. It is also not at all clear whether these proposals—HS3 as the Chancellor has referred to them—will entail a new line or improvements to existing lines. The Department should clarify this point, and also make clear what long-term objectives it has for improving East-West connectivity across the country.

69. The Government should set out the details and timing of planned investment in the classic network in order to maximise the benefits of HS2; improving rail access for all passengers and increasing capacity for freight. The planning process should consider HS2 and trans-Pennine improvements as part of one overall rail network.
9 Performance of Network Rail

70. Network Rail told us that it had “a high level of confidence that CP5 can be delivered successfully.” Network Rail’s Group Strategy Director, Paul Plummer, told us that he believed the greater collaboration between Network Rail, train operators and Government—through the establishment of regional alliances—would improve performance for passengers. First Group stated that it supported Network Rail’s plans for CP5, but cautioned that the risks in the delivery of the “enormous” programme had increased.

71. The failure of Network Rail to complete Christmas 2014 engineering works on time led to the cancelling of all trains into and out of King’s Cross on Saturday 27 December—the first day passengers were able to travel on the East Coast Main Line after the two-day shutdown on Christmas Day and Boxing Day. Engineering works also overran at Paddington, resulting in a second major London terminal being closed, in this case for part of the day. The disruption continued into Sunday 28 December; and the impact on passengers was extensive. The decision was taken after the closure of King’s Cross for a limited service of East Coast and Great Northern services to start and finish at Finsbury Park in place of the scheduled service. The large number of passengers directed Finsbury Park—a much smaller station—and a miscommunication between Network Rail and the operator of Finsbury Park resulted in severe overcrowding, and the station had to be closed on police advice. The situation was reported as “chaos” and ORR Chief Executive, Richard Price stated that “elderly people were being left outside in the drizzle and the cold” as “hundreds of people” were queuing outside the station. Overcrowding was also reported on the East Coast services that did run to and from Finsbury Park, with passengers standing for long journeys. At Paddington passengers reported a lack of information about how long services would be suspended; and severe overcrowding and delays when services did resume. The ORR is reviewing whether the events of 27 and 28 December constituted a breach of Network Rail’s licence: in 2008 overrunning engineering works from the previous Christmas and New Year were found to have breached the licence and resulted in a £14 million fine for Network Rail.

72. Network Rail’s Christmas 2014 engineering programme was ambitious: a £200 million programme involving 11,000 staff at 2,000 sites. Mark Carne, Network Rail Chief Executive, described it as Network Rail’s largest ever programme of engineering works. Four major London stations had major engineering works, with closures at London Bridge and Euston in addition to King’s Cross and Paddington. In a statement on 29 December

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240 Network Rail (IRW0040)
241 Q43
242 FirstGroup (IRW0010) para 14
243 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 96
244 Office of Rail Regulation, Report of ORR’s investigation into engineering overruns, February 2008
245 Network Rail, Army of 11,000 railway engineers to work on record-breaking Christmas investment programme to deliver a bigger, better railway, 10 December 2014, accessed 15 January 2015
246 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 15
247 Network Rail, Army of 11,000 railway engineers to work on record-breaking Christmas investment programme to deliver a bigger, better railway, 10 December 2014, accessed 15 January 2015
Mr Carne announced an industry-wide review of “the timing of our major works programmes and the passenger contingency arrangements for such works.” Mr Carne noted that while the “conventional wisdom” was to carry out engineering works over Christmas, when passengers numbers were around half of those for a normal weekday, it was right to review whether this was still the best approach. He added:

There are different kinds of people travelling at Christmas, with different demands and needs. They have suitcases and children, and there are elderly people visiting friends and families—different kinds of passengers that we need to look after at those times.

Mr Carne suggested that spreading the work out throughout the year would cost less: engineers had been paid “at least two or three times” the normal rate to work over Christmas. It may also carry less risk, as the compression of engineering works into a short time at Christmas had stretched Network Rail’s resources. Mr Carne added, however, that spreading the work out in this way would mean additional planned disruption for passengers.

Network Rail has also been responsible for a number of previous over-running engineering works, most notably on the Great Eastern Main Line where on ten occasions in six years Network Rail has caused significant delays and disruption to passengers by failing to complete its weekend engineering works to schedule. This month passengers at London Bridge have experienced severe delays and disruption during the engineering works on the Thameslink project. Mark Carne stressed in evidence to us that delays caused by overrunning engineering works had halved since 2007, despite Network Rail carrying out double the amount of work compared to five years ago. At Christmas, 99% of the engineering projects had finished on schedule. He added that this showed that there had been “significant improvements”, despite there being “more to do”.

In written evidence Passenger Focus noted that disruption to passengers was an inevitable downside of investment in the railway, and stated that communicating well with passengers during disruption was “key to maintaining levels of satisfaction during the building works”. The National Rail Passenger Survey had shown that the management of delays was the biggest single source of passenger dissatisfaction.

The Office of Rail Regulation reported on Network Rail’s performance for the first two quarters of year 1 of CP5 in November 2014. The regulator found that

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248 Network Rail, Media statement from Network Rail: Monday 29 December, accessed 15 January 2015
249 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 16
250 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 21
251 “Commuters’ anger at yet more major rail delays on Norwich to London line”, Eastern Daily Press, 26 August 2014
252 “London Bridge overcrowding: commuters face third day of delays”, London Evening Standard, 8 January 2015
253 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 15
254 Oral evidence taken on 14 January 2015, HC (2014-15) 920, Q 15
255 Passenger Focus (IRW0028) para 2.2.3
256 Passenger Focus (IRW0028) para 3.4
a) Network Rail was delivering less work in maintenance and renewals than it planned to do—but was already £40 million above budget on maintenance.

b) Performance on delivery of its enhancement portfolio has worsened.

c) Punctuality was 0.7% below the target rate.

d) The data used to “plan and manage” its enhancements work did not meet “the required standards in some areas”.

76. In written evidence the RMT/TUC warned of that its members had reported an “ongoing skills crisis” on the railway, due to the number of older staff (which made up a large proportion of Network Rail’s workforce) taking retirement. Network Rail plans to reduce the maintenance headcount by 1050 in CP5, 8% of the total workforce.

77. On 7 July the ORR reported on Network Rail’s performance for Control Period 4, which ran from 2009 to 2014. The ORR identified the delivery of “a major rail enhancement programme, largely on time and budget” as one of the period’s “significant successes.” In contrast, Network Rail’s performance failed to meet its targets for punctuality for long-distance, and for London and South East passenger services. As a result, in Control Period 4 we heard that “7,000 trains were late that should not have been”. The ORR stated that “passengers would expect there to be some consequences” for the failure to meet punctuality targets, and Network Rail has been fined £53.1 million, its highest-ever fine. It has been reported that a proportion of Network Rail’s fine will be used to improve WiFi services on the rail network. Passenger Focus argued that “for passengers, there probably could not be a worse example of the money-go-round—fining Network Rail for it to go back into Government”.

78. The failure of Network Rail at Christmas, which left thousands of passengers stranded, was unacceptable. We welcome Mark Carne’s unreserved apology to the travelling public, and the publication of Dr Francis Paonessa’s report into the disruption. Network Rail’s original statement that the failure at King’s Cross was “really regrettable and unfortunate but it is a small part of a massive amount of engineering investment taking place over Christmas” offered little consolation to passengers stranded in the cold. Indeed, the fact that King’s Cross was only one of a number of overrunning engineering works and signalling problems that plagued the rail network over the festive period offers further evidence of systemic weaknesses in Network Rail’s capacity to plan and execute...
Investing in the railway engineering works. Given the ambitious investment programme that Network Rail will receive £38 billion to deliver by 2019, this is a matter of great concern. If Network Rail is to maintain and improve the rail network in CP5 it will require managing multiple, complex engineering projects simultaneously. Network Rail must demonstrate how it will learn from the mistakes it has made in its engineering works and maintain a decent service to passengers while enhancement work is carried out.

79. When things do go wrong, Network Rail must have adequate contingency plans. It should not abdicate its responsibility to passengers, particularly vulnerable ones such as the elderly or families with young children. We welcome Network Rail’s proposed review of contingency measures and the timing of engineering works. In addition Network Rail must work with Passenger Focus and the train operating companies to improve the communication with passengers when engineering works fail.

80. While it is essential for Network Rail to deliver value for money for the taxpayer, efficiency savings cannot put the safety and reliability of the rail network at risk. The ORR should consider whether the disruption over Christmas and the New Year suggests that Network Rail is unable to deliver the enhancements programme planned for CP5, alongside a safety-focused, high-performing railway each and every day. In the light of the change of status of Network Rail the ORR must reconsider whether fining a public sector body remains an acceptable means for the regulator to exert control.

Reclassification of Network Rail

81. On 1 September 2014 Network Rail was reclassified as a Government body (it had previously been a statutory corporation created as a not-for-dividend private company limited by guarantee). This move was necessary to comply with pan-European accounting standard ESA10. Mark Carne told us in June 2014 that reclassification “should not make any necessary difference because it does not in itself drive particular changes in the way that the company works with the Government”. The exception, Mr Carne told us, was the way Network Rail raises money:

> In the past when we needed to raise money we went to the markets and raised money, with a Government guarantee to support the low interest rates that we were able to attract to raise that money. In the future it is very unlikely that we will do that. The Treasury will raise the money that we need. Why would they not? They have said, “No, we will raise the money that you need for investment in the railway.”

The reclassification moves Network Rail’s debt onto the books of the Government. Witnesses expressed some caution about the rising costs of servicing Network Rail’s debt—which stood at £31 billion in 2014, and is forecast to rise to £49.6 billion by the end of
CP5. The interest payments will £1.4 billion in 2014/15 and are forecast to rise to £2.3 billion by 2018/19.

82. Paul Plummer, Group Strategy Director at Network Rail, said that it was “inevitable” that there would be more “challenge” in the relationship between the operator and the Government, post-classification. There would also, he told us, be clearer accountability, with the Chief Executive of Network Rail taking on the role of Accounting Officer to Parliament. Mr Plummer noted, however, that while Network Rail had been criticised for a lack of accountability in the past, the company did “feel incredibly accountable to an awful lot of people.” The Framework Agreement which sets out the governance of Network Rail from September 2014 gives the Secretary of State the power to appoint a Membership Selection Panel which will act independently and recommend Members for selection for the Network Rail Board. The Secretary of State also has the right to approve or reject the Panel’s recommendations. He set out his view of how his relationship with Network Rail should operate:

> I do not think that it should be my job overtly to direct Network Rail. I want it basically to carry on with its relationship with the ORR. [...] I do not think that it should be the job of the Secretary of State—or that it would be wise for the Secretary of State—always to be trying to over-guess what the chief executive and Network Rail are doing.

83. The test of the new relationship between Network Rail and the Minister will be how the Minister responds to poor performance by Network Rail, given the Government’s stated commitment not to micro-manage the railways. It is not clear whether the Secretary of State will use the powers set out in the framework agreement. The reclassification of Network Rail strengthens the case for greater accountability and transparency in the way we have recommended in paragraph 27.

84. The Government should set out in its response how it plans the future financing of Network Rail and how it expects the financing of rail investment to be restructured. Spending more on debt interest than on asset maintenance is a looming political problem.

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268 IRW 71
269 Q50
270 Q52
273 Q473
10 Conclusion

85. We welcome the record levels of spending in the rail network to 2019. Increasing capacity on the classic network will help to meet the current and growing demand for rail services; and the electrification programme will make journeys quicker and more reliable, as well as reducing the environmental impact of rail travel. We heard that the Northern Hub programme will deliver over £4 billion of wider economic benefits to the North. Such criteria for the allocation of spending will aid the Department in assessing bids for future investment, and ensure a fair proportion of investment in different regions of the country. Treasury statistics have shown that there is a large variation in the level of public spending on rail across different regions of the country.

86. To maximise the benefits of the increased spending it should be clear how it fits into a longer-term strategic vision for the railways. While the control periods are a useful management tool, they need to be matched by the publication of a long-term plan, which brings together plans for franchising, rolling stock and enhancements work, and considers the rail network as a whole. Connectivity between the high speed and classic network should be prioritised, as should links to ports and airports. This plan should be linked to an “outturn statement” for each control period, helping to track spending, provide greater transparency around benefits realisation. This will strengthen the accountability of Network Rail and the ORR to Government and Parliament, as it will be clear if projected outcomes have materialised. Given the concerns we have expressed about Network Rail’s capacity to deliver the CP5 programme, it is vital for passengers and taxpayers that it is held to account in this way.

87. A longer-term look at rail should be part of a wider route-based transport strategy that considers road and rail together, and recognises the interconnections between different modes of transport. This approach would enable the Government to consider whether proposed investments, in road or rail, offer the most effective and efficient way to improve connectivity and boost economic growth. As we have previously recommended, working in this way would allow for consultation with local authorities and local enterprise partnerships, for the benefit of rail passengers and road users, and taxpayers in general.
Conclusions and recommendations

Government policy on rail
1. The Government has set out an ambitious investment programme for the classic rail network. The record amounts of funding committed demonstrates a welcome commitment to meeting the high demand for rail, even at a time of limits on public spending. (Paragraph 8)

2. The stated ambition of successive governments has been to reduce the subsidy to the rail network. This has been achieved to date, but given the forecast growth, and need to increase capacity, has prompted the question of to what extent passengers will be required to pay for long-term infrastructure improvements, on top of inflation increases to fares, which principally cover operating costs. Many passengers have no option other than to use the train. (Paragraph 9)

3. We remain concerned that rail policy is considered in isolation, and repeat our recommendation for the Department to commit to a wider transport strategy. (Paragraph 10)

Planning for rail investment
4. With the exception of the confusion and concerns over freight access charges, witnesses were broadly positive about the Periodic Review 2013 process. It is concerning, however, that witnesses representing key stakeholders for the rail industry feel that there is no clear long-term plan for the railway. We call on Network Rail to publish a vision for the railway up to 2043, with a breakdown of the work expected to be carried out in each Control Period. The plan should set out confirmed objectives and plans for the next five years, with provisional plans for each five year period. Consultation and flexibility should be built into this plan, allowing adjustment through the periodic review process, and to respond to changing costs and demand. This flexibility would increase as the plan looks further into the future, but the clarity of objectives—and the advanced planning that should be underway for the next two control periods—will provide much-needed certainty for the rail industry and stakeholders. We believe that publishing this long-term plan is vital for transparency, and will help to secure all-party agreement and effective engagement with the periodic review process. (Paragraph 19)

The Enhancements Cost Adjustment Mechanism
5. We are concerned that key rail enhancement projects—such as electrification in the North and North West of England—have been announced by Ministers without Network Rail having a clear estimate of what the projects will cost, leading to uncertainty about whether the projects will be delivered on time, or at all. This could be avoided through greater clarity of the status of each announced project. Network Rail should publish a “traffic light” status update for each project committed to in a control period, which would make clear whether, for example a project had been provisionally approved subject to detailed costings, finally approved but without a start date or approved and ready to start. When a project is announced, the
Investing in the railway Department and Network Rail must be clear and transparent about how it is to be funded, and how advanced it is in costings. This will provide confidence in the delivery of enhancement projects. Electrification of lines in the North West, the North trans-Pennine line, and the Midland Main Line, should not be put at risk due to the projected overspend on the Great Western Main Line. If a rail electrification project is announced for delivery in a set time period, there should be an expectation that it will be delivered on time. (Paragraph 23)

Value for money and priorities

6. The Department for Transport should increase transparency around rail spending and projected outcomes. It should publish the criteria it uses for allocating spending and clarify how it decides which projects will get Government funding. To assess whether the Government has allocated spending appropriately, and to achieve maximum benefits, there must be a transparent way of tracking the investment—and outcomes—in each control period. We recommend: (Paragraph 27)

7. The development of an “outturn statement” for each Control Period making clear work agreed to, work done, work carried over along with financial outturn, and the split of spending between operations and enhancement projects. (Paragraph 27.a)

8. Funding announcements for Control Periods should differentiate more clearly between spending on operating the network—the running costs without any capacity/infrastructure work—and enhancements. (Paragraph 27.b)

9. Each spending announcement made by Government, Network Rail or the train operating companies should make it clear where the funding has originated—through the Control Period funding, separate Government funding (e.g. the Local Growth Fund), or private investment from train operating companies or the rolling stock operating companies. (Paragraph 27.c)

10. This approach fits with the Treasury’s Line of Sight principles. We think that this information could be published by the Department at no, or minimal extra cost, as all this information should be already easily available internally for accounting or management purposes. (Paragraph 27)

Regional investment

11. We welcome the substantial investment in CP5, and the commitment to electrification and increasing commuting capacity in a time of austerity. We support the Northern Hub programme, and welcome the indications that the Department for Transport will listen to the case for investment in the North and East of England. We remain concerned that the Benefit Cost Ratio used to allocate rail spending has failed to give sufficient weight to the wider economic and social benefits of rail investment. Focusing simply on passenger numbers and the short-term economic return from rail investment will inevitably continue to focus investment in London and the South East. Instead, we recommend the Department for Transport adopt and publish broader criteria for allocating funding, which consider the contribution to the Government’s wider policy objectives—such as long-term economic regeneration, environmental policy or social need. Rail funding must still deliver value for money
Investing in the railway 45

for the taxpayer, with the economic case for each project subject to rigorous testing against the revised criteria. This approach, however, will result in a fairer allocation of rail investment across the country; other regions, such as the far south west, have been “starved” of investment. (Paragraph 31)

The Northern and TransPennine Express franchises

12. We are disappointed that the consultation proposals for the Northern and TransPennine Express franchises have not focused on increasing capacity and improving rolling stock, but instead suggested that passengers in the north must make trade-offs between fares and decent journeys. While the devolution of the franchises to Rail North is welcome, it stops well short of devolution. The consultation document suggests that the body’s powers will be limited—indeed, the Secretary of State will retain the final decision-making powers. Rail North was clear that fare increases on the Northern franchise could not be considered prior to improvements in rolling stock and services. If devolution is genuine, Rail North’s stance should be reflected in the Invitation to Tender. The Department must also set out how the interests of rail passengers outside the North’s city regions will be protected under the devolution to Rail North. Network Rail must also set out why its payment—which makes up part of the stated subsidy to each Train Operating Company—allocates the same costs for maintaining the rails to much smaller Pacer trains, as it does to the larger and faster Pendolino trains. (Paragraph 39)

Rolling stock

13. The rolling stock operating company involved in the proposed transfer of trains for the TransPennine Express franchise to Chiltern Railways sought to reassure us when he told us that the trains would stay with TransPennine Express until Chiltern Railways and the Department decided to transfer them. This has only blurred the lines of accountability, as the Department was keen to stress that the factors involved in this case were outside its control, before announcing that it had worked with the franchisees to resolve the situation. We welcome the Department’s commitment to making sure there will not be a shortfall of trains on the TransPennine Express line but we expect current capacity and schedules to be maintained. The Department must continue to accept responsibility for rolling stock, and ensuring that there are sufficient trains to operate timetabled services. (Paragraph 46)

14. The TransPennine Express/Chiltern Railways transfer of rolling stock has been symptomatic of a fundamental weakness in the way rolling stock is leased and managed. This has also been demonstrated during the electrification programme, where a disconnect between the funding of new or enhanced infrastructure and the procurement of rolling stock risks leaving passengers stranded with no trains running on newly electrified lines. The Department must take responsibility for aligning infrastructure, franchises and rolling stock procurement. This is necessary so that uncertainty can be reduced for industry and investment made rather than deferred. (Paragraph 47)
**Pacer trains**

15. By refusing to give a date for when the Pacer trains will be taken out of service and simply saying that he “hopes” they have had their day, the Secretary of State has suggested that he does not have the powers to ensure a decent quality of train for passengers in the North and South West of England or in Wales. Alternatively, his admission that he would not like to be held to account for the Pacers’ withdrawal suggests that he does have these powers, but is unwilling to match his rhetoric with action. We find it concerning that the rolling stock operating company Porterbrook is prepared to spend £800,000 refurbishing the Pacer to extend its use on our network. It is unacceptable that Pacer trains—built in the mid-1980s and of questionable safety—are still in use on busy rail lines. We recommend the Secretary of State uses his franchise specification powers to require the removal of Pacer trains from the rail network by 2020 at the latest. (Paragraph 51)

16. The cascading of train carriages out of the South East may provide the most efficient way for the rolling stock operating companies to manage their rolling stock. It is concerning that the Department has chosen to order brand new trains for passengers in London and the South East, while expecting passengers in the rest of the country to be content with reconditioned older trains—cast-offs from more prosperous areas. (Paragraph 52)

**Freight**

17. Rail freight is a crucial part of our economy, and its needs must be balanced against that of passenger rail. The Government should produce a freight strategy, considering road and rail freight together, to ensure a coherent and fair policy. It must also set out and consult on the practical steps required to achieve its strategic outcomes, including the modal shift from road to rail and the decarbonisation of freight transport. We believe the Office of Rail Regulation must consult on the track access charging regime with a view to reducing the current complexity. (Paragraph 60)

**Resilience**

18. We commend the work of the “Orange Army” of Network Rail engineers who rebuilt the seawall and re-opened the railway line at Dawlish, following the devastating storms. While the tireless work of the engineers limited the length of the closure of the line, the economic impact on the region was still severe. It is not clear whether the Treasury’s cost-benefit assessments take the cost of such closures, or the cost of doing nothing, into account, when prioritising investment on resilience or alternative lines. We call on the Department to state whether it is prepared to fund schemes which do not meet the required cost-benefit ratio, if the alternative is a closed line. Where lines are closed, as in the case of Dawlish, the necessary costs incurred in re-opening the line should not jeopardise or delay the long-term work to improve the resilience of the network or deliver promised enhancements. (Paragraph 64)
Connectivity with HS2

19. We welcome the proposals to improve East-West connectivity. We call for clarity on whether these proposals will be truly East-West: extending from Hull to Liverpool, with the benefits that would bring for freight and passenger rail. It is also not at all clear whether these proposals—HS3 as the Chancellor has referred to them—will entail a new line or improvements to existing lines. The Department should clarify this point, and also make clear what long-term objectives it has for improving East-West connectivity across the country. (Paragraph 68)

20. The Government should set out the details and timing of planned investment in the classic network in order to maximise the benefits of HS2; improving rail access for all passengers and increasing capacity for freight. The planning process should consider HS2 and trans-Pennine improvements as part of one overall rail network. (Paragraph 69)

Performance of Network Rail

21. The failure of Network Rail at Christmas, which left thousands of passengers stranded, was unacceptable. We welcome Mark Carne’s unreserved apology to the travelling public, and the publication of Dr Francis Paonessa’s report into the disruption. Network Rail’s original statement that the failure at King’s Cross was “really regrettable and unfortunate but it is a small part of a massive amount of engineering investment taking place over Christmas” offered little consolation to passengers stranded in the cold. Indeed, the fact that King’s Cross was only one of a number of overrunning engineering works and signalling problems that plagued the rail network over the festive period offers further evidence of systemic weaknesses in Network Rail’s capacity to plan and execute engineering works. Given the ambitious investment programme that Network Rail will receive £38 billion to deliver by 2019, this is a matter of great concern. If Network Rail is to maintain and improve the rail network in CP5 it will require managing multiple, complex engineering projects simultaneously. Network Rail must demonstrate how it will learn from the mistakes it has made in its engineering works and maintain a decent service to passengers while enhancement work is carried out. (Paragraph 78)

22. When things do go wrong, Network Rail must have adequate contingency plans. It should not abdicate its responsibility to passengers, particularly vulnerable ones such as the elderly or families with young children. We welcome Network Rail’s proposed review of contingency measures and the timing of engineering works. In addition Network Rail must work with Passenger Focus and the train operating companies to improve the communication with passengers when engineering works fail. (Paragraph 79)

23. While it is essential for Network Rail to deliver value for money for the taxpayer, efficiency savings cannot put the safety and reliability of the rail network at risk. The ORR should consider whether the disruption over Christmas and the New Year suggests that Network Rail is unable to deliver the enhancements programme planned for CP5, alongside a safety-focused, high-performing railway each and every day. In the light of the change of status of Network Rail the ORR must reconsider
whether fining a public sector body remains an acceptable means for the regulator to exert control. (Paragraph 80)

Reclassification of Network Rail

24. The test of the new relationship between Network Rail and the Minister will be how the Minister responds to poor performance by Network Rail, given the Government’s stated commitment not to micro-manage the railways. It is not clear whether the Secretary of State will use the powers set out in the framework agreement. The reclassification of Network Rail strengthens the case for greater accountability and transparency in the way we have recommended in paragraph 27 (Paragraph 83)

25. The Government should set out in its response how it plans the future financing of Network Rail and how it expects the financing of rail investment to be restructured. Spending more on debt interest than on asset maintenance is a looming political problem (Paragraph 84)

Conclusion

26. We welcome the record levels of spending in the rail network to 2019. Increasing capacity on the classic network will help to meet the current and growing demand for rail services; and the electrification programme will make journeys quicker and more reliable, as well as reducing the environmental impact of rail travel. We heard that the Northern Hub programme will deliver over £4 billion of wider economic benefits to the North. Such criteria for the allocation of spending will aid the Department in assessing bids for future investment, and ensure a fair proportion of investment in different regions of the country. Treasury statistics have shown that there is a large variation in the level of public spending on rail across different regions of the country. (Paragraph 85)

27. To maximise the benefits of the increased spending it should be clear how it fits into a longer-term strategic vision for the railways. While the control periods are a useful management tool, they need to be matched by the publication of a long-term plan, which brings together plans for franchising, rolling stock and enhancements work, and considers the rail network as a whole. Connectivity between the high speed and classic network should be prioritised, as should links to ports and airports. This plan should be linked to an “outturn statement” for each control period, helping to track spending, provide greater transparency around benefits realisation. This will strengthen the accountability of Network Rail and the ORR to Government and Parliament, as it will be clear if projected outcomes have materialised. Given the concerns we have expressed about Network Rail’s capacity to deliver the CP5 programme, it is vital for passengers and taxpayers that it is held to account in this way. (Paragraph 86)

28. A longer-term look at rail should be part of a wider route-based transport strategy that considers road and rail together, and recognises the interconnections between different modes of transport. This approach would enable the Government to consider whether proposed investments, in road or rail, offer the most effective and efficient way to improve connectivity and boost economic growth. As we have
previously recommended, working in this way would allow for consultation with local authorities and local enterprise partnerships, for the benefit of rail passengers and road users, and taxpayers in general. (Paragraph 87)
Draft Report (*Investing in the Railway*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 87 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 26 January at 4.00 pm]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee’s inquiry page at www.parliament.uk/transcom.

Monday 30 June 2014

Paul Plummer, Rail Delivery Group member and Group Strategy Director, Network Rail, Jeremy Long, Rail Delivery Group member and Chief Executive Officer, European Business, MTR Corporation, Nigel Jones, Rail Delivery Group member and Head of Planning, DB Schenker, Clare Moriarty, Director General, Rail Executive, Department for Transport, and Roger Jones, Deputy Director, Rail Network Outcomes, Department for Transport

Monday 14 July 2014

Richard Price, Chief Executive, Office of Rail Regulation, John Larkinson, Director, Economic Regulation, Office of Rail Regulation, Anthony Smith, Chief Executive, Passenger Focus, and Mike Hewitson, Head of Passenger Issues, Passenger Focus

Monday 1 September 2014

David Brown, Director General, Merseytravel, representing Rail North, Dr Jon Lamonte, Chief Executive, Transport for Greater Manchester, representing One North, Dr Ian Kelly, Chief Executive Officer, Hull and Humber Chamber of Commerce, Councillor Chris Shaw, Leader, North East Lincolnshire Council, and Councillor Liz Redfern, Leader, North Lincolnshire Council

Monday 27 October 2014

Isabel Dedring, Deputy Mayor for Transport, Greater London Authority, Tracey Lee, Chief Executive Officer, Plymouth City Council, and Lead Chief Executive Officer for the Peninsula Rail Task Force, and Mark Pendlington, Chairman, New Anglia Local Enterprise Partnership

Malcolm Brown, Chief Executive Officer, Angel Trains, Paul Francis, Managing Director, Porterbrook, and Mary Kenny, Chief Executive Officer, Eversholt Rail

Monday 1 December 2014

Maggie Simpson, Executive Director, Rail Freight Group, Lindsay Durham, Head of Rail Strategy, Freightliner Group, and John Smith, Managing Director, GB Railfreight

Monday 15 December 2014

Rt Hon Patrick McLoughlin MP, Secretary of State, and Philip Rutnam, Permanent Secretary, Department for Transport
# Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at [www.parliament.uk/transcom](http://www.parliament.uk/transcom). INQ numbers are generated by the evidence processing system and so may not be complete.

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### List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee’s website at [www.parliament.uk/transcom](http://www.parliament.uk/transcom).

The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

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