



House of Commons
Committee of Public Accounts

Strategic Rail Authority: improving passenger rail services through new trains

Thirty-fourth Report of
Session 2003–04

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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Rt Hon Alan Williams MP (*Labour, Swansea West*)

The following were also members of the Committee during the period of this inquiry.

Mrs Cheryl Gillan MP (*Conservative, Chesham and Amersham*)
Mr George Osborne MP (*Conservative, Tatton*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/committee_of_public_accounts.cfm. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

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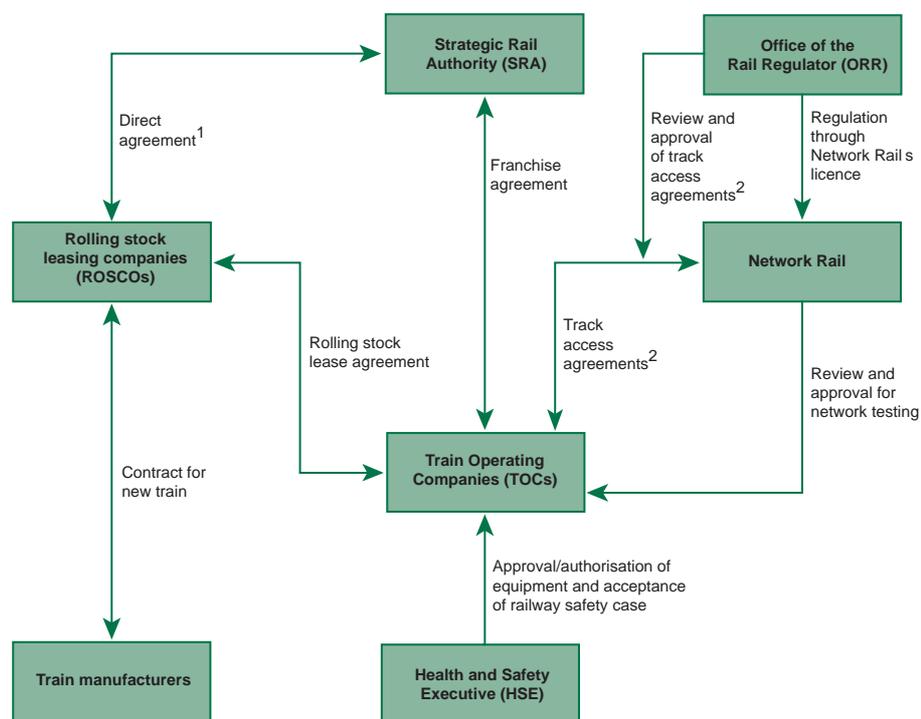
Summary

Introduction

Since rail privatisation in 1996, the 25 Train Operating Companies (TOCs) that provide passenger rail services under franchise agreements with the Strategic Rail Authority (SRA) have ordered over 4,500 new vehicles worth some £4.2 billion to meet a statutory requirement to take all (some 2,000) of the oldest slam-door vehicles out of service by December 2004, meet their franchise commitments to improve the quality of passenger rail services, or for commercial reasons. Several organisations are involved in getting a new train into service and there is a range of contractual and quasi-contractual relationships between them (**Figure 1**). Three rolling stock leasing companies (ROSCOs), owned by banks, have funded the purchase of the new trains and own them. ROSCOs lease them to the TOCs, and receive lease charges from TOCs' passenger fares and from the £1 billion annual subsidies TOCs receive from the SRA. Under Directions and Guidance set for it by the Secretary of State for Transport, the SRA is required to ensure that rolling stock is available for passengers to travel in appropriate modern standards of comfort and safety.

Figure 1: Relationships between the organisations involved in getting a new passenger train into service

There is a range of contractual and quasi-contractual relationships between the several public and private sector bodies involved in getting new trains into service.



NOTES

¹ In the event of the termination of a franchise agreement, and in view of the SRA's statutory obligation to act as operator of last resort, direct agreements allow the SRA to take over the rolling stock lease agreements between TOCs and ROSCOs.

² Track access agreements set out how much network capacity a TOC may have to run its trains, as approved or determined by the Rail Regulator. See glossary at Appendix 2.

Source: National Audit Office

On the basis of a Report by the Comptroller and Auditor General,¹ we examined the SRA, the Department for Transport (the Department), Network Rail, the Health and Safety Executive (the Executive) and the Association of Train Operating Companies (ATOC) on the passenger benefits and reliability of new trains, the barriers to their successful introduction and the SRA's leadership of the industry.

1 C&AG's Report, *Strategic Rail Authority: Improving passenger rail services through new trains* (HC 263, Session 2003–04)

Conclusions and recommendations

- 1. The SRA should require TOCs and ROSCOs to work more closely with manufacturers and passenger representatives to take account of the features and facilities that passengers need in the design of new trains.** New trains have not always met the needs of passengers, including providing full accessibility to those with disabilities.
- 2. To facilitate the more timely introduction of new trains, the SRA should require TOCs to agree with all the parties involved in introducing a new train fleet a realistic programme and timetable for bringing the trains into service.** Protocols for sharing essential information and agreements on completing key stages within an agreed period of time would also support more timely introduction by ensuring that the various bodies' commercial interests are more closely aligned.
- 3. The SRA should specify in its franchise agreements with TOCs reliability levels that new trains must meet.** The SRA does not have any enforceable reliability targets in its franchise agreements with TOCs, limiting its ability to secure passenger compensation for the poor reliability of many new trains.
- 4. The SRA should require TOCs, in turn, to include reliability targets in their agreements with the ROSCOs or other firms responsible for maintaining new trains.** The various contracts between the organisations that supply and maintain new trains have not placed sufficient emphasis on the reliability of new vehicles. Few train lease agreements currently contain reliability targets. Such clauses would strengthen incentives for manufacturers, train maintainers and ROSCOs to provide TOCs with reliable stock.
- 5. The SRA should work with the rail industry to streamline the complex process for introducing new trains.** The industry does not share a common understanding of the process and this, together with its complexity, brings delays and contributes to the poor reliability of new trains. The Government should use the opportunity of its review of the industry to reduce the number of organisations involved in introducing new trains. The industry should develop standard classifications of vehicles and route categorisations as the basis for vehicle and route acceptance procedures.
- 6. In conjunction with the Office of the Rail Regulator, the SRA should require Network Rail to compile complete, accurate and up to date information about the network to meet the needs of the industry.** Railtrack and its successor, Network Rail, have not maintained or made available to manufacturers and TOCs the infrastructure information they need to allow them to design and introduce new trains in an economic and efficient manner.
- 7. In order to sustain manufacturing and managerial expertise in the UK rail industry, the SRA should provide the industry with the information that it needs to help smooth out peaks and troughs in future train orders.** The SRA should take a longer term view of the need for any future new passenger trains and make indicative information available to the industry on a periodic basis to help manufacturers and TOCs plan better for future train orders.

8. **The SRA should take more concerted action with the Office of the Rail Regulator and Network Rail to tackle the difficulties in securing access for testing new trains on the live network.** Action might include, for example, agreeing a testing programme between TOCs, ROSCOs, Network Rail and train manufacturers, providing Network Rail with financial incentives to make the network available for testing and agreeing with TOCs and freight operators temporary revisions to their services that would improve access for testing to secure more reliable new trains.
9. **The Health and Safety Executive should reappraise the process by which TOCs are expected to show that the risks associated with their new trains are “as low as reasonably practicable” (ALARP), so that the process better conforms to the principles of good regulation.** The current process and criteria are not transparent or easy to understand, it is not clear which bodies are accountable, and there is a lack of clarity about the standards to be met. Recognising the lead times involved in the design and manufacture of new trains, the revised process should define a cut-off point beyond which further changes to new vehicles would not be required.
10. **The SRA should identify and disseminate best practice across the industry to help improve new train introduction.** The SRA has not exploited its strategic position to help the various bodies in the industry to share and learn the lessons from its experiences of bringing new trains into service.
11. **The difficulties in bringing reliable new trains into service on time demonstrate the need for clear leadership in a fragmented industry.** The Government should use the opportunity of its review to make clear who should take the lead in tackling the various problems affecting the introduction of new trains, and should provide them with the powers, sanctions and incentives that they require in order to drive through the improvements that are needed.
12. **The Department should equip the SRA with the tools for the job it is expected to perform.** The SRA’s objectives include speeding up the process for delivery, testing and acceptance of new rolling stock, though it can only guide the industry through dialogue and persuasion. The SRA needs the powers, incentives and sanctions necessary to match its responsibility for providing leadership and tackling problems within a fragmented industry.

1 Improving services for passengers

1. Many of the 2,000 new vehicles that have entered service have provided passengers with a better travel environment, improved facilities for passengers with disabilities and, on some routes, shorter journey times. Passenger groups do, however, have complaints about the layout of some new trains and that they are not always accessible to passengers with disabilities. There is a need to provide passengers with more opportunities to comment on the proposed designs of new trains.²

2. Most new trains have been late entering service and delays are expected to continue for new vehicles not yet in service. The SRA accepted that, in the past, the obligations in its franchise agreements with TOCs for bringing new trains into service had not been sufficiently clear, nor had there been enough liaison between the various parties. The SRA considered, however, that the industry has made significant strides in the last couple of years in improving relationship management in new train introduction.³

3. Reliability, punctuality and affordability are the most important factors in determining passengers' satisfaction with rail services. Many new trains suffer from reliability problems and some have been less reliable than the old trains they have replaced (**Figure 2**). Slam-door trains were ordered in large numbers as part of repeat orders, and are very reliable. Some new trains, in contrast, have been prototypes or the first of a large batch to be introduced, and have been very unreliable upon entering service. Many have been built to much more sophisticated designs than in the past, and have not been properly tested before being introduced. ATOC considered that the industry had been too optimistic about the reliability levels that could be achieved, but pointed out that a lot of work had been done to modify trains. In the case of one TOC, reliability had doubled since September 2003. Reliability levels of some new trains remain very poor, however, several years after entering service.⁴

2 Q 47; C&AG's Report, para 2.14 and Figure 5

3 Qq 76, 102, 159; C&AG's Report, paras 2.1–2.2 and Figure 3

4 Qq 20, 22–23, 75, 83–84; C&AG's Report, Figure 5

Figure 2: Reliability of new trains compared with the old trains they replaced

In half of the new train TOCs, the reliability of new trains compared poorly with that of old trains in the first few months after new trains entered service. In all but one case, reliability levels remain very poor.

TOC	Reliability achieved by old trains (miles per casualty)	Reliability achieved by new trains 3 months after entry into service (miles per casualty)	Reliability achieved by new trains by September 2003 (miles per casualty)
South Central	30,000	10,500	19,000
Connex South Eastern ¹	25,000	N/A ²	12,000 ³
c2c	15,000	1,000	43,700
First Great Western	3,500	1,700	2,400
Virgin Cross Country	3,000	4,000	11,200
Central Trains	3,000	2,800	6,500
Virgin West Coast	3,000	N/A ²	2,000 (after 3 months in service)
Arriva Trains Northern	2,500	1,000	7,000

NOTES

- 1 The reliability of Connex South Eastern's new trains fell over the period because Connex initially used a more generous definition of miles per casualty and later adopted a stricter one.
- 2 New vehicles' mileage was too low to present a reasonable picture of reliability.
- 3 Average of July, August and September 2003 data.

Source: National Audit Office analysis of TOC data

4. Manufacturers have been bearing the cost of major modification programmes to their new train fleets. In two cases, for example, modifications are expected to double the reliability of new trains within three years. Where lease agreements between TOCs and ROSCOs include reliability targets, ROSCOs, manufacturers and maintenance firms have a contractual incentive to improve reliability as TOCs may withhold some of the lease payments until specified reliability targets are achieved. Few lease agreements, however, contain reliability targets.⁵

5. ROSCOs' contracts with manufacturers for new trains commonly include reliability targets that are contractually enforceable. If these targets are not met, the manufacturer is liable to pay liquidated damages to the ROSCO. The SRA is not a party to manufacturing contracts, however, and does not know the amount of damages secured under each contract. Nor has the SRA incorporated similar enforceable reliability targets in its franchise agreements with TOCs, limiting the SRA's ability to secure passenger compensation for poor reliability of new trains. Where passenger services are affected by unreliable trains, passengers are compensated through agreed performance regimes,

although the proportion of compensation payments attributable to unreliable new trains cannot easily be identified.⁶

6. With few exceptions, new train orders to meet franchise agreements provided for steady state demand for rail services or were in line with expected demand. But passenger numbers have increased by a fifth since privatisation, with a very significant increase in the number of passengers on specific routes, such as commuter lines. Capacity has not kept pace with demand. The number of vehicles and services on the Thameslink line, for example, has not kept pace with the 60 to 65% increase in passenger numbers. The Thameslink 2000 project was designed to address these shortfalls, but will take some years to come to fruition. The SRA acknowledged that, on the busy West Coast Mainline, each new vehicle has fewer seats than the old ones they have replaced. Although partly offset by longer trains and an extra service from September 2004, daily seat capacity on trains from Liverpool to London Euston would still be less than it was in the summer of 2002 before the introduction of the new trains. The SRA accepted that it should form a view on the likely demand for train services in the medium to long term to help TOCs plan service provision. This had been lacking on the West Coast Mainline until the SRA put in place a detailed route strategy to address the issues of passenger capacity and overcrowding.⁷

6 Qq 118–119, 123–129; Ev 24–25; C&AG’s Report, paras 2.24, 4.4–4.5

7 Qq 37–38; Ev 22; C&AG’s Report, para 2.17

2 Tackling barriers to the successful introduction of new trains

7. Bringing a new train into service is a complex process, involving more than 60 key stages and at least nine organisations. This complexity has contributed to delays in bringing new passenger trains into service. The SRA recognised that the process for introducing new trains could be more straightforward and that the whole industry needed to work together, but considered that this was now increasingly happening to good effect. In his statement to Parliament in January 2004 the Secretary of State for Transport launched a review of the structure and organisation of the industry to establish how the industry worked together and to streamline the structure of the railways.⁸

8. The absence of complete and reliable information on the age, type and condition of the infrastructure has made it difficult for manufacturers to build trains economically and efficiently. Network Rail acknowledged that there had not been a complete database of the infrastructure that Railtrack, its predecessor, inherited at privatisation. Network Rail has been putting a database in place, which it expects will provide other organisations with 90% of the information they are likely to need. The database would be in place by June 2005.⁹

9. Matters are further complicated by a lack of standardisation of the network and of the trains that run on it. The height and width of the 65,000 tunnels and bridges on the network vary, for example, as do the height and length of station platforms. Vehicles need to be individually tailored to fit the route or routes on which they will run. The types of train vehicles also vary significantly, with 46 designs running on the network and 13 different designs ordered since privatisation. The SRA acknowledged that lack of standardisation was an important issue for the industry, and that it was looking to promote greater standardisation in the design of new trains through its future franchise agreements with TOCs.¹⁰

10. Delays had also resulted from manufacturing and managerial difficulties in dealing with the surge in orders for new vehicles after privatisation. Very few new trains were ordered in the four years from 1993 to 1996, contributing to skill shortages when orders picked up as experienced engineers and managers had left to find work in other industries (**Figure 3**).¹¹

8 Qq 3–4, 134; C&AG’s Report, paras 3.7–3.8, 3.12

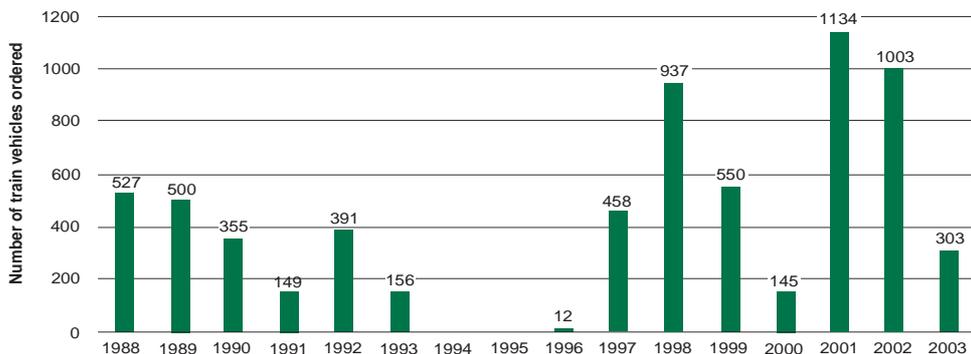
9 Qq 11, 26, 31, 70, 72

10 Q 46; C&AG’s Report, paras 3.13–3.14

11 Qq 65–66; C&AG’s Report, para 3.5

Figure 3: Numbers of new train vehicles ordered, 1988 to 2003

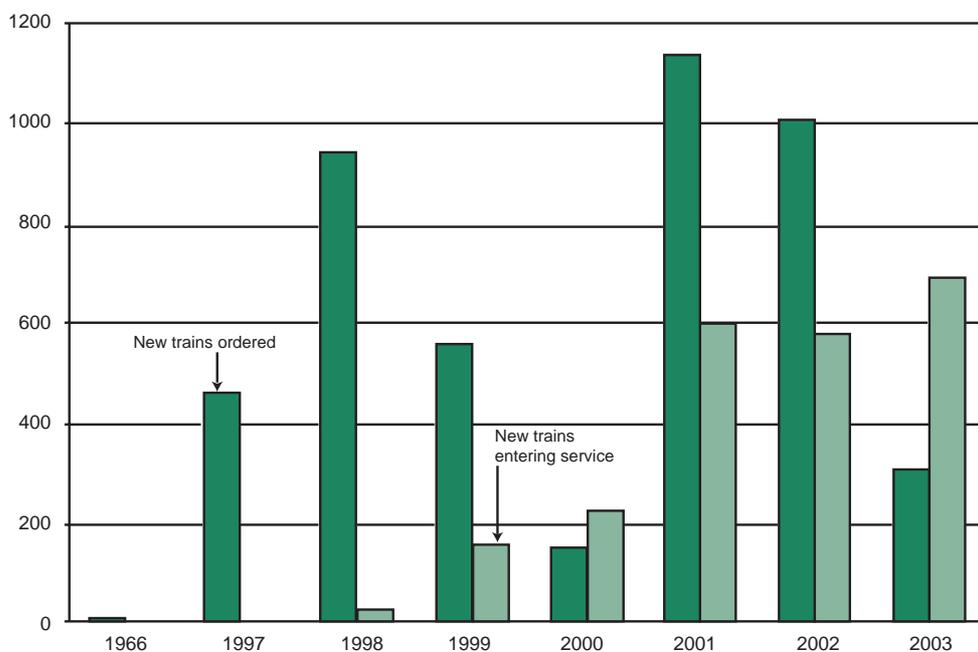
There has been a lack of steady demand in the ordering of new trains.



Source: National Audit Office analysis of SRA data

11. The SRA said that the fluctuation in the number of new orders had arisen mainly from the stop/go nature of central government funding but also reflected, in part, the life cycle of trains depending on when existing trains had themselves been brought into service. There were peaks in the number of orders for new trains as ROSCOs and TOCs sought to take advantage of economies of scale in replacing their entire fleets. New trains had not been delivered all at once, but over a period of time depending on manufacturing capacity. Actual entry into service had also been affected by testing capacity and the ability of the network to support new trains (Figure 4).¹²

Figure 4: Numbers of new trains ordered and entering service, 1996 to 2003



Source: National Audit Office summary of SRA data

12. ATOC considered, however, that there had been a poor level of strategic thinking during the 1990s when many of the new trains were ordered. The industry should not have ordered so many new vehicles so quickly. Under the Directions and Guidance set for it by the Secretary of State in April 2002, the SRA is expected to consider the desirability of moderating peaks and troughs in the demand for new trains. The SRA recognised that it needed to take a longer-term view about when to start the process of procuring new rolling stock so that manufacturers and TOCs were better placed to plan for new orders.¹³

13. Network Rail needs to upgrade track-side power supplies and other parts of its infrastructure on the Southern Region before new trains can replace the oldest slam-door vehicles. Delays in the upgrades have caused a backlog of some 300 new vehicles ready, but unable, to enter service in the Spring of 2004. The statutory deadline of December 2004 for taking all of the oldest slam-door vehicles out of service is unlikely to be met, and up to 300 of the oldest slam door trains might have to be kept in service until June 2005 when Network Rail expected to complete the power supply upgrades. Although problems were well known early on, Railtrack, Network Rail's predecessor, did not start work on site until mid 2002. Network Rail said that Railtrack had tackled the problem as soon as it became aware of the full extent of what was required. It was in discussion with TOCs from 2001 onwards, by which time new vehicles were being built and TOCs could give Railtrack the necessary information about the power supply that new vehicles would need. The SRA acknowledged, however, that the industry had not given sufficient consideration, at the time the new vehicles were ordered, to the amount of power that the new, more sophisticated trains would need.¹⁴

14. There is no national facility in the UK for testing new trains before they enter service. All three manufacturers have access to other test tracks which the SRA and the Department consider have reduced the need for a national test track. Most new trains still have to be tested on the live network, however, at off-peak times. Gaining access to the network has been problematic due to the growth in passenger and freight services and the need for essential maintenance and renewal of the infrastructure. As a result, new vehicles have been put into service without sufficient testing in all conditions, contributing to reliability problems. The lack of testing capacity remains to be solved.¹⁵

15. As part of their applications to the Health and Safety Executive for approval to bring new trains into use, TOCs must show that the risks associated with their trains have been reduced to "as low as reasonably practicable" (ALARP). The use of ALARP brings a subjective element into the approvals process as the industry lacks clear pass/fail criteria or thresholds against which to assess safety risks. The industry has also not always applied the ALARP assessment at the vehicle design stage; by the time a new train has been built, views on what is 'ALARP' might have changed since the time the train was designed. There is therefore a lack of certainty of outcome on the part of TOCs and manufacturers, and the process delays the introduction of safer new trains while keeping less safe older trains running for longer than necessary. The Executive pointed out that the Rail Safety and Standards Board and Network Rail have agreed that new safety standards should not apply

13 Qq 53, 74–76; Ev 18; C&AG's Report, para 4.17

14 Qq 9, 13–19; C&AG's Report, paras 2.6–2.9, 4.8

15 Q 147; C&AG's Report, paras 3.27–3.28, 4.24

retrospectively to new train orders. The ALARP approach continues to display shortcomings, however, against several of the key principles of good regulation set out by the Better Regulation Task Force. The process and criteria are not transparent or easy to understand, it is not clear whether the Executive or the industry is accountable for the process, there is a lack of consistency in the interpretation and application of the ALARP principle and the process leads to unintended consequences. In his statement to Parliament in January 2004, the Secretary of State for Transport pointed out that, amongst the plethora of industry standards, some were over-cautious or were being applied in an over-cautious way.¹⁶

16 Q 21; C&AG's Report, paras 3.16, 3.21–3.22

3 Providing strategic leadership to the industry

16. The government established the SRA in February 2001 to provide the strategic leadership to the railway industry that it considered was previously lacking. Under the Directions and Guidance that the Secretary of State set for it, the SRA needed to address vigorously the difficulties affecting the delivery of new trains and their introduction into service. Yet under the SRA's leadership a number of key elements have been lacking:

- **steady demand** in ordering new trains, contributing to manufacturing and managerial difficulties;
- **organisational coherence** within the rail industry;
- **standardisation** of the network, and of the trains that run on it;
- **information** about the network;
- **clearly defined pass/fail criteria** when assessing safety risks;
- **testing capacity**.

17. The SRA has little direct involvement in the process of introducing new trains and has no powers to direct, manage or control either the process or other organisations' involvement in it. For example, the SRA has no powers to direct the various organisations to share essential information within a specified timeframe, or to complete key stages of the process by a particular date. The SRA cannot therefore by itself take the action needed to bring reliable new trains into service on time, but instead needs to guide the industry through dialogue and persuasion and by setting priorities for action by itself and others.¹⁷

18. The Department agreed that the SRA does not have direct powers over what is a privatised industry. It pointed out, however, that the Secretary of State for Transport announced in January 2004 that the government was reviewing the organisational structure of the railway industry, a review which the SRA welcomes.

19. The SRA set itself key objectives for rolling stock in its January 2002 Strategic Plan. It has been slow, however, in bringing strategic direction to the industry to tackle the problems associated with the introduction new trains. Most of the 25 TOCs surveyed by the National Audit Office between March and June 2003 said that the SRA did not share good practice or lessons learned to help the industry improve its record on introducing reliable new rolling stock and considered that the SRA had made little or no progress against its rolling stock objectives (**Figure 5**). The SRA did not consider that this assessment was now a fair reflection of what it has done. Since the survey was conducted, the SRA has made significant strides to address the problems affecting new trains and, in its view, a follow-up survey would now elicit a more positive response from TOCs.¹⁸

¹⁷ C&AG's Report, para 4.16

¹⁸ Qq 95–97; C&AG's Report, para 4.21

Figure 5: Progress against the SRA's rolling stock objectives

Many TOCs told us that the SRA has made little or no progress against its rolling stock objectives.

SRA objective	Percentage of TOCs that considered the SRA had made little or no progress against this objective
To speed up the process for delivery, testing and acceptance of new rolling stock	86
To bring about a step change in the reliability of new rolling stock	91
To bring about a significant improvement in the overall quality of stock on the network	82
To promote efficiency in the supply chain and facilitate the planning of rolling stock cascades onto different parts of the network	95

Source: National Audit Office survey of TOCs, March–June 2003

Formal minutes

Monday 14 June 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Richard Bacon
Mr David Curry
Mr Frank Field

Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

The Committee deliberated.

Draft Report (Strategic Rail Authority: improving passenger rail services through new trains), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report, as amended, be the Thirty-fourth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 16 June at 3.30 pm

Witnesses

Monday 1 March 2004

Page

Mr Richard Bowker, Ms Nicola Shaw, Strategic Rail Authority, **Ms Vivien Bodnar**, Department for Transport, **Mr John Armitt CBE**, Network Rail, **Dr Timothy Walker CB**, Health and Safety Executive, and **Mr George Muir**, Association of Train Operating Companies (ATOC)

Ev 1

List of written evidence

Strategic Rail Authority

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List of Reports from the Committee of Public Accounts Session 2003–04

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Second Report	The new electricity trading arrangements in England and Wales	HC 63 (<i>Cm 6130</i>)
Third Report	The Sheep Annual Premium Scheme	HC 64 (<i>Cm 6136</i>)
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137 (<i>Cm 6155</i>)
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206 (<i>Cm 6175</i>)
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207 (<i>Cm 6155</i>)
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253 (<i>Cm 6155</i>)
Eighth Report	The English national stadium project at Wembley	HC 254 (<i>Cm 6155</i>)
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305 (<i>Cm 6175</i>)
Tenth Report	Purchasing and managing software licences	HC 306 (<i>Cm 6175</i>)
Eleventh Report	Helping consumers benefit from competition in telecommunications	HC 405 (<i>Cm 6191</i>)
Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406 (<i>Cm 6191</i>)
Thirteenth Report	Excess Votes 2002–03	HC 407 (<i>N/A</i>)
Fourteenth Report	Inland Revenue: Tax Credits	HC 89 (<i>Cm 6244</i>)
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429 (<i>Cm 6244</i>)
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120 (<i>Cm 6191</i>)
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Eighteenth Report	PFI: The new headquarters for the Home Office	HC 501 (<i>Cm 6244</i>)
Nineteenth Report	Making a difference: Performance of maintained secondary schools in England	HC 104 (<i>Cm 6244</i>)
Twentieth Report	Improving service delivery: the Veterans Agency	HC 551
Twenty-first Report	Housing the homeless	HC 559
Twenty-second Report	Excess Votes (Northern Ireland) 2002–03	HC 560
Twenty-third Report	Government Communications Headquarters (GCHQ): New Accommodation Programme	HC 65
Twenty-fourth Report	Transforming the performance of HM Customs and Excise through electronic service delivery	HC 138
Twenty-fifth Report	Managing resources to deliver better public services	HC 181
Twenty-sixth Report	Difficult forms: how government departments interact with citizens	HC 255
Twenty-seventh Report	Identifying and tracking livestock in England	HC 326
Twenty-eighth Report	Driver and Vehicle Licensing Agency: Trust Statement Report 2002–03	HC 336
Twenty-ninth Report	Improving public services for older people	HC 626

Thirtieth Report	Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales	HC 463
Thirty-first Report	Cambridge-MIT Institute	HC 502
Thirty-second Report	HM Customs and Excise Standard Report	HC 284
Thirty-third Report	Income generated by the museums and galleries	HC 430
Thirty-fourth Report	Strategic Rail Authority: improving passenger rail services through new trains	HC 408

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Monday 1 March 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Frank Field
Mr Brian Jenkins

Mr Gerry Steinberg
Jon Trickett

Sir John Bourn KCB, Comptroller and Auditor General and **Mr Keith Holden**, Director, National Audit Office, further examined.

Mr Rob Molan, Second Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Strategic Rail Authority: Improving passenger rail services through new trains (HC 263)

Witnesses: **Mr Richard Bowker**, Chairman and Chief Executive and **Ms Nicola Shaw**, Managing Director, Operations, Strategic Rail Authority (SRA), **Ms Vivien Bodnar**, Director of Rail Performance, Department for Transport, **Mr John Armitt CBE**, Chief Executive, Network Rail, **Dr Timothy Walker CB**, Director General, Health and Safety Executive and **Mr George Muir**, Director General, Association of Train Operating Companies (ATOC), examined.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts. Today we are considering the Comptroller and Auditor General's Report on improving passenger rail services through new trains. We welcome Mr Richard Bowker, who is Chairman and Chief Executive of the Strategic Rail Authority, Ms Nicola Shaw, who is Managing Director, Operations at the same organisation. Ms Vivien Bodnar, who is Director of Rail Performance at the Department for Transport, Mr John Armitt, who is Chief Executive of Network Rail, Mr Timothy Walker who is Director General of the Health and Safety Executive and Mr George Muir, Director General of the Association of Train Operating Companies. We have a good line-up of witnesses, so between you we hope we will get the answers we will need. May I start with you, Mr Bowker, and refer you to page 40 of the Comptroller and Auditor General's Report? The SRA was set up in February 2001, was it not? We see from paragraph 4.22 that it was not until the spring of 2003 that you began to bring strategic direction to the introduction of new trains. Why did you wait so long?

Mr Bowker: It is obviously correct that we were set up in February 2001. We did, however, carry out a number of activities prior to 2003 to bring strategic direction. One example, if I may, is the introduction of the new trains south of London, the Mark 1 rolling stock, which we began in significant earnest at the end of 2001/beginning of 2002. We have taken forward a number of things; there are several parts to this programme. It is true that some of these matters we are only now putting in place, but it has been an ongoing programme for some time.

Q2 Chairman: It was in the spring of 2003 that the NAO started to take an interest in you, was it not?

Mr Bowker: On this matter, yes.

Q3 Chairman: Do you have the leverage and the powers which you need?

Mr Bowker: We do have some significant powers of leverage. I do, however, think that it does require the whole industry, the different parts of it, to work in concert. That is happening now more and more with good effect, but it does require different people with different roles and responsibilities to use them.

Q4 Chairman: Do you have the powers and leverage which you need?

Mr Bowker: There are several areas where I believe further work could be looked at to address the issues which this Report makes clear around organisational coherence.

Q5 Chairman: Ms Bodnar, could you please look at page 38, paragraph 4.16, where it says "... the SRA has little direct involvement in the process of introducing new trains. Nor does the SRA have any powers to direct, manage or control the process or other organisations' involvement in it". Why have you not equipped the SRA with the tools to do the job?

Ms Bodnar: We believe that we have a privatised industry and the SRA has been set up to provide the leadership which was necessary for that. However, the Secretary of State has announced that there is going to be a review of the railways.

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Q6 Chairman: So you have announced a review and at present they do not have the powers and leverage to do the job adequately then. Is that right or not?

Ms Bodnar: At the moment, as the Report points out, they do not have direct powers, but it is a privatised industry.

Q7 Chairman: Mr Bowker, could I please ask you to look at paragraphs 1.4 and 1.5 on page 12? You required the TOCs, did you not, to order these new trains, besides those to replace the slam-door ones? Why did you require them to order so many new trains when you must have known that there were not the manufacturers to build them, nor the power supplies to get them going adequately on all our lines, nor adequate testing facilities?

Mr Bowker: I think there were and are the manufacturers capable of building them. The reason why the orders were made was because of a statutory deadline of 31 December 2004 to have all such vehicles removed from the railway network and hence the reason for ordering sufficient trains to replace them.

Q8 Chairman: You did that to meet the statutory deadline when you knew that although the train manufacturers might be capable, they were clearly not up to the job and the power supplies and testing facilities were not adequate.

Mr Bowker: I do not think it was clear that the manufacturers were not up to the job.

Q9 Chairman: Was the primary motivator to meet that deadline imposed on you?

Mr Bowker: Yes, that was a very relevant factor, but it is also the case that these trains are over 30 years old, they do not provide the sorts of facilities of modern reliable trains which customers would reasonably expect. There were more than just issues relating to the statutory deadline. In terms of the power supply, it is absolutely true that at the time these trains were ordered there was not sufficient joined-up thinking as to the amount of power which would be needed for these trains. That is why we put in place a programme to address that and why it is now being done.

Q10 Chairman: We will come to the power supply in a moment. Mr Armitt, could you please look at page 29, paragraph 3.17, where it says "Network Rail does not yet have a complete and reliable database of its infrastructure"? You are an engineer yourself, are you not?

Mr Armitt: Yes.

Q11 Chairman: How can you expect manufacturers to build trains economically and efficiently when you cannot give them all the information they need?

Mr Armitt: Clearly they do need information to be able to manufacture and we have been putting in place and will have completed a database which will probably give 90% of the information that anybody is likely to need, but there will always be specific issues where, according to which part of the network

the trains are going to be running on, it would be best to look very specifically at that particular area. It is probably the case that in all the nationalised industries, particularly at the time they were privatised, there was not a complete database of their entire infrastructure. We are putting one in place for the railway: we expect to complete it in the next 18 months.

Q12 Chairman: It seems pretty extraordinary that that sentence is written there in the way that it is "It is therefore difficult for manufacturers to build trains that are compatible with the network, and that comply with current standards".

Mr Armitt: They can come and we can have discussions with them and that is the process we now have in place. The train operators come to us and we look at these specifics with them of the area of infrastructure, because it does vary across the country, on which they will be running the new trains.

Q13 Chairman: Let us look at the power problem. If we look at page 17, paragraph 2.9, it tells us "Stakeholders told us that the power supply problem on Network Rail's Southern Region was well known early on and that this, and other infrastructure improvements, should have been tackled sooner". So these problems were known by early 2000, were they not? Why did you not tackle them sooner?

Mr Armitt: We tackled them as soon as we became aware of the full extent of what was required.

Q14 Chairman: You tackled them in the summer of 2002.

Mr Armitt: No, we were tackling them before that and we were in discussion from 2001 with the train operators. The train operators were building these trains by that point and for them to be able to give us all the information necessary about the power demand they were going to have was not straightforward. Equally, the information we had available to them was not complete and the process of iteration between ourselves, the train operators and the manufacturers was ongoing for some time.

Q15 Chairman: After all this talk, remind us how many trains are lying idle in the South East. It is 300 new trains mothballed, is it not?

Mr Armitt: I am not sure what the precise number is.

Q16 Chairman: I have been told it is 300. What is it?

Mr Armitt: There are 565 new trains in operation today.

Q17 Chairman: How many trains are lying mothballed because amongst all the array of talent in front of us nobody realised that they would require more power and therefore they have had to be mothballed, unused, in the South East, causing enormous inconvenience to our constituents because

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nobody thought in time to put the necessary power in place. I have been told 300 are lying mothballed. Is that right or not?

Mr Armitt: Yes, I would imagine that is roughly right.

Q18 Chairman: When will this work be finished then?

Mr Armitt: The work will be finished in mid 2005.

Q19 Chairman: What is this going to do to the government's deadline to get rid of all these slam-door trains?

Mr Armitt: We expect to have very few not in place by the end of 2004 and discussions are ongoing with HMRI to recognise that what has been done in the circumstances is as much as could be expected. What is not in place is a very small proportion of the total.

Q20 Chairman: Mr Muir, could you please look at paragraphs 2.19 to 2.21 and Figures 7 and 9, which deal with the reliability of new trains? Unbelievably some of these new trains are apparently less reliable than the old ones. Why have you done so little to improve the reliability of these new trains?

Mr Muir: The new trains are less reliable than the old Mark 1s, which are indeed very reliable trains. They were a long order which was repeated and they are very reliable. In the case of Table 9 on page 22, there are six train operator groups down there and if not all, then all but one, have major modification programmes going on now to raise their reliability. The first two in particular, South Central and Connex South Eastern have modifications going on managed by Bombardier, the manufacturer, at his cost and they are running through a list of about 150 modifications which will double the reliability of these trains within three years.

Q21 Chairman: Others can come back to that if they wish. Lastly, Dr Walker, perhaps you would look at page 30 please? "There is a lack of clearly defined pass/fail criteria." You will see in paragraph 3.20 that it says "... when introducing a new train onto the network, they" the TOCs "should reduce the safety risk to 'as low as reasonably practicable'". Then in paragraph 3.22 it says you "bring a subjective element into the approvals process as Panels have not, as a matter of course, applied clear criteria". A lot of people think a lot of the problems we are facing with these new trains are because manufacturers do not have a clear pass/fail system and the goalposts are constantly shifting, people are risk adverse and that is why so many of these trains are not being introduced on time. Is that a fair criticism? They blame you? Are they right to blame you?

Dr Walker: No, I do not think so. There is an issue in that the railway industry is changing from prescriptive standards to risk based standards. Risk based standards allow one not to do things if the risk is not sufficiently great. There is indeed an issue about the changing of standards and I am very please that RSSB, the Rail Safety and Standards

Board and Network Rail have now agreed that new standards apply to new projects and not retrospectively to old projects. That is very welcome and we have welcomed that. When we give design consent for a new design, then essentially we are saying that we are satisfied with the standards unless anything very important emerges in the future.

Chairman: I did not understand that answer, but others may have done.

Q22 Mr Allan: I think this is directed at Mr Muir, with his point about reliability. If we look at paragraph 2.18 it tells us "Passenger groups told us that the most important factors in determining passengers' satisfaction with rail services are reliability, punctuality and affordability".

*The Committee suspended from 4.49pm to 4.56pm
for a division in the House.*

There is obviously a tendency when we are discussing public services often to do it on an anecdotal basis. I am a Midland Main Line user and when it comes to rail services most Members of this House can claim a fair degree of expertise. We are connoisseurs: 1998 was a good year and 2002 was a bad year. What it looks like from my point of view as a user is that you have the priorities all wrong. You have kitted out all the new rolling stock so it looks shiny and new but reliability is going down and what this paragraph here says backs that up. What passengers want more than a warm train and toilets and seating is reliability. Do you as a train operator accept that criticism, when it says what passengers want is reliability?

Mr Muir: I certainly accept that the first thing they want is reliability.

Q23 Mr Allan: It is all kitted out but it does not arrive on time. What this paragraph says here is that does not factor out. You accept that the first thing they want is reliability. Do you accept that your rolling stock, from the users' perspective, seems shiny and new? We have a Virgin catalogue showing it painted up in the Midland Main Line livery but it breaks down and we get thrown off and do not get there.

Mr Muir: In the case of Midland Main Line eventually you have to bring in a new train and they brought in one of the first new Turbostars, a new train called the 170 in 1999 and it was essentially a prototype or the first of a long batch and very unreliable when it first came. There were lots of anecdotal jokes about water getting in, that they were leaking and horror stories and we all remember them and indeed the seating was too close together. Since then we have done a massive amount of work on them and the figures in December show miles to casualty at 11,000, which is very respectable. It is also true that there has been a complete management shake-up there associated with this and a redoubled effort on the reliability of these 170s.

Q24 Mr Allan: But across the piece, from a train operating perspective, presumably your complaints have been going up not down.

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Mr Muir: Complaints by passengers?

Q25 Mr Allan: By passengers.

Mr Muir: No, I do not think so, because when new trains come in, they are very popular. Above a certain low level of punctuality, new trains are very popular and it is true that c2c, which is mentioned here, started with some very unreliable trains. On page 22, Table 9 shows their new trains start with 1,000 miles between casualties and it is impossible to run a train service on that basis and indeed they were taken out of service to get them right and put back in. Now, besides being very reliable, the new trains run by c2c are very popular; people do like them.

Q26 Mr Allan: May I turn to Mr Armitt and the point the Chairman picked up about the lack of information and what appears to be very slow progress in documenting a network which for the most part is not new; most of the trains were bought and most of the track was put down quite some time ago. It does seem extraordinary that we are spending, as I understand it, £4.2 billion on new trains and yet the database of information required to get those trains right seems to be making incredibly slow progress; it is not going to be ready until the middle of 2005 and it required a direction from the SRA even to get you moving on it.

Mr Armitt: No, I do not think that is quite correct. The database for the new trains in the Southern Region is essentially an issue around power and each train has slightly different power draw characteristics. New trains have very different power draw characteristics to the Mark 1 rolling stock and what has been necessary has been for us to understand what the power requirements would be of the new trains. Once we understood that fully, we were then immediately able to move into a programme of upgrading the power supply in the Southern Region. Elsewhere on the network, for example on the West Coast, where we are introducing the tilting trains, that has required alterations to the infrastructure where, for example, the clearances have to be adjusted. At the end, once you know exactly what the train people wish to bring in, you can sit down and discuss that, ideally before it goes into manufacture, you can then make any adjustments necessary to the infrastructure or indeed make the adjustments to the train design so it works with the existing infrastructure.

Q27 Mr Allan: That just seems an extraordinary way to put it. We have ended up with large multi-million-pound orders for trains which could not run on the track because of a variety of different problems.

Mr Armitt: The principal problem was the power which was required to run the new trains.

Q28 Mr Allan: What about the story about the clearances at stations being wrong, which is the other one which has been running.

Mr Armitt: Remember that the infrastructure has been put in place over the last 150 years and is enormously varied. It is enormously varied across

the whole network and therefore there will be places where you can easily put a new train through; there will be others where it is extremely tight and under the standards you have to make adjustments.

Q29 Mr Allan: Surely that is a case for having the database. It seems extraordinary. We seem to have the cart before the horse. We are going out and ordering trains and at the point of placing the order you then go out and check whether they are going to be able to run on the track.

Mr Armitt: I do not disagree with you at all that that is putting the cart before the horse.

Q30 Mr Allan: That has been happening and it is not going to be resolved.

Mr Armitt: It very much is being resolved, because the process which we have agreed within the industry today is one where undoubtedly, if we were ordering a new train tomorrow, there would be discussions between ourselves, train operators, manufacturer, about the characteristics of the new train, about the infrastructure where the new train is going to be operating and we would be talking together about what was required to ensure they worked easily and without too much modification.

Q31 Mr Allan: Are you going to get to the point where you have that information to hand immediately?

Mr Armitt: As I said earlier on, we would expect by mid-2005 to have completed the database. We then have to update the database continuously because we are continuously modifying the network, enhancing the network, improving the network.

Q32 Mr Allan: May I turn to Mr Bowker and talk about the ROSCOs, the rolling stock companies. I do not know whether you sit glued to *Bremner, Bird and Fortune* on a Sunday evening, but if you did yesterday you would have seen an entertaining conversation which seemed to imply that the ROSCOs were quite a neat device for trying to extract large amounts of taxpayers' money from the railway network. I understand you have had experience with Virgin as one of the train operating companies. It does seem extraordinary to have this extra layer of responsibility. Do you have a view and could you explain briefly why it is that the train operating companies do not buy their own rolling stock? Does the ROSCO mechanism add to the network from a passenger's perspective and the taxpayer's perspective, or does it take out, as was being implied?

Mr Bowker: In principle the ROSCO process does. What the ROSCO process is like is aircraft leasing, for example, which is operating leasing, where the assets are owned by a leasing company and leased to the train operator in this instance. That can be enormously advantageous for the train operating company in terms of its own capital management and so on. In fact, if we did not have rolling stock leasing, train operating companies would have to buy their own rolling stock and the cost to the train

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operating company and therefore the taxpayer would be high. There are two components to rolling stock leasing. There are the trains which were inherited at the time of privatisation and there is the market which has developed since. There is no doubt that some of the trains which were inherited at the time of privatisation have not been as effective for the train operating companies as perhaps people had hoped. Those trains are by and large now starting to be phased out. The market for new trains has been incredibly competitive. We have seen, through a combination of competitive financing and competitive build costs, the real cost of new trains coming down very significantly indeed since privatisation. That is clearly good news in terms of the trains covered by this Report.

Q33 Mr Allan: The ROSCOs made a lot of money for some people, did they not? Can we extract from what you are saying that in round one a suggestion that excessive profits were made from the original set of agreements might be justifiable, but you are arguing that in the second new round, the trains we are talking about here, excessive profits are not being made.

Mr Bowker: Not only would I argue that for the second round, I would also say in the first round that the people who bought the rolling stock leasing companies took the risks which were available to them at the time and they bought the companies on the basis of the contracts which were made available to them. What they have done with that since is a function of the way they have managed those companies.

Q34 Mr Allan: May I come back to where I started, talking about trains away from the South East? There is a perception, when you move away from the South East that the focus of all of you sitting there—and there are plenty of you—and the priorities for the rail network are around getting the South East commuter routes right and that the eye is off the ball in the rest of the country. Can you respond to that? When we are talking about trains, we are talking a lot about replacing these slam-door trains. In areas where we have never had slam-door trains it can feel as though we are not so high on your priority list.

Mr Bowker: We set the strategic direction for the railways within the policy set by government and I can confirm that we do not ignore the rest of the country just to the benefit of the South East. A great deal of the rolling stock investment, the West Coast Main Line investment, the new Meridian trains on Midland Main Line, quite a lot of stuff which has been delivered in the North West and North East, is a very significant chunk of the new investment in rolling stock.

Q35 Mr Field: Mr Bowker, when you were invited to join the Strategic Rail Authority it must have sounded an incredibly grand organisation. Do you think it has the powers you believe it needs to live up to that grand title?

Mr Bowker: The title is a matter of personal opinion. I see it as an incredibly important role. We do have significant powers. This Report is one example of where there are question marks over the organisational structure of this industry. You cannot take it in isolation. It is why I do welcome the Secretary of State's announcement of a review of the industry, not just for rolling stock but across a whole number of areas. There are things we probably could do better and if we can we should look at that.

Q36 Mr Field: You tempt me. What are the areas in which you think you could do better?

Mr Bowker: It does appear to me that there is a great number of organisations involved in this industry and whilst I would say that over the last two years there has been a very significant coming together of all the entities involved to the benefit of the travelling public and the taxpayers, there is always the opportunity to look at where other improvements could be made. Clearly the number of franchises is one area where we have already started to address that by reducing the number, making it easier and more manageable.

Q37 Mr Field: You are obviously developing the art of answering questions rather well. To me, to use the word "strategic" would mean you have some idea about the numbers travelling. Why do you think you have it wrong about the numbers travelling and how do you account for what we see, as consumers of the railway system, as a declining service with more people wanting to travel at greater cost.

Mr Bowker: There are several aspects to that. Did we get the numbers wrong? No, I think there was a general consensus five or six years ago that the market for rail travel would not grow at the levels it has done. When you look at what has happened in the last few years, there has been a very significant increase in ridership. That ridership is quite specific to certain lines; that has not happened everywhere. Yes, it is absolutely right that there are places where demand has outstripped our ability to supply it. Where that is the case, we have plans in place to address it. Perhaps the best example is on the line which your colleagues will know very well, the Thameslink line which runs along the Midland Main Line, where demand for that service has increased by something like 60% to 65% over the last six years. We have not kept pace with that in terms of the number of vehicles and services. Thameslink 2000 is a project designed to address precisely that, but it does take time to bring to fruition.

Q38 Mr Field: My knowledge is limited to the line between London and Liverpool and therefore it is the Virgin line. Virgin trains were already crowded and they are introducing new trains with fewer seats. As you head the Strategic Rail Authority, did you have any say in that, advising them that probably if you already have crowded routes and you introduce trains which carry fewer people there will be even greater problems than not replacing those trains?

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Mr Bowker: There are two aspects here in answer to that. First of all, in my view the Strategic Rail Authority should form a view as to the demand in the medium and long term. I am absolutely clear that was not done properly with the West Coast Main Line. It is why, over the last couple of years, we have put in place a very detailed West Coast route strategy to address, amongst other things, exactly the point you make, not just on the passenger side, but also on the freight side. I would just say by way of clarity that you are right that the new trains do have fewer seats, but the service frequency is significantly enhanced. If you look at the total number of actual seats per hour, or seats per day, on the West Coast Main Line, it has gone up quite significantly.

Q39 Mr Field: Not to Liverpool.

Mr Bowker: I was under the impression that it had.

Q40 Mr Field: No.

Mr Bowker: I will certainly double check that.¹

Q41 Mr Field: The justification for trains carrying fewer people was that the trains were going to go at greater speed as they went round corners. We now learn that they are not going to go at greater speeds so that they can keep us in our seats as they turn corners. At what stage do you think the Strategic Rail Authority ought to say to people that it is not sensible therefore to buy trains which are never going to travel at that speed and go round corners at that rate?

Mr Bowker: The original plan for the West Coast was to upgrade it in two phases: the first to 125 miles an hour with tilting trains; then a second phase to 140 miles an hour with tilting trains. It is the second phase which we will not be doing just yet. The first phase will happen. In September this year the timetable on the West Coast will be changed so the trains are accelerated. They will all go at 125 miles an hour and they will tilt round the curves allowing us to travel faster through the curves with the benefit to journey times.

Q42 Mr Field: And the date for the extension to 140 miles an hour?

Mr Bowker: Is not set at the moment and the reason for that is that to go above 125 miles an hour we need a signalling system which does not yet exist. We are absolutely determined not to repeat previous mistakes and guinea pig a very complex piece of technology on what is Europe's biggest mixed traffic railway. A lot of work is going into thinking about that signalling system. When it is ready, when we are confident it will work, then we can look to accelerate the trains.

Q43 Mr Field: When the first stage is implemented, we can expect to see the time taken to travel between, for example, Euston and Liverpool, being cut.

Mr Bowker: That is correct.

Q44 Mr Field: So the companies will not be doing what they have been doing up to now, which is extending the timetable, so they do not ever qualify as coming in late.

Mr Bowker: The timetable which will be put in place in September this year will be one based on the faster trains, making use of the faster capability of the trains. The reasons why the timetable has had some buffer put into it, is that whilst we are carrying out what is one of the biggest civil and electrical engineering projects on any railway in the world, it is important to make sure that we can run the thing reliably and it has been necessary to add a bit of time to make sure that the engineering work is properly factored in. When September is reached and the new timetable comes in, those services will benefit from the faster trains.

Q45 Mr Field: But you cannot yet give us a date when the second stage is going to come in.

Mr Bowker: No, in terms of 140 miles an hour that is true, but September 2004 is not the end of the process. There will be further upgrades in 2005 and 2006 to accelerate the services north of Crewe to Preston and Scotland as well. September this year is not the end of the process; there is more coming. The future upgrade to 140 is not programmed in at the moment.

Q46 Mr Field: In reply to Richard, you said that the financing arrangement, even initially, was beneficial to companies and therefore to taxpayers and therefore to travellers. What view do you take on trying to get the industry to standardise its demands on the type of trains it should be buying?

Mr Bowker: This is a very, very important area. This Report properly makes clear that we still have a great deal of differentiation. There are good reasons for that. The network was built by different companies across a long historical period and we have the legacy of that now and we have to factor that in. As part of that rolling stock strategy, which we published at the end of last year, one of the things we said we would do is look to promote standardisation in new designs where that made sense and we will do that. I do not believe we will ever get to a world where you can have any train you like so long as it is black, but greater standardisation should be possible and we will promote that through future franchising.

Q47 Mr Field: What plans do you have for involving the customers more in giving their views on these new trains?

Mr Bowker: In terms of design there are two areas: one is that all the train operating companies—and we see the benefit of this research—carried out passenger feedback. We know for example, that on all the new trains passengers do like the cleanliness, the interiors, the design and we know the things they are not so keen on. We know that they are not so happy about luggage space and seat pitch and so on. All of that can be factored into future design. In terms of asking people, I know that a number of the

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train operating companies—I could not say it was all of them, but it is a great number of them—did carry out passenger clinics to show the mock-ups to passengers and ask them what they thought. There is also the Rail Passengers Committee which acts as a representative body. They are always invited to take part in looking at new designs and specialist groups, for example the Disabled Persons' Transport Committee was also invited to take part. There is a process of making sure people at least see this stuff before it is committed to design.

Q48 Mr Field: At what stage do you think you will be coming before this Committee, what sort of year do you expect, for us to praise you rather than be critical of you?

Mr Bowker: I am not sure I can answer that question, I am afraid. Whilst I think this Report is a very clear analysis of the situation as existed and to some extent still exists, I would mention to the Committee that there is a great deal which is now in place and is being done to address the points which are in here. I would hope, were we to talk about rolling stock in 12 months or two years' time, that there would be a different perspective based on the things we now have in place.

Q49 Mr Field: May I then make my last request to you? We are looking at how PFI works and of course your financing arrangement is not the same as a PFI because it is two private organisations trading between themselves. We would be interested in the basis for the answer you gave to Richard, that you thought that even initially it was beneficial to the companies. Would it be possible to have a note from you which sets out why the financing arrangements had that beneficial effect, both to the companies and to taxpayers as well?

Mr Bowker: I should be very happy to do that.²

Q50 Mr Steinberg: What effect has the fact that franchises have not been renewed had on companies ordering new stock?

Ms Shaw: On the whole we are talking about two different things. In franchising we specify what we want to buy and that includes, on occasion, new stock.

Q51 Mr Steinberg: I think you misunderstand me. I mean the fact that you have not given out franchises or have been late in giving them has prevented certain companies from investing in new stock. I talk, for example, about GNER, whose chief executive has openly said to me that they were not prepared to invest in new stock until they knew who was going to get the franchise. Is that generally the policy of the TOCs?

Ms Shaw: Train operators do have to be, as you would expect, sensible and pragmatic about their investments. We are looking to re-let the GNER franchise in particular from next year and that will be a franchise let—

Q52 Is that not three years late?

Ms Shaw: It is the time we think is best in order to get the best out of the market.

Q53 Mr Steinberg: But because it is three years late, that means they get no new stock on the East Coast main line.

Ms Shaw: Rolling stock has a very long life and in relation to replacement of it, we need to think ahead, I absolutely agree. That means we need to take a long view both about when we replace franchises and when we start the process for acquiring new rolling stock. The two things have to be done in concert and we have to make that clear both to different bits of the rolling stock market and to the train operators. I do think we are doing that now, because we do have this longer-term look at how we replace franchises and how they acquire new rolling stock.

Q54 Mr Steinberg: Is there any way of saying how much more new stock there would have been on our railways if the franchise had been given out a lot sooner and not, for example, three years late as far as the East Coast Main Line is concerned? If the franchise had been given out two years ago on the East Coast Main Line when it should have been, presumably an order would have been put in for new stock by now and they may well even have it. The fact is that they still have the old stock, because they are not prepared to invest. I think they are wrong, because I cannot understand why they cannot invest. I cannot remember who answered the question, but he said that it was advantageous to them to lease anyway. Presumably whoever got the new franchise would just take over the lease, so I cannot understand why they give this argument, but they do give this argument. How much rolling stock has not been on our railways, simply because the franchises are late?

Mr Bowker: Very little, is the answer I would say. If you take the example of GNER, it is a very good perspective on where we have come from. Two or three years ago there was a view that it would be invest, invest, invest, without sufficient effort being put into really understanding the business case, the transport case and the financial case for new stock. The situation on the East Coast is actually a good case in point. What they have done there is to refurbish the existing trains without a new franchise. So you will see now that all the IC225s are being fully refurbished without the benefit of a new franchise.

Q55 Mr Steinberg: One.

Mr Bowker: It is the first one delivered, but unfortunately you cannot take too many out of service because people want to use them. We can only do one at a time, but more are coming into traffic and will do. Better planning, which we have been able to take a lead on, will actually save us money downstream.

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Q56 Mr Steinberg: I still do not really think I have had an answer but perhaps I should ask a different question. Why have the franchises been so late? Why have they dragged their feet with the franchises?

Mr Bowker: As a general point—

Q57 Mr Steinberg: Was it because Railtrack was so useless?

Mr Bowker: No.

Q58 Mr Steinberg: Yes, it was.

Mr Bowker: I do not think it was.

Q59 Mr Steinberg: That is what they told me.

Mr Bowker: It is probably, if I were putting my hand up, that the SRA has not actually been as good in terms of putting together its overall franchising.

Q60 Mr Steinberg: I was told it was because Railtrack were so useless they had nothing to invest and therefore no franchises were going to be given out until they knew who was going to invest.

Mr Bowker: Are we talking specifically about the East Coast?

Q61 Mr Steinberg: Oh, yes.

Mr Bowker: On the East Coast two or three years ago there was a view that the only way to sort the East Coast out was to throw about £3 or £4 billion at a major route upgrade. With the benefit of all the analysis I have seen, I genuinely cannot think of a better way to waste money. What we have done is work with Network Rail to develop a specification for the East Coast which will deliver real value, services to passengers and value to the taxpayer. It does not need to be as big.

Q62 Mr Steinberg: Will you declare an interest?

Mr Bowker: Me personally?

Q63 Mr Steinberg: Yes; when the franchises are given out.

Mr Bowker: In what respect?

Q64 Mr Steinberg: You worked for Virgin, did you not?

Mr Bowker: I do not believe that is relevant. I did work for Virgin, past tense, yes.

Q65 Mr Steinberg: I went further down the line than I intended to there. Can you turn to page 27? If we look at paragraph 3.5, from the very beginning of the paragraph, right down to where it says “There was insufficient manufacturing and managerial expertise, however, to handle these orders”, I got the impression that basically it was blaming privatisation for the fact that no orders for rolling stock were put in for the years 1994 and 1995; and very few in 1996. It was because the industry knew that privatisation was going to come along and therefore, as one would expect, orders were not placed. Why is it that since 1988 right until 1993 there was a huge decline in the ordering of new stock? Why?

Mr Bowker: Referring to the figure on page 13, I am not entirely sure I would agree that it is a huge decline. There is evidence of—

Q66 Mr Steinberg: In 1988 527, down to nought in 1994 seems to me to be a decline. Clearly it is not in your view.

Mr Bowker: No; no. I think the point you made around privatisation is absolutely right.

Q67 Mr Steinberg: I am accepting that, but I am asking why there was such a decline from 1988 when privatisation was not on the cards.

Mr Bowker: From memory, I think privatisation was openly talked about from 1991 onwards. If you look at the cyclical nature of rolling stock ordering, actually up until 1992, yes, it is true 1991 was a slightly lower year but broadly on average around the 400 mark if you take an average. It is clear that there was a hiatus in that period, which is shown very clearly on this graph and then we see this position, immediately afterwards, when people rushed to buy new trains. At one level, that was a tremendous thing, because people were really keen to invest, get new trains, deliver to customers.

Q68 Mr Steinberg: How much has been invested since 1997?

Mr Bowker: The total amount in capital terms on new rolling stock is around the £4.2 billion mark.

Q69 Mr Steinberg: Why have there been blips in 2000 and 2003, why has there not been a continuous rise?

Mr Bowker: Part of the answer to that is because of the nature of the orders which are placed. If you place an order, for example for South West Trains, you will almost certainly place that order for all the rolling stock, because it is broadly of the same age, it is all about 30 years' old and that is around 700 vehicles. If one of the smaller train operating companies places an order it will be for far fewer vehicles. There is an element of phasing, which historically comes from when they were last replaced. I do not look at that and think something went really wrong in 2000. You do have to take a view of three or four or five years and look at what the average trend is roughly.

Q70 Mr Steinberg: I think it was the last time that Railtrack appeared in front of us that we were astounded to learn that they did not know what they owned, in terms of line, they did not know what they owned in terms of infrastructure, they did not know what they owned in terms of land, they had no idea what the state of the infrastructure was, they had no idea what the state of the tunnels was, the points, in fact it was a complete and utter mess. The track had deteriorated since they took over, the track was in a worse condition than it was before privatisation and they were all unaware of this. If I am exaggerating this, I would hope that the NAO would step in now

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and say I have my facts wrong, but I seem to remember that was the picture which was painted for us the last time they were here. What has changed?

Mr Armitt: There is a very significant database which is now in existence, which has been built up over recent years. There are two aspects to this: one is knowing what you have and the other is knowing what its condition is. I made the point earlier on that I did not think the railways were unique at that stage of privatisation in not having a good picture of what they owned; the same probably applies to the water industry. On the railways, first it is a matter of knowing what we have and we do know what we have. We know what the scale of the network is and we know our land ownership, we know our building ownership. The next question is: what state is it in? What is its condition? When is it going to need replacing? We are growing our database on that daily and by the middle of 2005 we expect to have a very good understanding of the state of the network.

Q71 Mr Steinberg: That sounds good and that sounds excellent, but if you actually turn to page 17, paragraph 2.9, that is not what it says, is it? It says "The SRA told us that action had not been taken sooner because Railtrack did not have comprehensive or reliable information on the condition of its infrastructure, including the available power supply". Are you saying that has changed now?

Mr Armitt: I am saying it has changed very significantly and in the case of the Southern Region it was an issue around the power supply. The power supply was known, what was there was known. The question was how compatible it was going to be with the new trains. That is the issue which has in a sense dogged everybody on the Southern power upgrade.

Q72 Mr Steinberg: Is it fair to say that you now have all the information which is required?

Mr Armitt: We are building up the information all the time and we will have it completed by mid 2005.

Q73 Mr Steinberg: Railtrack were incompetent and they were unhelpful and until Byers made that brave decision to get rid of them, as far as I am concerned anyway things were never going to improve. Have things improved now?

Mr Armitt: I think things have improved. As a company we have made a lot of changes in the last two years. We have taken some serious decisions in that time and the largest of course was to take maintenance back in house under our own control so that we had direct control of one of the core activities of the business. Our relationships with the other members of the industry are a lot better than two or three years ago and we are working very closely, for example on operational control aspects on the railway, with train operating companies today in order to improve performance.

Q74 Mr Steinberg: I shall hold you to that. I have criticised Railtrack and Network Rail, but frankly one has to look at the train operating companies as

well. If you look at page 28, paragraph 3.9, there are three bullet points. The second and third bullet points clearly seem to say that when trains were developed by the train companies they never consulted Railtrack or Network Rail to find out whether the infrastructure needed to be altered to accommodate new trains; they did not enquire who would pay for any infrastructure work required. In other words, we have an organisation which has been split off and sold, with six bosses we can see here, but clearly another 106 out there somewhere and nobody seems to know what is going on, nobody seems to liaise. How can you build a new train or new rolling stock and not enquire whether it will actually work on the network and who will pay for the infrastructure work? How can you do that?

Mr Muir: All the new train orders which we placed were going back to a period in the mid 1990s when there was, in my view, a very poor level of strategic thinking in the procurement of the new trains. Through the procurement exercise at the beginning of train franchising there was a huge demand on the train operators to introduce new trains, as it says in this Report and is evident from the—

Q75 Mr Steinberg: What is the point of introducing new trains if you do not know whether they are going to work on the line, on the infrastructure?

Mr Muir: There was a degree of optimism about the reliability which could be achieved, which was wrong. The trains should have been introduced, the orders should have been slower; we should not have ordered this large quantity so quickly.

Q76 Mr Steinberg: That does not really answer the question on why you did not consult. You could have ordered thousands if you had wanted to and consulted and everybody would have been delighted. Mr Bowker, will you ensure that liaison becomes important and this can never happen again?

Mr Bowker: We are certainly taking steps in that area. We will ensure that in the new franchise agreement there are quite clear obligations in terms of new rolling stock, what it has to achieve, when it has to be delivered and so on. That is something where the past is unacceptable and we have to get it right in the future.

Mr Muir: The issues became evidently dreadful in 1999 and a lot of people got together at that time and realised this was intolerable and had to be sorted out. A group was formed called the Train Acceptance Group, promoted by the ROSCOs, the train operators, but under the auspices of the SRA which worked very seriously to try to improve the handling of new train delivery. The most recent large new order for new trains, in particular the Siemens new trains for South West Trains, has been handled in a much better way than was done in the past. The people who are running it for the train operators are complimentary about Network Rail and about the acceptance process. It is much more defined than it was before, the criteria are much better and the trains are coming in in a much more reliable way

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than was achieved in the past. In the last three years the industry has done a massive amount to improve its internal exchange of information and organisation.

Q77 Chairman: I was intrigued by your comment about the East Coast Main Line, that nothing could be more of a waste of money than spending £4 billion. I make no criticism of you because you have moved jobs, but the last time we met you were working for Virgin and you were telling me directly the opposite, that you need to spend £4 billion on creating a new line. What changed your mind? I thought there was a huge problem with over capacity on the East Coast Main Line above Peterborough, was there not?

Mr Bowker: That is right. That is not quite what I said. At the time, in my past role, we were promoting the addition of capacity through a high-speed line route. I still remain absolutely of the view that a high-speed line network in this country is going to be essential if we are going to meet future demand. I still believe that the capacity constraints of our north/south routes are exactly as they were when we met that time. The specific issue about the upgrade now is more to do with investment in the existing line rather than in additional, new capacity. We know from our experience on the West Coast that when you try to put a lot of money into existing infrastructure, it is expensive, it is disruptive and it takes a great deal of time. That is specifically what I was referring to. As to new capacity, I am still of the view I was then.

Q78 Mr Jenkins: Having read the Report, what did you think of it? Is it a good Report? Did you find you learned points from the Report? Did it add strength to your arm in future negotiations?

Mr Bowker: It is a good Report, it is a clear Report. The work which was done with the NAO was of a very high quality and I think it will help in our future activity.

Q79 Mr Jenkins: Ms Bodnar, you discussed this within the department. Did the department think this was good Report?

Ms Bodnar: Yes.

Q80 Mr Jenkins: What was the key thing to come out of it for you?

Ms Bodnar: It was helpful in that in effect it was reinforcing the problems within the industry in terms of the organisational difficulties.

Q81 Mr Jenkins: It is a marvellous launch pad for your survey, is it not? Mr Muir, the same question. Did you find the Report useful?

Mr Muir: Yes, I did. It was particularly useful in that it was very clear. Much of this was known before, but this pulled it together in a particularly clear way.

Q82 Mr Jenkins: Mr Armitt, is it the same for you?

Mr Armitt: Yes, equally, particularly the recommendation 11 and in particular paragraph 1.10, where it is suggested that Network Rail should be consulted in the future on power supply, signalling, heights, widths of bridges, tunnels, platform heights, etcetera, before the ROSCO and manufacturer enter into a contract with the train operating company.

Q83 Mr Jenkins: I often find it the case that when you go into industries and look at an industry people will say after the Report, "We knew that anyway". So "why are you paid then? Why are you occupying space here? If you knew that, why did you not resolve the problem before we came in?". It seems a simple question to me, but they say "It is above my pay grade. It is somebody else's problem". It is always somebody else's problem. One of the things I notice on page 20 is that there is a case study around First North Western's new rolling stock. It is a catalogue of disasters really, is it not? This train arrives, there are a few problems and you think "Well, it is new. We have just developed this train. We have not had the concept around before". Then I go to Figure 7 and I see that we have some reliability targets when the manufacturing contract is signed. The casualty rate—a breakdown I presume—should be every 31,000 miles, like First Great Western and they are actually achieving a breakdown every 2,400. I think to myself that this cannot be right. We surely cannot be so far off target with regard to the reliability of these new vehicles.

Mr Muir: What you say is correct, but people are taking action to remedy this.

Q84 Mr Jenkins: I bet they are. I bet they jumped up and down and ran around saying "We have to do something about this. We have just bought a new train". If I bought a new car and my old car, touch wood, had been running for quite a few miles, 100,000, without a major catastrophe and it broke down after 2,000 miles, I would go to the manufacturer and ask "Why? Why is it breaking down? You have been making cars for a long time. You know all the problems". We have been making trains for a long time. Although they say these are new trains, the parts they put in these trains are usually quite robust and the engineering strategy and theory are well known, so why are you achieving such an appalling breakdown rate here?

Mr Muir: Because we have not yet achieved repeat orders of well-known designs. When you buy a new car it may of course be the one hundred thousandth or millionth car of that design. What we have been doing in this country is introducing much more sophisticated designs which were not properly tested, as this Report shows, before they were introduced. The engineers in First Great Western, which you point to, are well aware of that and they are introducing major modifications and the reliability has doubled already since September last year.

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Q85 Mr Jenkins: May I ask you something quite simple but something which I cannot understand and I cannot get my head around this? If I were to lease a vehicle, a train, and the company was going to lend me the money to lease this train, they lend me the money and I go out and buy the biggest load of rubbish, would the ROSCO have any say in what I purchased? Would they oversee what was being purchased on this occasion?

Mr Muir: I do not know the details there, but I do in another case.

Q86 Mr Jenkins: In a general way.

Mr Muir: Yes, they do. The contracts with the manufacturers, certainly the ones I know, provide that we paid, in the one case I do know, only half the manufacturing price until it was accepted. For many months, indeed for a year or two, we were negotiating over half the entire price, because it was not sufficiently reliable. These manufacturers have suffered financially very considerably because the contracts signed with them were indeed quite strong contracts. However, the contracts did not make the trains reliable.

Q87 Mr Jenkins: Exactly.

Mr Muir: But it did pass the financial burden on to the manufacturers.

Q88 Mr Jenkins: So the manufacturers are now getting their act together.

Mr Muir: They certainly are and they are paying for many of the modification programmes.

Q89 Mr Jenkins: So it all falls on the manufacturer. Fair enough. It is their job to manufacture reliable products, is it not? Can we turn to page 15, Figure 12, "Problems with the existing process of bringing new trains into service"? Having been on this Committee for quite a while, I might be getting over cynical. I hope not. Am I right in saying that every statement there starts off "A lack of . . . A lack of . . ."? Right? We have a lack of a lot of things, do we not? Who is responsible for overseeing that there are fewer 'lack ofs' in this process? Is it you, Mr Bowker?

Mr Bowker: Yes, it is our responsibility to provide the strategic direction to the industry and we are doing that. All those lack ofs are all being addressed.

Q90 Mr Jenkins: This is a new development with regard to privatisation. It is now eight years, is it not? If you are eight years down the track, how long will it be before I can see fewer lacks, do you think?

Mr Bowker: You will already, for example, see issues to address the lack of standardisation. Over the last few years rolling stock designs have tended to have more standardisation and we will address that in future designs. There is work being done by the industry in partnership to deal with a lack of clearly defined pass/fail criteria. That is being addressed. John Armit has explained what is happening about the lack of information about the network. The ones

which will be harder will be issues perhaps more towards the lack of steady demand, because it is clear that we have significantly invested in the last few years and the justification for further investment is not as strong as it has been, but those issues are all being addressed.

Q91 Mr Jenkins: That is another one: lack of steady demand. I thought Mr Steinberg was going to push you even harder on this one, but he did not, which is unusual. I do not know whether he takes pity on you today. When I look at this, I cannot believe that anyone is responsible for it; I honestly cannot. It says here that in 2000 145 new trains were ordered, in 2001 1,134 and in 2003 303. How can you organise an industry and a supplier who is capable of coming up with quality products, on time, which are reliable, if you have no sense of order in the market? Someone goes out and places orders for 1,000 trains one year or none last year. How do you expect them to cope with that?

Mr Bowker: Those orders were placed, but they are obviously delivered over a period of time which is consistent with the manufacturing capability. So they do not just all arrive at once, it is spread over a period of time. It would be daft to take something like South West Trains or South Central, where the trains are all similar, and only to order half a fleet of new trains. That is the reason why you see those peaks, because you are seeing companies actually taking advantage of the economies of scale and making sure they order sufficient to replace a total fleet.

Q92 Mr Jenkins: Alongside that graph we should have another one saying trains delivered and showing a steady delivery rate of trains into service. Yes?

Mr Bowker: Trains delivered will look different to trains ordered, absolutely, yes.

Q93 Mr Jenkins: I cannot find it in the Report.

Mr Bowker: We can certainly separately provide you with something else.³

Q94 Mr Jenkins: You read this Report and I asked you whether you were satisfied with this Report. What we normally expect when the NAO come up with a report is for it to be agreed. You said it is fine though it does not give the full picture. The Report is all we go by unless you submit evidence to say it does not give the full picture and here is some further information you wish us to consider alongside the Report. That is lacking, is it not?

Mr Bowker: That piece of information is not here.

Q95 Mr Jenkins: If we turn to page 40, Figure 19, "Progress against the SRA's rolling stock objectives", I cannot be reading this right, because even I am not this cynical. One of the SRA's objectives is "To speed up the process for delivery, testing and acceptance of new rolling stock". Then

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“Percentage of TOCs that considered the SRA had made little or no progress against this objective”. That cannot be 86%, can it?

Mr Bowker: It is 86% against the question they were asked. Do I agree with it? No.

Q96 Mr Jenkins: I just asked you at the start whether you agreed with the Report.

Mr Bowker: I agree that is a correct representation of what the train operating companies will have said in answer to that question. I do not agree that is a fair reflection of what we have done.

Q97 Mr Jenkins: “To bring about a step change in the reliability of new rolling stock”. Do you think they have made any progress? 91% said no. On the next one, 82%, that was the best one, “To bring about a significant improvement in the overall quality of stock on the network—82%”. I take it 18% have confidence in you there. “To promote efficiency in the supply chain . . . 95%”. They do not think much of you, do they?

Mr Bowker: At one moment, which was about one year ago, when asked questions, that was the answer of the train operating companies. I personally believe that certainly during that time and since that time we have made significant strides to address all those things. I am sure Mr Muir could answer better than I. Were the train operating companies to be asked today, I would expect them to give a more positive answer.

Q98 Mr Jenkins: I will ask Mr Muir in your presence whether he thinks these figures would be improved now, but we do need to look at that one and they certainly did not think much of you then. I do not know how much they think of you now. One of the questions I have on my mind is the cost of running a train. What percentage is the cost to you of operating a train, of leasing the train, and what percentage do you have to pay to the track operating company?

Mr Muir: In the total costs of a train operator, the track access charges, which is what we pay to Network Rail, are about one quarter, a bit more than what we pay to the ROSCOs. The numbers I remember are that we used to pay 40% of our costs for track access and about 30% were ROSCO costs.

Q99 Mr Jenkins: Quite a lot, is it not? So the last 30% is your actual operating costs.

Mr Muir: Yes, controllable costs, our direct costs, our staff, our drivers, our station staff.

Q100 Chairman: Mr Jenkins referred to page 25 and a lack of organisational coherence. It is interesting that on the very next page is the organisational chart for bringing in trains. I have never seen anything like it in my life. This is an organisation from hell, is it not, Mr Bowker?

Mr Bowker: I must say I have seen similar organisational maps in terms of bringing things into service. I have worked in the aviation sector

and theirs are as complex in terms of design, commissioning, procurement, testing of new vehicles.

Q101 Chairman: If it works there, why does it not work here?

Mr Bowker: It does not always work as smoothly as it could do. Here the situation is that there are clearly many parties involved.

Q102 Chairman: That must be the understatement of the century.

Mr Bowker: It is certainly true that lots of parties are involved. I think that is why we have made significant strides in the last couple of years in bringing good relationship management to this process, but that does not deal with the organisation itself. That is why I think this review of the industry structure is useful in terms of looking at whether there is actually something here we should do in terms of the physical aspect.

Chairman: Thank you. That is an important answer.

Q103 Jon Trickett: I do not know about relationship management, but I want to return to Figure 7 on page 21, to which Mr Jenkins referred. He picked out the same illustration as I wanted to use: First Great Western. It says that the reliability target was 31,000 miles per breakdown. In fact the trains have achieved 2,400 miles per breakdown. As it happens, my car has done 31,000 and never broken down. Here we have a set of trains which are breaking down every 2,400 miles. That performance is a disgrace, is it not, Mr Muir?

Mr Muir: Yes, it is.

Q104 Jon Trickett: I always love the footnotes in the NAO Reports. If you look very carefully, next to the figure of 31,000 is a small 3. Footnote 3 tells us that Angel Trains, the ROSCO for this order, failed to get a reliability target at all from the manufacturers. In other words, they bought some equipment without requiring them to deliver stock which would move. That is how I read this. Why was there no reliability element within the contract at all?

Mr Muir: I do not know in this case and it does surprise me, if it is as it says.

Q105 Jon Trickett: Are you saying that it is not as it says?

Mr Muir: No, that is accepted.

Q106 Jon Trickett: Should you not know? You talked about a degree of optimism in the acquisition of these trains. What there was, was a degree of incompetence in management. Paragraph 2.24 tell us that Angel Trains was not the only case, was it? In fact very few of the contracts for the new equipment had reliability targets within them, did they?

Mr Muir: This surprised me when I saw it. In my experience all contracts with manufacturers have reliability objectives.

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Q107 Jon Trickett: First of all, the manufacturers are not here, are they? The fact of the matter is that your contracts are not with the manufacturers, they are with the ROSCOs.

Mr Muir: It flows through.

Q108 Jon Trickett: It does not flow through at all, does it? What it says in the first sentence, is “Contracts for train manufacture commonly include a reliability target, but few train leasing contracts currently have a reliability element”. In one case at least there was no reliability element at all.

Mr Muir: How it normally works is that you would not accept the train, you would not begin paying your leasing charges until the train had been accepted and had achieved a reliability objective. That certainly did happen in a number of cases.

Q109 Jon Trickett: Is this sentence correct or not?

Mr Muir: Yes, it is, but it does not give the correct picture.

Q110 Jon Trickett: The sentence is correct, but it does not give the correct picture. It is either correct or it is incorrect. It cannot be correct, but give an incorrect picture, can it?

Mr Muir: We do not start paying a degree of the leasing charges until the train has reached a certain level of reliability. That is how you have incentives passed through to the manufacturer.

Q111 Jon Trickett: The fact of the matter is that the leasing agreements which your association’s members entered into with the ROSCOs failed to include even targets, never mind contractually obligatory components which required delivery of reliability targets.

Mr Muir: No, that is not true.

Q112 Jon Trickett: That is what this sentence says, which you said is true. I am going to move on to Mr Bowker, because the next sentence then brings you into the conspiracy, does it not? It says “The SRA considers that, if more leases had reliability clauses . . .”. Is it your view that the contracts could at least have been stronger in relation to our reliability targets?

Mr Bowker: There are two things here. The first sentence is referring to train leasing contracts for the old trains which were inherited at the time of privatisation. They do not have reliability targets in them.

Q113 Jon Trickett: At all?

Mr Bowker: No. What we have sought to do, and I will be completely honest that we have not had anything like the success we would like, is to bring reliability targets into leases for the existing old trains. As far as new trains are concerned, all contracts have reliability clauses in them, with the exception of the one you properly identify here. They are entered into on a tripartite basis, between manufacturers, rolling stock leasing companies and the train operating companies.

Q114 Jon Trickett: How did Angel Trains fail to have reliability targets at all within its contract? How did that happen?

Mr Bowker: I do not know specifically in that case why they did that but they have clearly rectified the situation.

Q115 Jon Trickett: Mr Muir, do you know why?

Mr Muir: No.

Q116 Jon Trickett: Does anybody know why that happened?

Mr Holden: Yes. It was because at the time, the ROSCO was trying to agree who was actually going to maintain the trains once those trains had been built and that took some time. You will see that footnote 3 goes on to say that subsequently a target of 31,000 per miles per casualty was established.

Q117 Jon Trickett: And they have not even reached 10% of that, have they, with 2,400?

Mr Holden: Correct.

Q118 Jon Trickett: Now I want to try to understand the process of penalties. Many of the contracts had some kind of reliability targets in them. Are these targets targets, or were they contractually enforceable clauses?

Mr Bowker: They will be contractually enforceable clauses. I have not read every single one of these contracts, but the ones I have read are contractually enforceable. If they are not delivered, liquidated damages are payable. I know there to be cases where liquidated damages, which is a contractual version of penalty, have been paid because these reliability targets have not been met.

Q119 Jon Trickett: For example, if you could take any of these examples where there is really gross failure, gross negligence almost in terms of failure to deliver targets, can you give us, either now or in a note, the amount of liquidated damages which has been secured on each contract?

Mr Bowker: I will not be able to do it for you now, but I will certainly go away and do it.⁴

Q120 Jon Trickett: Can you estimate how much that will be?

Mr Bowker: No, I cannot.

Q121 Jon Trickett: Does the NAO know?

Mr Holden: No, we do not.

Q122 Jon Trickett: Do you know, Mr Muir?

Mr Muir: No.

Q123 Jon Trickett: Is it not surprising? One of the arguments about privatisation was that the risk will transfer away from the taxpayer to the operators and the banks and so on. Can you convince me that

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the 90% of taxpayers' money which you receive, Mr Bowker, is not being used to subsidise incompetent management and negligent manufacturers?

Mr Bowker: In terms of the amount of funding which goes into the train operating companies, they are paid against contracts for which they have to deliver outputs. As to the relationships between train operating companies, ROSCOs and manufacturers, those are commercial relationships governed by the contracts they have in place.

Q124 Jon Trickett: Do you have enforceable clauses within your contracts for the same reliability targets which the ROSCOs provide to the operators?

Mr Bowker: No, we do not. But in terms of the new franchising agreements, we are seeking to ensure that there is clarity for the future over exactly what is expected of franchisees, including with new rolling stock, if it is part of the franchise.

Q125 Jon Trickett: Would I be right in saying then that it is the passengers who pay for negligence ultimately, since somebody must pay?

Mr Bowker: "Negligence" is a strong word here. In terms of the cost of new trains—

Q126 Jon Trickett: I am talking about the failure of reliability targets.

Mr Bowker: This is a matter relating to the money which flows between the train operating company, the rolling stock leasing company and the manufacturer. You could certainly argue quite legitimately that the passenger does not get as good a service as they would have done and they are compensated through the passenger compensation mechanism, not through passing benefits through from the rolling stock manufacturers.

Q127 Jon Trickett: The fact is that the reliability targets are there in the contract, you say they are enforceable, we wait to see the evidence of what has actually been charged. I bet it is nothing like the actual cost. You have no capacity to enforce reliability targets yourself, because they are not in your franchises. I could ask, why not?

Mr Bowker: They are not.

Q128 Jon Trickett: Therefore the people who suffer, if it is not through negligence, then certainly poor manufacture and poor management, are the passengers, are they not?

Mr Bowker: And they are compensated through the passenger compensation mechanism.

Q129 Jon Trickett: Most of us at this end of the room travel by train quite regularly and I have yet to see anybody who has actually secured any compensation. I want to go on to ROSCOs. Can I draw your attention to the organogram on page 35, Figure 15? You will recall that recommendation 2 argues for you to use your powers in relation to the ROSCOs and the TOCs to get them to work more

closely with manufacturers. This organogram seems to show that you have no relationship whatsoever with rolling stock leasing companies.

Mr Bowker: No, but we have a relationship directly with the train operating company. The contract is a franchise and we can place obligations on the train operating company which it then has to go and get its suppliers to deliver against. The fact that we do not have a direct relationship other than through a direct agreement is not an impediment.

Q130 Jon Trickett: In your memorandum to our Committee, talking about recommendations of the NAO, (i) says "As a condition of its direct agreements with ROSCOs and its franchise agreements with TOCs, the SRA should require ROSCOs and TOCs to work more closely". What is the purpose of this sentence since you have no direct relationship or direct agreement with the ROSCOs, do you?

Mr Bowker: Yes, we do have a direct agreement. The direct agreement is not specifically shown on that chart there, but there is a contractual direct agreement, which exists to protect passengers particularly, in cases where a train operating company defaults.

Q131 Jon Trickett: I am surprised that nothing is shown on this chart, if you say that there is and I accept that there is. I frankly found your comments about the ROSCOs somewhat surprising and Mr Field asked you for a note. Can I ask how the relationship between the leasing charges and the bank rate has changed over the years?

Mr Bowker: Of course. May I just say that on page 13 Figure 2 does show the relationship with the direct agreement, so the Report is correct in that respect? Interest rates have fallen over the last five or six years. That allows the rolling stock leasing companies to offer better rates in terms of the long-term finance. Also what has happened is that the rolling stock leasing companies have become more competitive in the residual values that they are prepared to take risk on at the end of the lease period. Those two factors together—⁵

Q132 Jon Trickett: What is the relationship between the bank rate and the leasing charges? Has that changed? All you have said is that it has tracked the rise and fall of the bank rate. Have you analysed that to see whether in fact they are making surplus profits, as some people believe?

Mr Bowker: We have not specifically analysed the detailed financials at the margin that they are charging there, but what we do know absolutely is that in terms of the total real cost, when you take the capital cost of the train, the residual value being charged, the margins being charged and the cost of finance, it has come down over the last five or six years very substantially in real terms.

⁵ Ev 23

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Q133 Jon Trickett: Would you reflect then on that particular aspect about which I was asking, which you have not tracked? Can we see the way in which the two relate one to the other over a period of time, so we can see the movement?

Mr Bowker: I will certainly reflect that point in my note in answer to Mr Field.

Q134 Mr Field: May I come back to this role which I was trying to ask you about, which is the strategic role which you have. Some of the answers we have had today—and I know these occurred before you took this position—resemble a mad house in that you have people ordering trains who do not check whether the trains can work. I would have thought that would have been a preliminary requirement. Mr Steinberg asked questions not about whether they were doing an audit, but what the audit told about the quality of the stock. Then, in reply to Jon, you made the point on the leases, that you sought to get guarantees written into the agreements. The question I asked was whether you thought you had the powers to act as the strategic authority and you said you did.

*The Committee suspended from 6.05pm to 6.12pm
for a division in the House.*

Mr Bowker: In terms of powers, I genuinely think that is a matter for this review which has been announced by the Secretary of State. There are areas, and Figure 11, the big pull-out one, demonstrates that a lot of people are involved and it could be more straightforward. There may be consequences of that and we need to understand what those are. That will come through in the review. Your question covered a bit more ground as well and said there are some things which have not worked and I completely accept that in terms of ensuring that there are proper commitments and contracts. Yes, it has not been as good as it should be, but I would say that a combination of the rolling stock strategy we have put in place, the new franchise agreement we have put in place, both of those things are now very clear about what we will expect, what we will secure and how we will manage that. That goes a long way to dealing with many of the points you make.

Q135 Mr Field: When I asked the first question about whether you were satisfied with your powers as the strategic authority, I assumed that you would not have, as you said to Jon a moment ago, to seek to get changes to leases but that you would be able to insist on that power.

Mr Bowker: That is a very specific point. The contracts which are referred to in paragraph 2.24 are contracts which are already in place. They exist between commercial parties. For us to put something in one which has already been contracted for . . . We cannot impose it, because the contract is a private contract which exists. We would have to pay for it. The question is: do we get value for money for the taxpayer in trying to change the contract? I rather take the view that the contracts already exist

and we will do what we can. It is with the new contracts that we can really put the thing right and that is what we are doing.

Q136 Mr Field: In delivering the taxpayers' programme you have the necessary powers to call in all the major decisions to make sure those objectives are now fulfilled.

Mr Bowker: In terms of the contracts which currently exist, we do not have the necessary legal powers.

Q137 Mr Field: No, no. In all new decisions, all the strategic ones, you have the power to review them before they are actually signed.

Mr Bowker: In terms of the new franchise agreement, yes, we will make sure that there is much better clarity over who is responsible for what and how each party is responsible for different parts of the chain. That is the way we will take it forward. Separately, as part of the review, there is an opportunity to look at the wider structure. In terms of the new contracts, we will certainly be clearer about what it is that we expect.

Q138 Mr Field: And is the information that Network Rail can provide to you about the quality of the stock satisfactory?

Mr Bowker: Do you mean the quality of the infrastructure?

Q139 Mr Field: Yes.

Mr Bowker: The work which Network Rail are doing, we believe will put right a very big lack in terms of the asset database, not just on what there is, but how it functions and when it needs renewing. That will certainly help enormously. There is already evidence that the industry has actually done much better in the last couple of years by working in a more collegiate way. The database actually gives us a reference point and the objective for Network Rail is to be sure that database is up to date, it is complete and it is accurate.

Q140 Mr Field: So the joker in the pack, for you delivering the performance you would like, may be Network Rail, because you will be making decisions without having a degree of knowledge about the quality of the infrastructure which you may require.

Mr Bowker: I am not so sure that it is the joker in the pack. I think the railway is a system and it requires all the parts of that system to function correctly. The infrastructure is clearly a very important part of it, as are the train manufacturing specifications as well.

Q141 Mr Allan: May I come back to this point about the ROSCOs and their margins? You helpfully compared it with the way in which the airline industry operates. The suspicion or fear is that the taxpayer is not getting the kind of deal which a Ryanair or a Virgin or anyone else is getting when they lease planes. In other words, there is some softness in there because it is taxpayers' money which is going to pick it up. Have you, as SRA, done

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any work or is there any way in which we can be assured that the deals are as robust as you have hinted they are, in other words that the banks are not making more money out of the train operating companies and therefore the taxpayer than they would, for example, if they were into airline leasing or any of these other normal arrangements?

Mr Bowker: Detailed commercial information about the airline sector is notoriously difficult to secure. The real evidence comes from what has happened in terms of the real pricing of new rolling stock leases over the last five or six years, which have come down, probably round about 30% in real terms. It has been a very competitive market with new entrants coming in as well. I think that gives a great deal of evidence that it is a competitive market where you have to have a good financial product in order to win business.

Q142 Mr Allan: At this stage, using your experience, you would give us assurances that you think we are getting good value for taxpayers' money because your responsibility is taxpayers' money, is it not?

Mr Bowker: I can certainly give the assurance on the evidence I have seen that the unit cost of new rolling stock has fallen considerably in real terms. I do believe that is evidence of a competitive market.

Q143 Mr Allan: Something we may want to look at further. In terms of trying to evaluate the total cost of all of this, in paragraph 20 we are told about the additional subsidies of £760 million to four train operating companies, some extra costs to cover the problems of the delays with the infrastructure and underwriting Network Rail's costs by £400 million and so on. Privatisation was not supposed to create these kinds of costs. It is almost doing the balance sheet for privatisation. All of this stuff was supposed to be transferred to the private sector. Is it fair then to say that we are looking at costs heading up somewhere near to £1 billion of taxpayers' money, which essentially will have to have gone in to fund this new rolling stock programme, which was not originally envisaged. It should not have been there, if privatisation had worked smoothly.

Mr Bowker: No, this was always going to be there. The fact is that the numbers were wrong to start with and they had to be corrected. The power supply system south of London would always have had to be upgraded, public or private, and that is the evidence which is coming through here. We are now getting a grip on these issues, putting in the right amount of finance to get the problem sorted.

Q144 Mr Allan: When we talk about additional sums of money, these are additional monies which were not originally envisaged, are they not?

Mr Bowker: No, because it had not been properly thought through. In my view this is not a function of whether it is private or public, this is a function of the fact that it was not thought through properly as to whether or not the power supply needed upgrading.

It did need upgrading. This would have happened whether it had been now or whether it had been BR; the job needed doing.

Q145 Mr Allan: So with the benefit of hindsight, if somebody, when they were selling privatisation to us, gave us the total cost of it, they could have factored in these kinds of things and said, "By the way, when you want new trains the taxpayer is also going to have to pay all this extra money as well".

Mr Bowker: I cannot say what was in the minds of those at that time.

Q146 Mr Jenkins: The test track facility. You put in a case for a test track facility. I take it that would have been self-funding in so far as the manufacturers would hire the track and rail operators might want to use it and it would have been there for a considerable number of years. Yes? Would that have been the case?

Mr Bowker: No, the idea at the time was that this would actually be funded by way of grant. If it were capable of being self-funded, I would have expected the manufacturers to have got on and done it.

Q147 Mr Jenkins: So you wanted us to give it as a free gift to the manufacturers.

Mr Bowker: No. The situation we find ourselves in now is that actually manufacturers have sourced their own test track facilities. Perhaps the most impressive example is Siemens, who have their own dedicated test track facility in Germany. That is where all the trains for South West Trains are being tested exhaustively before they are delivered. Other manufacturers have other facilities. They are not quite as impressive, but the case for a dedicated UK test facility is significantly diminished because of that.

Q148 Mr Jenkins: Ms Bodnar, the application for you to fund this test track was turned down by the department to allow the work to go to Germany, to allow our manufacturers not to have that facility in this country. Why?

Ms Bodnar: As I understand it, the case which was put before us did not stack up in terms of value for money. It required several millions of pounds and we did not feel that there was a satisfactory business case to justify giving that sort of money to the SRA.

Q149 Mr Jenkins: How many millions are we talking about? "Several" is how many?

Ms Bodnar: Off the top of my head I think it was £50 million.

Q150 Mr Jenkins: This is in a programme of replenishing train stocks of £4.2 billion in the present phase.

Ms Bodnar: But manufacturers have their own test facilities. It was not as though the manufacturers lacked their own test facilities.

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Q151 Mr Jenkins: In Germany.

Ms Bodnar: It does not matter where they have the test facilities.

Mr Jenkins: It matters to workers in my part of the world, believe me.

Q152 Jon Trickett: So as not to extend things I am going to ask a two-part question and the answer can be in writing. In terms of the reduction in the cost of the rolling stock which you said was 30%, can you give us a note to tell us what the cost per mile of the rolling stock is now and what it was? Is that possible? Do not answer now, but calculate it and put it in writing to us.⁶

Mr Bowker: It is not the same as the 30% reduction.

Q153 Jon Trickett: I am sure it is not, but that is what matters, is it not?

Mr Bowker: That was the answer to a different question.

Q154 Jon Trickett: I am sure it was.

Mr Bowker: I will certainly provide information on that.

Q155 Jon Trickett: Do you agree that the cost per mile is a more accurate reflection of the cost to the passenger or the taxpayer?

Mr Bowker: No, I think it is a different measure.

Q156 Jon Trickett: Perhaps you could explain why you regard that as an inadequate way of reflecting the cost. The second thing was that I am not sure we have still got to the bottom of these reliability clauses within the contract. I am not asking you to try to answer now, but can you indicate three things to me: the nature of the reliability clauses in the contracts prior to privatisation; the nature of the reliability clauses in the contracts to date; the nature of the reliability clauses which you are now insisting on and what your powers are to insist on them.

Mr Bowker: Pre-privatisation that may be challenging, but I will try.⁷

Q157 Jon Trickett: You said there were none, so we will see what you put in writing to us.

Mr Bowker: I will seek to provide what information I can.

Q158 Chairman: One very last question from me. May I invite you, now that you are relaxed, to do a bit of blue sky thinking. Here we have a very complex structure, designed by clever people, which clearly does not produce the results which were hoped for. Do you think, with the benefit of hindsight, that it would have been wiser at privatisation to have brought in the pre-war system of four operating companies running their own trains and their own track?

Mr Bowker: No.

Q159 Chairman: Why not?

Mr Bowker: Because I do not think that there is anything fundamentally wrong with the separation of the ownership of track and train. I do think that there are strong arguments for much more integrated operation and John Armitth referred to that earlier in terms of integrated control. I do not believe that separate ownership, which in any event is now what is mandated in EC law and where our colleagues in Europe are going, is a flawed system. Clearly what has not worked is the alignment of incentives, the element of management relationships and that is what has to be addressed.

Chairman: That is a very good way to sum up our discussion. Clearly we have been talking about something which is very important: 4,500 new trains worth £4.2 billion, most of them have been late entering service, many not as reliable as the old trains so something has gone wrong and the Committee will wish to address these matters in their report. Ladies and gentlemen, we are very grateful for your evidence today. Thank you very much.

⁶ Ev 24

⁷ Ev 24-25

Memorandum submitted by the Strategic Rail Authority

The purpose of this paper is to inform the Committee of the background to, and relevant developments since the publication of the NAO Report (reference HC 263 2003-04) on 4 February 2004. It is hoped that the Committee will find this information useful in advance of the oral session to be held on 1 March 2004 with Richard Bowker, Chairman and Chief Executive of the Strategic Rail Authority.

INTRODUCTION

1. The SRA welcomes the Report and the recommendations contained within it, not least as these are for the most part aligned with the Rolling Stock Strategy the SRA published last year. Later in this paper we detail the SRA's response to the issues raised by the Report and progress against each of the recommendations made in it, but first it is important to put the Report into context.

BACKGROUND

2. Privatisation of Britain's railways was effected between 1994 and 1997: the three ROSCOs were sold to the private sector during the first two months of 1996; Railtrack was privatised in May 1996; and the 25th train operating company, ScotRail, was franchised by OPRAF in 1997. A year later, the Integrated

Transport White Paper was published, which included the proposition of a Strategic Rail Authority. The Strategic Rail Authority was set up firstly in shadow form (effectively OPRAF and the BRB working collaboratively under their existing powers) on 1 April 1999 and then statutorily in February 2001 by the Transport Act 2000. The 10 Year Plan for Transport was published in July 2000 and the SRA's first Strategic Plan in January 2002. The Hatfield accident in October 2000, its aftermath of temporary speed restrictions and the entry into administration of Railtrack in October 2001 significantly affected the industry. Throughout the following year, the SRA expended considerable effort on the setting-up of Network Rail and prioritised the conclusion of very difficult transactions for what had previously been long-term franchises with infrastructure investment, negotiating alternative deals for shorter franchises where the emphasis was on Mark 1 replacement, improving performance and driving down costs.

3. It is against this turbulent backdrop that the progress made by the industry should be viewed. As the Report states, orders have been placed for over 4,500 new vehicles, worth some £4.2 billion, and 2,000 vehicles have already been introduced into service. When all the new vehicles have been introduced the average age of the British passenger fleet will fall to 14 years (or less than half the typical 30-year life expectancy of a train), making it younger than the passenger fleets in France, Italy, Spain, Sweden or Switzerland. Alongside the problems highlighted in the Report, this is a notable industry achievement.

ISSUES RAISED IN THE REPORT

LACK OF STEADY DEMAND IN ORDERING NEW TRAINS, CONTRIBUTING TO MANUFACTURING AND MANAGERIAL DIFFICULTIES

4. The lack of steady demand for new trains has arisen mainly from the stop/go nature of past funding. Although we acknowledge this has led to difficulties, it would not constitute value for money for the SRA to artificially maintain a smooth stream of new rolling stock orders in the future. That would mean overriding TOC and ROSCO decisions on the appropriate working life of particular types of working stock and possibly retiring stock unnecessarily early or continuing to operate old stock where this is uneconomic. Manufacturers are increasingly able to manage peaks and troughs in the workload from individual countries given the international nature of the market for rolling stock.

LACK OF ORGANISATIONAL COHERENCE WITHIN THE RAIL INDUSTRY HINDERS GETTING NEW TRAINS INTO SERVICE

5. Within the complex structure of the privatised rail industry, the SRA has taken major steps to improve co-ordination of, and co-operation from, the key players involved in the delivery, acceptance and bringing into service of new trains—for example, the Southern Region New Trains Project (SRNTP). The SRA believe that the SRNTP is acting as a catalyst for bringing about better co-operation and collaboration across the industry.

6. The SRA has itself been going through a major restructuring and re-organisation, the key objective of which is to better discharge the duties placed on it and provide better leadership. We would particularly emphasise the following:

- the creation of a new Technical Directorate, which has given the SRA the ability to exert a strategic technical influence on industry procurement, design, reliability and maintenance;
- the appointment of a Director with specific responsibilities with regard to rolling stock; and
- the restructuring of the Operations Directorate to better manage the performance of the Train Operating Companies and address issues relating to customer focus and commercial disincentives.

7. Mention should also be made of the *Group of Six* meetings (SRA, ORR, ATOC, FOC, HSE and NR) and the Joint Programme Boards which involve senior executives across the industry and which are aimed at maintaining effective management and co-ordination at the key organisational interfaces.

8. One of the key aims of the industry review announced by the Secretary of State on 19 January 2003 was the identification of structural and organisational changes needed to improve rail performance for customers. We will be working with the Department for Transport (DfT) and industry during the review of the structure of the railways and examination of ways in which the industry could work better together.

LACK OF STANDARDISATION OF THE NETWORK, AND OF THE TRAINS THAT RUN ON IT

9. As stated in the Report, new trains are bringing significant benefits to passengers through greater safety, security and improved environment. What we are working towards is ensuring the industry takes a systems view, such that the optimum combination of rolling stock and infrastructure is derived when planning enhancements. Nevertheless, the varying nature and age of the infrastructure pose key constraints on what is affordable and point to why there are limits to the amount of standardisation that is practically achievable. The SRA uses its powers and influence as appropriate to facilitate the optimum balance of standardisation and specific design solutions.

LACK OF INFORMATION ABOUT THE NETWORK

10. The Rail Regulator has placed a licence condition on Network Rail to develop and keep up to date an Asset Register, as it is Network Rail's responsibility to maintain the best possible knowledge of the railway infrastructure. The SRA, in support of Network Rail and the Office of the Rail Regulator, is doing what it can to enable improvements, both in making the information readily available and usable, and in better understanding the performance of the assets and the linkage with service delivery. For example, significant investment has been made in modelling and analysing the capabilities of the southern region power supplies. This has led to an agreed prioritisation of upgrade work and a process for determining whether "marginal" work should proceed against some defined scenarios for timetables and rolling stock deployment. This was a key element behind the reduction in the anticipated costs of the "vehicle mountain" from around £90 million (previously aggregated by the NAO with reference to estimated contingent liability laid before the Committee) to the estimate of £7 million included in the Report.

A LACK OF CLEARLY DEFINED PASS/FAIL CRITERIA WHEN ASSESSING SAFETY RISKS

11. Differing views, understandings and perceptions of the interpretation and application of the ALARP principle have led to some confusion about pass/fail criteria. However, the Health and Safety at Work Act, which is regulated by HSE, requires that those operating (and hence those designing and procuring) need to act reasonably. Many standards, both national and European, exist to guide the process. The Report focuses upon the lack of prescriptive clarity over the meaning of "reasonably practicable" and the Secretary of State observed in his statement on 19 January that some industry standards have been used or applied in an over-cautious way. These issues will form a key part of the industry review.

A LACK OF TESTING CAPACITY

12. It is important to differentiate between test running and trial operations, as the latter would always need to take place on the routes where the stock is to be operated. The issues of accessibility and availability affect trial operations as they do test running, so even a dedicated test facility would not lead to instant introduction into service. The estimated cost of a dedicated UK test facility of around £50 million was deemed to be not affordable when a proposition was made in 2001. All principal manufacturers to the UK rolling stock market do have their own dedicated test facilities.

RECOMMENDATIONS MADE IN THE REPORT

(i) *As a condition of its direct agreements with ROSCOs and its franchise agreements with TOCs, the SRA should require ROSCOs and TOCs to work more closely with manufacturers and passenger representatives to take account of the features and facilities that passengers, including those with disabilities, need in the design of new trains.*

13. The SRA agrees with the view that there would be benefits from the early involvement of passenger groups in the specification process. The SRA will therefore seek to ensure that TOCs engage with, and provide feedback to, passenger representatives early in developing the internal configuration of new and refurbished rolling stock. Of course affordability will remain a key issue.

(ii) *The SRA should include in its franchise agreements with TOCs the requirement for new trains to meet specified levels of reliability, and establish the expectation that reliability targets will be included in TOCs' agreements with the ROSCOs, manufacturers or other organisations responsible for maintaining their new vehicles.*

14. The SRA has sought to promote the inclusion of reliability targets in TOCs' lease agreements with ROSCOs since it published its Franchising Policy Statement in November 2002. More recently, as stated in the Rolling Stock Strategy, we believe that TOCs are well placed to ensure that new trains perform satisfactorily from introduction and we support TOCs (through Direct Agreements and Section 54 applications where appropriate) in their efforts to require guarantees and penalties from ROSCOs for late delivery or poor initial reliability of new trains. The new form Franchise Agreement includes a schedule entitled "Committed Obligations". It is here that reference will be made to the contracted reliability of new trains and the remedies for non-performance by the Franchisee.

(iii) *The SRA should assess the need for any further new passenger trains, in the light of the likely future demand for passenger services, the age of trains on the network and likely changes in the train-manufacturing base. The SRA should make indicative information available to the industry, to be reviewed on a periodic basis, so that the industry may better plan for the future provision of new trains.*

15. The SRA already undertakes internal analysis of current and future rolling stock availability and opportunities for redeployment of the existing fleet ("cascade"). It recognises that a published SRA plan could help individual companies to plan their strategies. However, there are downsides in so doing:

- a detailed, published plan could raise issues of market sensitivity and commercial confidentiality and could compromise the SRA's negotiating position and those of industry players;
- unless kept under constant review, a published plan would rapidly become dated given changing supply and demand forecasts; and
- an SRA plan could unduly influence individual companies' decision about future rolling stock allocations and investment, which, in turn could undermine competition between ROSCOs and between manufacturers.

16. The SRA cannot therefore commit to publishing a full plan of future rolling stock requirements. However, it will, by summer 2004, publish information on:

- the current deployment and characteristics, including age, of TOC rolling stock fleets; and
- the criteria it uses to assess future rolling stock demand. The SRA will also share information about likely future demand for rolling stock as fully and early as possible.

(iv) The SRA should take the lead in establishing, with the Office of the Rail Regulator and the rest of the industry, protocols for sharing essential information and service level agreements on completing key stages within an agreed period of time, as means of aligning the various bodies' incentives and commercial interests to facilitate the timely introduction of new trains.

17. Several initiatives are under way to improve the quality of the information available about Network Rail's infrastructure, in addition to the Rail Regulator's requirement for Network Rail to produce an Asset Register under licence condition 24. These include:

- the development of the Industry Data Initiative (IDI). Network Rail is producing documents to clarify the characteristics of the Electrical Equipment and Control Systems (EECS) currently found on the network; and
- new and revised Railway Group Standards were brought into effect by the Rail Safety and Standards Board (RSSB), which require Network Rail to provide train operators, ROSCOs, and manufacturers with timely and accurate information as necessary for the efficient design, building, commissioning and testing of new rolling stock for use on the network.

18. The Regulator also intends to release a template Vehicle and Route Acceptance Contract ("VRAC") for general use late in 2004. Such a contract has existed since 1998 and was entered into by Virgin Trains and Railtrack. The VRAC did ensure much better co-operation between the infrastructure operator and the train operator including with respect to provision for access to the network for testing. All TOCs, ROSCOs and train manufacturers have been able to apply to the Regulator for a VRAC since 1998 though they have not done so despite encouragement.

(v) Under its franchise agreements with TOCs, the SRA should specify the requirement that TOCs agree, with all of the parties involved in introducing a new train fleet, a robust and realistic programme and timetable for the trains' introduction.

19. The SRA has identified the need to ensure that realistic "in-service dates" are contractualised by all parties involved in bringing new rolling stock on to the network. The new form Franchise Agreement includes a schedule entitled "Committed Obligations". It is here that reference will be made to the contracted delivery into service of new trains and the remedies for non-performance by the Franchisee.

(vi) The Department for Transport should work with the SRA, the Office of the Rail Regulator, the Rail Safety and Standards Board and other relevant stakeholders to bring the range of railway industry specifications, standards and guidance under a single body responsible for rationalising them within a single, comprehensive and coherent set of requirements.

20. From March 2003, the SRA has been chairing the cross-industry Standards Strategy Group considering safety, technical and economic issues affecting the development of standards and regulations in the rail industry. This work is not considering directly, however, the process for approving new rolling stock. The SRA is keen to assist the DfT in this area during the industry review and can use its links with the TOC community and the train manufacturers to ensure that the output is workable.

21. Standardisation of rolling stock components, for example, can offer significant benefits, including:

- increased interoperability;
- possible cost reductions as a result of economies of scale in manufacturing; and
- reductions in the cost of adapting existing rolling stock designs for use in GB.

However, there are also likely to be disadvantages of increased standardisation, including the risk that the component may be less well designed for a particular part of the network it is operating on. Further, centrally imposed standardisation could inhibit private sector innovation, or competition. The SRA will give careful consideration to the areas where the benefits of standardisation are likely to exceed the costs.

(vii) *The SRA should work with the Office of the Rail Regulator and Network Rail to improve the availability of the network for testing new trains and, in consultation with the Department for Transport and the industry, re-assess the case for a national test facility in the light of the likely future demand for passenger services and new trains.*

22. Prior to delivery to the GB operational railway, the SRA believes it is good practice for suppliers to run reliability tests, using test facilities. All major suppliers have access to test facilities, although not all are UK-based. Reliability programmes for new and existing rolling stock require test facilities. Tests do not necessarily have to be run on UK-based test tracks, and it is not the SRA's current intention to invest in an operational test track.

(viii) *The SRA should establish clear, consistent and robust obligations in all of its franchise agreements with TOCs to bring new trains into service on time, to strengthen its ability to secure compensation for passengers in cases where TOCs bear some responsibility for the late entry of new trains into service. Otherwise, the SRA and the Department for Transport should consider whether the requirement in the SRA's Directions and Guidance to secure compensation in cases of late delivery of new trains is appropriate and, if not, revise the Directions and Guidance where necessary.*

23. The new form Franchise Agreement includes a schedule entitled "Committed Obligations". It is here that reference will be made to the contracted delivery into service of new trains and the remedies for non-performance by the Franchisee. However, a balance needs to be struck between incentivising TOCs through obligations that are achievable, especially in the light of recent experience, and imposing punitive penalties which TOCs will merely "price" as an unacceptable risk.

(ix) *The SRA should more actively exploit its strategic position to identify and disseminate best practice across the industry to help new train introduction.*

24. As stated in the Report, TOCs and ROSCOs have assumed primary responsibility for sharing good practice through two industry-led initiatives: the National Rail Performance Plan (NRPP) and the National Fleet Reliability Improvement Programme (NFRIP). Both of these initiatives have been actively supported by the SRA. In July 2003, SRA launched a programme, jointly sponsored by the National Task Force, requiring TOCs to deliver performance improvements plans including, in particular, actions to improve the reliability of new and old rolling stock. There is an explicit expectation that the NFRIP work and processes will provide key inputs on rolling stock performance benchmarking and best practice. These initiatives demonstrate the SRA's overall strategy of progress through enhanced co-operation, partnership and adoption of shared objectives. A more recent example of this co-operative approach was SRA hosting an all day seminar on 30 January aimed at identifying how the industry could work better together to mitigate the short term performance risk that often accompanies the introduction of new trains. It looked specifically at the SRNTP and involved SRA, NR, SET, SC, SWT.

(x) *The SRA should bring this Report to the attention of all parties involved, to develop a common understanding across the industry of the current processes and issues involved in bringing new trains into service.*

25. The SRA will ensure the Report is brought to the attention of the industry. The press release that accompanied the publication of the SRA Rolling Stock Strategy referred to it.

(xi) *Using the map developed as part of the National Audit Office study (Figure 11) setting out the current process involved in bringing new trains into service, the SRA, in partnership with the Health and Safety Executive and the Department for Transport, should take the lead in assessing how the various stages in the process will be affected by European legislation and make those changes, and their timing, clear to the industry. As part of this, the SRA should also take the opportunity to work with the industry to rationalise and streamline the process where possible.*

26. The SRA led on compiling an "as-is" end-to-end process map for the manufacture, testing, approval and bringing into service of the new trains replacing Mark 1 rolling stock on the southern region. This was made available to the NAO at the commencement of their study. A planned further phase of work to re-engineer the process was placed on hold when the NAO announced the establishment of a cross-industry expert panel to review and develop this map. Armed with the findings of the NAO's expert panel, the SRA now has the objective of facilitating improvements to the process through the collaborative involvement of all the key participants. This will, of necessity, include assessment of the impact of European legislation.

27. In addition, the SRA is already leading on the production of DfT/HSE/Industry guidance to accompany the Conventional Interoperability Regulations when they come out later this year. In other words we are doing more than reviewing the impact of EU legislation, we are positively trying to influence

the way in which it is implemented in Great Britain. The development of acceptance processes generated around (ie outside the boundary of) the legislative European requirements are properly for the industry to develop within the national legislative framework. How far the SRA should be involved in such process development is a matter that should be addressed in the industry review.

(xii) *In looking at railway safety and as it considers how European legislation will change the process of introducing new trains, the Health and Safety Commission should review, in consultation with all of the key stakeholders in the industry, how the requirement of “continuous improvement where reasonably practicable” should operate for the approval of new trains.*

28. SRA is happy to give its full support to any consultation by HSC.

(xiii) *In the meantime, the Health and Safety Executive should work with the SRA to promote greater understanding within the industry that the “ALARP” principle for assessing train safety risks should be applied at the train design stage, and what TOCs need to do in applying “ALARP” through the build and acceptance stages in order to demonstrate that the risks of their new trains are acceptable.*

29. SRA is happy to work with HSE to emphasise the need to address ALARP at the design stage. In so far as SRA is involved in the procurement of new trains we do, and will continue to, agree concept and detailed design intentions with HSE. For other train procurement activities we will work with the parties concerned to ensure that good practice is applied.

February 2004

Supplementary memorandum submitted by the Strategic Rail Authority

Question 40 (Mr Field): (In the context of trains with fewer seats, but a more frequent service) What are the number of seats to Liverpool on WCML (per hour/per day) before and after the revised timetable?

Below is a table detailing the capacity in the current timetable (Mon-Fri) compared to that which preceded it and that which will be obtained following the September 2004 timetable changes. Whilst there is no material increase in the number of daily services (there is one extra service planned) in September 2004, the capacity increase is brought about by the transition from 8-car to 9-car Pendolino services. However the September timetable change will allow for a reduction in journey times.

The number of seats to Liverpool should be viewed in the wider context of the SRA WCRM Strategy. The strategy, approved by Ministers, has additional inter urban services (Birmingham—Liverpool in addition to the Silverlink peak services) augmenting the VWC trains thereby transferring intermediate demand off VWC to maximise available capacity for Liverpool-Euston travelers.

TIMETABLED SEATS TO LIVERPOOL SUMMER 2002, CURRENT AND WINTER 2004 TIMETABLES

Mon-Fri	Summer 2002		Current Timetable (8 car Pendolinos)				Winter 2004 (9 car Pendolinos)				
	Stock Type ¹	First	Standard	Mon-Fri	Stock Type	First	Standard	Mon-Fri	Stock Type	First	Standard
0700	Mk III 2-1-5	104	374	0710	Pendolino	145	218	0600	Pendolino	145	296
0800	Mk II 3-1-5	144	318	0810	Pendolino	145	218	0714	Pendolino	145	296
0900	Mk III 2-1-5	104	374	0910	Mk III 2-1-5	104	374	0818	Pendolino	145	296
1000	Mk III 2-1-5	104	374	1010	Pendolino	145	218	0918	Pendolino	145	296
1100	Mk III 2-1-5	104	374	1110	Mk III 2-1-5	104	374	1018	Pendolino	145	296
1200	Mk III 2-1-5	104	374	1210	Mk III 2-1-5	104	374	1118	Pendolino	145	296
1300	Mk III 2-1-5	104	374	1310	Mk III 2-1-5	104	374	1218	Pendolino	145	296
1400	Mk III 2-1-5	104	374	1410	Pendolino	145	218	1318	Pendolino	145	296
1500	Mk III 2-1-5	104	374	1510	Pendolino	145	218	1418	Pendolino	145	296
1600	Mk II 3-1-5	144	318	1600	Pendolino	145	218	1518	Pendolino	145	296
1700	Mk III 2-1-5	104	374	1700	Pendolino	145	218	1618	Pendolino	145	296
1800	Mk III 2-1-5	104	374	1800	Mk III 2-1-5	104	374	1718	Pendolino	145	296
1900	Mk III 2-1-5	104	374	1900	Pendolino	145	218	1818	Pendolino	145	296
2000	Mk III 2-1-5	104	374	2000	Mk III 2-1-5	104	374	1918	Pendolino	145	296
2100	Mk III 2-1-5	104	374	2100	Mk III 2-1-5	104	374	2018	Pendolino	145	296
Total		1,640	5,498			1,888	4,362			2,320	4,736
Total no of seats			7,138				6,250				7,056

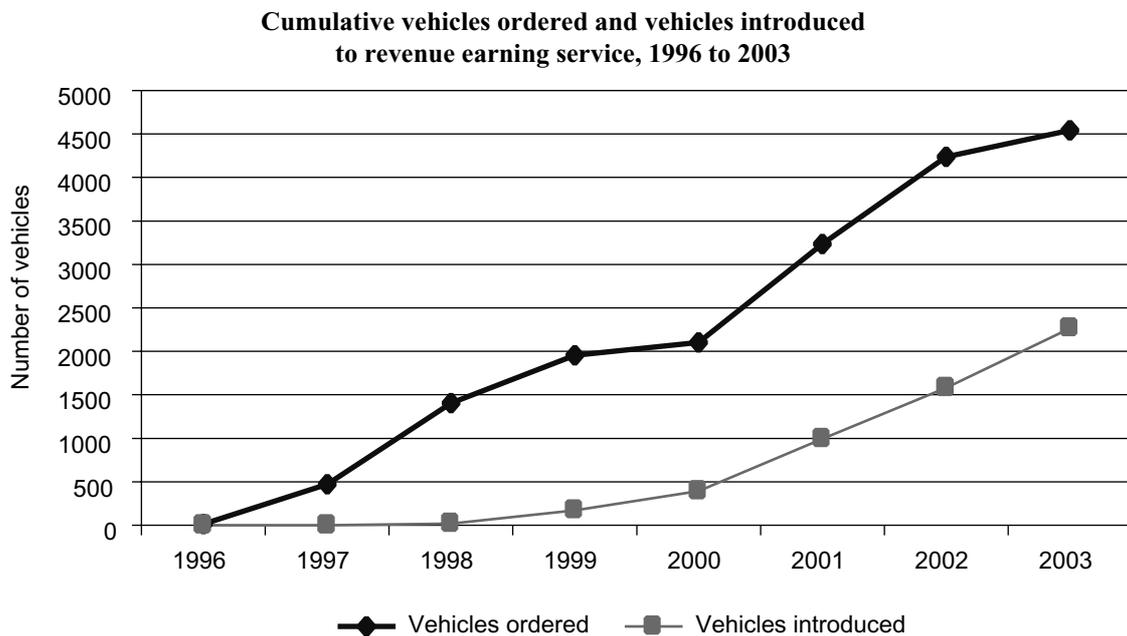
¹ Mark number followed by number of First Class, Buffet and Standard Class coaches.

Question 49 (Mr Field): Beneficial effect of financing arrangements.

The primary benefit of these arrangements to TOCs and taxpayer is that the ROSCO process generates additional capital to purchase rolling stock which is not available in the public sector. The arrangement also creates a competitive environment for rolling stock procurement because of the presence of other ROSCOs in the market.

Question 93 (Mr Jenkins): Graph showing numbers of vehicles introduced into service, to be read alongside graph of vehicles ordered.

Please see the graph below showing the number of vehicles introduced into revenue earning service each year. Information on the numbers of vehicles ordered each year shown in Figure 13 of the NAO Report has been incorporated for ease of reference.



Question 119 (Jon Trickett): Amount of Liquidated Damages secured on contracts where there has been gross failure.

The SRA is not a party to the Manufacture and Supply Agreement (MSA) entered into between the vehicle manufacturer, ROSCO and TOC at the time new trains are procured. The MSA sets out the provisions for Liquidated Damages payable by the manufacturer to the TOC or ROSCO where vehicles are produced behind schedule or unfit for acceptance. There may also be counter claims for Permitted Delay where the manufacturer believes the TOC is responsible for a delay in achieving vehicle acceptance. The MSA is a commercial agreement between manufacturer, ROSCO and TOC. As the SRA is not a party to these agreements we do not have details of any such payments made.

Question 131 (Jon Trickett): Relationship between leasing charges and the bank rate.

This question was answered by Richard Bowker during the PAC hearing. The transcript records his response as follows:

“... Interest rates have fallen over the last five or six years. That allows the rolling stock leasing companies to offer better rates in terms of the long-term finance. The rolling stock leasing companies have also become more competitive in the residual values they are prepared to take risk on at the end of the lease period...”

Please see the Graph in the Annex (Rates per £1 million financing, Ev 25) illustrating this.

Question 152 (Jon Trickett): What the cost per mile of new rolling stock is now, and what it was before.

Comparing rolling stock costs per mile in the past with costs per mile now is not straightforward as contractual arrangements for maintenance have changed over time. In leases for ex-BR stock the responsibilities for Levels 1 to 4 maintenance (day to day and light maintenance) and Level 5 maintenance (periodic heavy maintenance) were clear. Leases for new trains differ in that maintenance is often included in the overall leasing transaction costs. In some cases TOCs have entered into split responsibility arrangements in relation to Levels 1—maintenance, eg train cleaning.

Although new rolling stock is more expensive than old, new vehicles, as stated in the NAO Report deliver passenger benefits which in themselves can generate additional passenger revenue. Using industry standard methods, passenger revenue is estimated to increase by 2–3% following introduction of new stock.

The table below gives an illustrative comparison of rolling stock costs under old and newer style leases.

ILLUSTRATIVE COMPARISON OF ROLLING STOCK COSTS UNDER OLD AND NEWER STYLE LEASES

<i>Old</i> Class 423 EMU ²		<i>New</i> Class 375 EMU	
Capital rental	£1,934 pvpm ³	Capital rental	£4,925 pvpm
Maintenance rental Level 5	£2,208 pvpm		
Maintenance Levels 1–4	14 pence per mile	Maintenance	24 pence per mile
Assumed mileage per month	8,708 miles	Assumed mileage per month	8,708 miles
Total cost per vehicle per mile (pence)	61.5p	Total cost per vehicle per mile (pence)	80.5p
<i>Old</i> HST ⁴ loco hauled		<i>New</i> Class 220 Voyager DEMU ⁵	
Capital rental Class 43 loco	£2,767 pvpm	Capital rental	£9,250 pvpm
Maintenance rental Level 5 Class 43 loco	£19,717 pvpm		
Maintenance Levels 1–4 Class 43 loco	102 pence per mile	Maintenance	46 pence per mile
Assumed mileage per month Class 43 loco	19,667 miles	Assumed mileage per month	19,667 miles
Total cost per vehicle per mile (pence) Class 43 loco	216p	Total cost per vehicle per mile (pence)	93p
Capital rental Mk 3 coach	£3,342 pvpm		
Maintenance rental Level 5 Mk 3 coach	£3,350 pvpm		
Maintenance Levels 1–4 Mk3 coach	14 pence per mile		
Assumed mileage Mk 3 coach	19,667 miles		
Cost per vehicle per mile (pence) Mk 3 coach	48p		
Total cost per 10 vehicle train per mile (pence)	816p		930p

Question 156 (Jon Trickett): Nature of reliability clauses in contracts pre privatisation, in contracts to date, and in clauses SRA is now insisting upon.

Pre-privatisation BR train procurement agreements did not include reliability clauses. The method of train procurement differed in that BR specified in detail every aspect of the train (prescriptive specifications) and BR purchased and maintained the trains itself. The leasing of trains was not a method of access to trains and the leasing market was not developed.

On privatisation the ex-BR stock was sold to the ROSCOs who purchased the trains on the basis that the trains would be leased to TOCs under a Master Operating Lease Agreement (MOLA). The MOLA provided that the ex-BR stock was leased to TOCs on an “as is, where is” basis without any reliability guarantees or incentives. Under the MOLAs, many of which remain in place, lease payments are made by the TOC on a “hell or high water” basis regardless of the performance of the rolling stock.

² Electrical Multiple Unit.

³ Per vehicle per month.

⁴ High Speed Train.

⁵ Diesel Electric Multiple Unit.

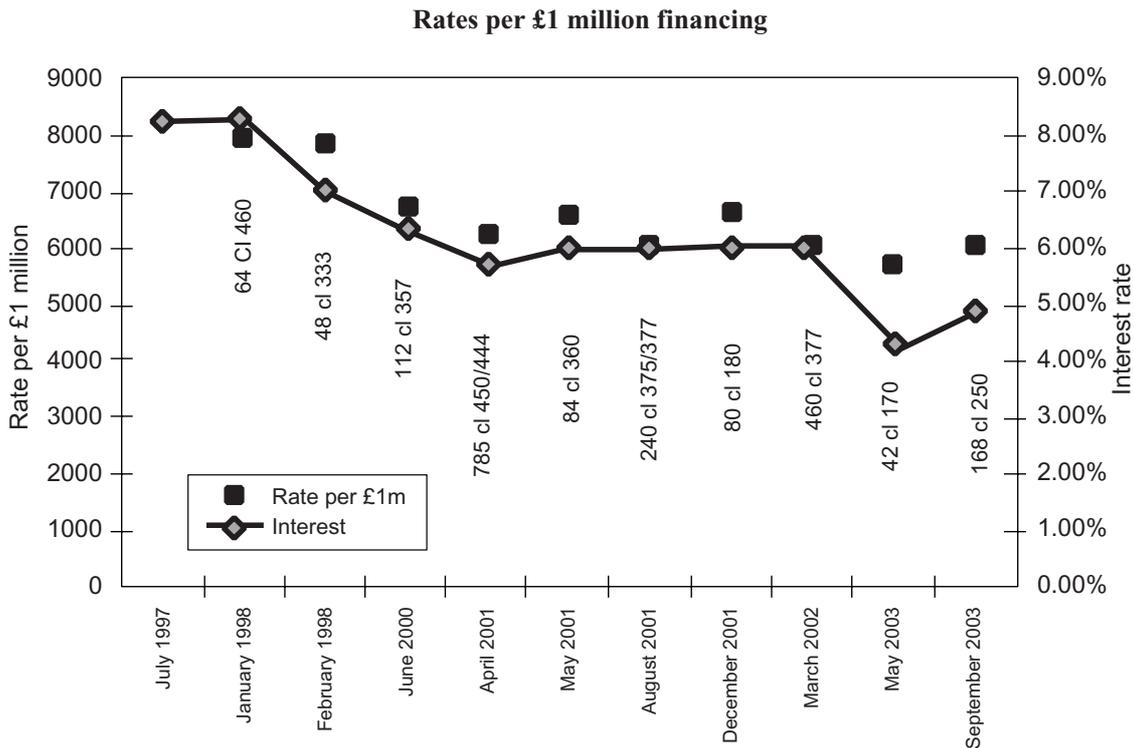
The MOLA also provided for a separation of heavy (level 5) and light maintenance (level 1–4) with the ROSCO generally responsible for level 5 and the TOC responsible for level 1–4. This accorded with the view that the ROSCO would want to maintain the residual value of the asset by investing in periodic heavy maintenance and the TOC would want to have control of the day-to-day maintenance in order to properly discharge their obligations under the franchise agreement. In practice this separation has caused an area of contractual conflict due to misalignment of incentives. In future the SRA wishes to see contractual structures and associated provisions that provide better alignment of incentives and accountabilities to deliver more reliable trains.

Since privatisation the method of train procurement has changed with the specification of a new train tending to be output based (performance specifications) defined either by the relevant TOC or ROSCO. Most train procurement contracts let post privatisation contain reliability criteria.

The TOCs have generally sought maintenance contracts with the manufacturer at the time of placing the train procurement contract and these maintenance agreements commonly contain performance regimes that incentivise the manufacturer/maintainer to achieve specified reliability targets. Details of the terms of these contracts vary considerably both in terms of scope of the maintenance and service arrangements and the extent of the performance guarantees provided.

The TOCs in all cases lease the new trains from the relevant ROSCO and, although changes to the terms of the lease have been negotiated from the original MOLA, the TOCs look primarily to the maintenance/service provision contracts to provide guarantees and incentives for reliable performance of the new rolling stock. The SRA will, as part of the development of its rolling stock strategy and through any new franchise agreements, be seeking to ensure with all industry parties that in future there is a common basis for measurement of reliability that will be used in any new train procurements and that these accord with the requirements of any route utilisation strategies.

17 March 2004



Rates per £ million financing
09/03/2004