House of Commons
Transport Committee

Rail 2020

Seventh Report of Session 2012–13

Volume I: Report, together with formal minutes

Volumes II: Oral and written evidence

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Summary

In May 2011 a review led by Sir Roy McNulty published its report on the efficiency of the UK railway and concluded that there was a 40% efficiency gap between the UK railway and European comparators. This prompted the Government to publish a Command Paper on rail, *Reforming our Railways*, which, amongst other things, tasked the rail industry with making savings amounting to £3.5 billion a year (in 2008/09 prices) by 2018/19.

We looked at this issue in the wider context of asking why the railway should be in receipt of public support, where that subsidy should be targeted, and what should be the Government's vision for rail by the time the McNulty savings are due to be delivered at the end of the decade.

There are two main reasons for the increase in the rail subsidy in recent years. Firstly, increased demand for rail has led to new capital projects to improve capacity, increasing Network Rail's level of borrowing and the cost of servicing that debt as well as fuelling increased costs for rolling stock and other facilities. Secondly, the unit costs of train operating companies have not fallen as usage has increased.

We believe that there are justifiable economic, social and environmental reasons for subsidising the railway . However, currently it is not clear what the Government is getting for its money. We recommend that the Government publish and consult on a clear statement of what the subsidy is for and where it should be targeted.

We support the general approach to achieving efficiencies set out in the McNulty report, subject to concerns in a number of areas, including staffing, safety, and protecting passengers' interests. If savings do not materialise the case for more far-reaching structural changes to the industry will be compelling.

We intend to report soon on the collapse of the competition for the West Coast Main Line franchise and to look at the outcome of the Brown review of franchising. In the meantime we suggest that the DfT consider delegating the letting and management of franchises to an arms-length body which can draw on more commercial expertise than the department has at its disposal. We see merit in continuing with longer franchises but recommend exploring options for reviewing contracts every five years and bringing in consideration of wider policy objectives, including passenger experience. In order not to hold up the next round of franchise re-lettings we recommend that those franchises which must be re-let soon be tendered on the basis of medium-term franchises of seven to ten years' duration.

The Office of Rail Regulation and Rail Delivery Group both have important roles to play in delivering the McNulty efficiencies. Both must take steps to show that they are capable of rising to this challenge.

Finally, we set our vision for rail which includes the following elements:

- Clarity about the objectives of subsidising rail and how these can be achieved
- A clear link between policy on rail and other aspects of transport policy, for example a

focus on sustainable end-to-end journeys

- A strategic approach to policy-making by DfT which does not sacrifice democratic accountability; assisted by a strong industry regulator, and an effective industry leadership
- More transparency about the costs of rail, which helps with scrutinising different approaches to organising rail operations (eg alliances, different forms of franchises) and debates about the costs of new services and infrastructure
- Passenger interests more clearly taken into account in deciding questions of rail policy
- More modern, flexible fare and ticketing options and a clear long-term policy on regulated fares
- No diminution in existing safety standards.

1 Introduction

Defining the problem

1. In many ways the railway has been a success in recent years. The number of passenger journeys has almost doubled since privatisation from 735 million in 1994–95 to 1.6 billion in 2011–12; passenger miles travelled have doubled over the same period to 35.4 billion; and rail freight has expanded by over 60% to 21.1 billion tonne kilometres per annum, so that 11.5% of freight is now conveyed by rail.[1] There has been investment in major projects such as Crossrail and Thameslink in London and more to come in future, with work in hand or planned to electrify 800 miles of track and improve rail services in the north with the Northern Hub project.

2. Yet, rail poses a number of seemingly intractable policy challenges for Government. Increasing numbers of passengers have led to overcrowding on some routes. Capacity constraints can rarely be resolved quickly and cheaply. The provision of rolling stock is complex and expensive. Different approaches to the franchising of rail services have been tried – for example in relation to the length of contracts and whether they are let and managed by the Department for Transport or a separate organisation – without a consensus emerging about which approach works best. Open access operators, which compete with franchisees, have found it difficult to secure capacity and have failed to thrive. Network Rail's status as a private sector organisation reliant on state funding and a Government guarantee for its £42 billion debt is anomalous. Fares are complex, with a wide variety of fares often available for the same journey, from heavily discounted 'advance purchase' tickets to very expensive 'anytime' walk-on fares. The structure of the industry is byzantine: diagrammatic depictions resemble the cartoons of Heath Robinson. There is suspicion that the labyrinthine, opaque arrangements in the rail industry provide opportunities for money to leak out of the system, some of it in the form of unjustified profits.

3. In recent years, both the current Government and its predecessor have focused on the size of the public subsidy of the rail industry. This peaked at over £7 billion in 2007–08, but has since fallen back to stand at around £4 billion in 2011–12.[2] The increased level of subsidy in the mid-2000s has been largely attributed to the work required to address serious deficiencies in maintenance apparent from the fatal accidents at Hatfield in 2000 and Potters Bar in 2002.

4. In February 2010 the then Secretary of State, Lord Adonis, set up an independent review of the cost of the rail industry overseen by Sir Roy McNulty, formerly chair of the Civil Aviation Authority. The review was jointly sponsored by the Office of Rail Regulation. The principal element of its terms of reference was "to examine the overall cost structure of all elements of the railway sector and to identify options for improving value for money to passengers and the taxpayer while continuing to expand capacity as necessary and drive up

1 Q774 and ROR 17 (DB Schenker Rail UK) paragraph 4.

2 Annex B.

passenger satisfaction".[3] The incoming coalition Government endorsed the general approach of the McNulty review. McNulty made an interim submission on rail costs to the Secretary of State for Transport in December 2010 and published his final report in May 2011.

5. McNulty's most striking conclusion was that there exists a 40% efficiency gap between the UK railway and four European comparators. He argued that "the industry should be aiming to achieve a 30% reduction in unit costs (ie costs per passenger/km) by 2018/19".[4] McNulty identified a multiplicity of causes of this efficiency gap, including the fragmentation of the industry, poor management, problems with franchising and cultural factors. He made numerous recommendations aimed at achieving a 30% cost reduction, emphasising that there was no 'silver bullet' which could save money in one easy move.

6. The Government's response to McNulty, *Reforming our railways*,[5] was published in March 2012, alongside consultation documents on fares and ticketing[6] and decentralising franchising.[7] The Government described the railway as "unacceptably inefficient"[8] and argued that the industry "can and should" close the McNulty efficiency gap by 2018/19.[9] Its "Statement of Funds Available" – published along with its High Level Output Specification for rail in July 2012 – took account of the greater efficiency aimed at in the *Reforming our Railway* Command Paper.[10]

Our inquiry

7. We launched our rail inquiry in March 2012. We took the McNulty report and the Government's rail Command Paper as our starting points but sought from the start to take a broad view of the rationale for Government support for rail and the strategic vision for rail for the rest of the decade. Our terms of reference posed the following questions:

- What should be the Government's vision for the railways in 2020, taking account of likely spending constraints? How should the balance be struck between the taxpayer and the farepayer in paying for the railway?
- How are the targeted efficiency savings (£3.5bn by 2019 on a 2008/09 base) to be delivered? What will be the consequences?
- Will the reforms to rail franchises proposed by the Government, including alliances, deliver better services at lower costs?

3 *Realising the Potential of GB Rail: Report of the Rail Value for Money Study, summary report*, May 2011 (hereafter McNulty summary) Annex A.

4 *McNulty summary* p5.

5 *Reforming our railways: putting the customer first*, DfT, Cm 8313, March 2012, (hereafter Command Paper).

6 *Rail Fares and Ticketing Review: Initial Consultation*, DfT, March 2012 (hereafter Fares and Ticketing).

7 *Rail Decentralisation: Devolving decision-making on passenger rail services in England*, DfT, 8 March 2012 (hereafter Rail Decentralisation).

8 *Command Paper*, paragraph 7.

9 Ibid, paragraph 11.

10 *Railways Act 2005 Statement for Control Period 5*, DfT, July 2012 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/3641/railways-act-2005.pdf) (hereafter CP5 HLOS and SOFA).

- How should fares and ticketing be reformed?
- What are the implications of the proposals for rail decentralisation and how should responsibilities be devolved to local authorities?

8. We took oral evidence on seven occasions from June to November[11] and also received 47 written submissions. We visited rail facilities in Liverpool, Manchester and Birmingham on 2 July and in south London on 6 September. In October we travelled to the Netherlands, Germany and Switzerland to find out more about the railways in those countries, all of which were studied by the consultants advising on McNulty's comparative study of rail costs. The programme for this visit is published in Annex A. We are grateful for all of the evidence we received and for the assistance we received in organising our visits, particularly from the Foreign and Commonwealth Office posts in the Netherlands, Berlin, Munich and Berne.

9. We are grateful for the assistance we received in our inquiry from our specialist advisers, Bob Linnard and Richard Goldson.[12]

West Coast Main Line franchise competition

10. On 15 August the Department for Transport (DfT) announced that First Group had won the competition to run services on the West Coast Main Line for 15 years from late 2012.[13] The decision immediately attracted controversy, with Virgin Rail, the existing franchisee, complaining that the competition was flawed and that its bid was "more deliverable and financially much more robust" than that made by First Group.[14] We heard oral evidence from First Group and Virgin on 10 September and from the Secretary of State for Transport and the Permanent Secretary on 12 September. At that stage, we were told that the DfT would "robustly defend" any legal challenge to its franchising process.[15] However, on 3 October, the Secretary of State announced that the DfT had found significant flaws in the way that it had evaluated the bids and that the competition would therefore be aborted. The costs of all four shortlisted bidders, estimated by DfT to total £40 million, would be refunded.[16] He commissioned an investigation into what had gone wrong, led by Sam Laidlaw, Centrica Chief Executive and DfT non-executive director, and a review of franchising policy, conducted by Richard Brown, chair of Eurostar International. Three members of staff at the DfT were suspended in relation to the issue.

11. Mr Laidlaw's interim report was published on 28 October and we took oral evidence from the Secretary of State and the Permanent Secretary on its contents on 31 October. The report provided a damning indictment of the way in which the department had conducted

11 We have held two sessions to date on the collapse of the competition for the West Coast Main Line franchise, see below.

12 We also thank Philippa Bliss, a fast stream civil servant on attachment to the House of Commons, who prepared an analysis of our written evidence.

13 *New operator for West Coast rail passengers*, DfT announcement, 15 Aug 12, https://www.gov.uk/government/news/new-operator-for-west-coast-rail-passengers.

14 Q460.

15 HC Deb, 17 Sep 12, c236WH.

16 *The Laidlaw Inquiry: Initial Findings Report*, DfT, 27 Oct 12 paragraph 1.1.

the franchise competition, including the revelation that as early as the first quarter of 2012, DfT knew that its process was flawed and open to legal challenge.[17] Mr Laidlaw delivered his final report to the Secretary of State at the end of November. We arranged to hear oral evidence from Mr Laidlaw and his colleague in the investigation Ed Smith on 4 December but the DfT delayed publication of the Laidlaw report until 6 December. The oral evidence from Mr Laidlaw and Mr Smith was postponed until 18 December and we will also hear evidence again from the Secretary of State and Permanent Secretary early in the new year.

12. **The collapse of the West Coast Main Line franchise competition has raised serious doubts about the DfT's capability to manage major procurements as well as about its internal organisation and governance. A number of franchise competitions have been delayed while the Government reconsiders its policy on franchising. There are likely to be significant costs to the taxpayer, well in excess of the £40 million to be repaid to the four firms which bid to run trains on the West Coast Main Line. Confidence in DfT has been badly shaken. Ministers, current and former, as well as senior officials, have many questions to answer about this debacle. We will be asking these questions, and expecting clear answers, in the weeks to come before reaching our conclusions on this matter.**

Scope of this report

13. In this report we focus on three main issues:

- Efficiency: where does the money go in the railway, where can savings be made, and how does Government spending connect with a strategic vision for rail;
- Franchising: how should franchising be reformed, particularly in the light of the problems with the West Coast Main Line competition;
- Fares and ticketing: what needs to be done to make fares and ticketing simpler and more responsive to consumer needs.

In our concluding chapter we set out the main aspects of our vision for rail to 2020.

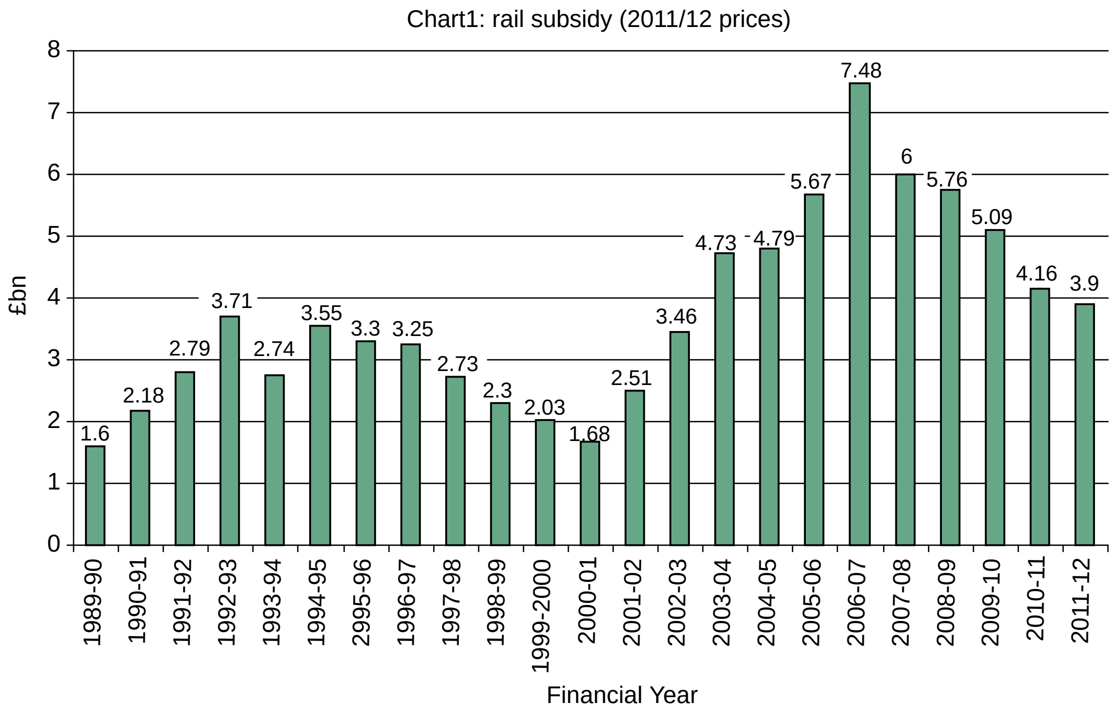
14. This report is the first in a series of rail reports we expect to publish in 2013 arising from the work we have carried out for this inquiry. As well as concluding our scrutiny of the abandonment of the West Coast Main Line franchise competition we intend to scrutinise the outcome of the Brown review of franchising and the Government's decisions in this important area. We are also intending to examine the European Commission's fourth railway package of measures which is due to be published shortly and which concern the international connectivity of rail networks.

17 Ibid, paragraphs 5.3.3 – 5.3.5.

2 Subsidising the railway

Why has the subsidy increased?

15. Chart 1 below shows how the total subsidy of the rail industry, in 2011–12 prices, has changed since the late 1980s, when rail was in public ownership.



Although the level of Government support has varied from year to year, in general it has increased from around £2.75 billion (in 2011–12 prices) in the late 1980s to £4 billion today.[18]

16. Around 85% of this support takes the form of capital grant paid to Network Rail.[19] This grant is used to enhance and expand Network Rail's infrastructure. Without direct grant from government, Network Rail would have to charge train operators more for access to the track. The operators would in turn need more subsidy from government in order to pay the higher charges.

17. We asked our specialist advisers, Bob Linnard and Richard Goldson, to analyse what lay behind this increase in the subsidy of the industry. Their paper is published as Annex B. They explained that revenue growth of £2.3 billion in 2011–12 prices (mostly from increased passenger numbers rather than higher fares) has been more than offset by three factors:

- a £1.7 billion increase in train operating costs, which have grown in tandem with the growth of passenger numbers;

18 For a different perspective, taking account of the contribution made by the railway to the Exchequer see *Rail*, issue 710, pp42-43.

19 Q249.

- £1.5 billion extra cost associated with funding Network Rail's regulatory asset base, its borrowing to finance capital projects; and
- £0.5 billion in additional rolling stock charges, again reflecting increased demand.

The Rail Minister, Simon Burns MP, said he agreed with the broad thrust of this analysis.[20]

18. This work shows that the railway has been a victim of its own success. Increased demand for rail has led to new capital projects, increasing Network Rail's level of borrowing and the annual charges it must meet to pay for that borrowing. Increased passenger numbers have also fuelled demand for more, better quality rolling stock, which comes at a cost. Better facilities, and more reliable rail services, have generated more demand for rail travel. What in many ways is a virtuous circle has a vicious element – escalating cost.

19. However, another important part of this story is the increase in train operating costs. Higher passenger numbers have not led to a decrease in costs per passenger kilometre, as might have been expected.[21] The McNulty report mentions increased staff costs as a possible explanation of this development,[22] although the trades unions dispute this,[23] attributing inefficiency to fragmentation and private sector involvement in the industry. They argue that these costs – primarily divided payments, the cost of servicing Network Rail's debt and the cost of interfaces between Network Rail and train operating companies – amount to £1.2 billion per annum and have exceeded £11 billion in total since privatisation.[24] We consider this issue further below.[25]

20. **The debate about the size of the rail subsidy raises a number of questions. Is a subsidy justifiable and, if so, what should be subsidised and to what extent? Although the ORR has direct responsibility for regulating the efficiency of Network Rail, how can the Government ensure that the efficiency of the train operating companies is improved? Does the McNulty report point towards the need to restructure the rail industry again, or can efficiencies be achieved within existing structures as he recommends? How can the industry continue to grow without soaking up more public money? These questions provide the context for our inquiry and report.**

Why subsidise rail?

21. We heard the argument against subsidisation of the rail industry from Dr Richard Wellings of the Institute of Economic Affairs. He argued that the subsidy had distorted travel patterns, for example by encouraging people to "move further and further away from where they work through cheap train fares", negating the environmental benefits of rail.[26]

20 ROR 26B (letter from the Minister of State to the Committee Chair, 26.Nov 12).

21 Q6.

22 *McNulty summary*, p20.

23 ROR 24 (trades unions) paragraphs 36-41.

24 ROR 24 (trades unions) figure 1.

25 See paragraphs 36-37.

26 Q376.

He argued for railway lines which could not turn a profit to be closed down.[27] His vision was for a smaller, but profitable, rail network, free of Government involvement:[28]

> I would advocate going back to privatisation but doing it properly this time and removing all the political control and regulation.

22. Dr Wellings was a lone voice in our inquiry: all other witnesses accepted the case for subsidisation of the rail network. Rail commentator Christian Wolmar, for example, said "railways never pay for themselves" because infrastructure cannot be paid for from revenue. He described the "fantastic level of dishonesty" associated with arguments that cutting back the network could make the system as a whole profitable.[29] A number of generalised arguments were advanced about what subsidising the railway might achieve. Witnesses mentioned environmental benefits, especially in terms of getting freight off the roads;[30] economic development and the promotion of growth;[31] and reduced social isolation.[32] The Minister, Simon Burns MP, said that there would always be "an element of subsidy" with rail, for social reasons, especially in rural areas, and because of environmental concerns.[33]

23. Although the Government is committed to subsidising the railway, it is unclear what level of subsidy it wishes to provide nor what exactly it wishes to achieve for the money. The rail Command Paper goes no further than ruling out a subsidy-free railway.[34] The Minister was unable to shed further light on this issue, declaring that he "would like to see reductions in the subsidies by the taxpayer to as low as possible as soon as it is viable to achieve that without cutting corners".[35] Although the direction of travel is clear, the destination is not.

24. More information is available about who benefits from the rail subsidy. The DfT has published figures for subsidy per passenger mile for each rail franchise, which show a wide variation between franchises.[36] The Government has also published information on the ratio of taxpayer to farepayer funding for different types of railway service, as set out below:

27 Q375.

28 Q411.

29 Q141.

30 ROR 22 (Campaign for Better Transport) paragraph 1.6 and ROR 15 (Freight on Rail) paragraph 8. Also ROR 10 (*pteg*) and 16 (South Yorkshire Passenger Transport Executive).

31 ROR 19 (Local Government Association), 20 (Transport for London) and 23 (London First),

32 ROR 19 (Local Government Association) paragraph 3.1.

33 Q777.

34 *Command Paper*, paragraph 12.

35 Q776.

36 Available at https://www.gov.uk/government/publications/rail-subsidy-per-passenger-mile.

Table 1: Source of funding for railway services[37]

	Net cost to Government per passenger mile (p)	Ratio of taxpayer to farepayer funding (%)
Long distance	7.3p	25 : 75
London and South East	4.8	19 : 81
Regional	31.1	61 : 39

25. *pteg* dispute these figures, arguing that they depend on assumptions about how Network Rail's direct grant from Government is spent on the network. Professor Chris Nash said he "could not find any published explanation of how [these assumptions] were derived".[38] In addition, *pteg* point out that the McNulty analysis excludes Network Rail's capital investment budget, which is "heavily skewed towards London and the south east". "Once this expenditure is taken into account" *pteg* argue "the estimated level of public support per passenger can actually be shown to be greater for inter-city passengers than for those travelling on regional services".[39] **We recommend that the DfT publish the assumptions underpinning its analysis of the ratio of taxpayer to farepayer funding on different types of rail service.**

26. The ORR has started to publish more information on taxpayer support at the level of individual train operating companies.[40] This is a welcome step towards greater transparency. However, there are many questions about who is paying for rail services which simply cannot be answered using available data. For example, the ratios of taxpayer to farepayer funding for different types of passenger (e.g. season ticket holders, off-peak, advance purchases) or in relation to different services are unknown. The absence of information of this sort is extremely significant. Strategic decisions, for example about capacity enhancements, are being taken without it being possible to quantify their impact on the total subsidy for different parts of the network.

27. By contrast, it is much easier to see what subsidisation of bus services is aiming to achieve. An overall subsidy of bus services (via the Bus Service Operators Grant)[41] is supplemented by concessionary travel for older people, the provision of non-commercial services which local authorities consider to be socially necessary, and specific grants for environmental purposes.

28. **We believe that there are justifiable economic, social and environmental reasons for subsidising the railway. However, the Government does the railway a disservice by its inability to articulate more clearly why it subsidises rail and what taxpayers get for their money. We recommend that the Government publish and consult on a clear statement of what the rail subsidy is for and where it should be targeted.**

37 Taken from *Command Paper*, table 5.1, p66.

38 Q328. Also see Q37.

39 ROR 10a (*pteg*).

40 Available at http://dataportal.orr.gov.uk/.

41 Which is in the process of being reformed so that it is more focused on specific outcomes.

Transparency

29. Underlying the lack of clarity in what the rail subsidy is for and whom it benefits is a lack of information about the costs of rail and flows of money within the rail industry. The McNulty review concluded that "particularly in view of the substantial amounts of public subsidy going into the rail industry, there is a need for much greater public visibility of the industry's finances ... the ORR should lead in this area". McNulty set out four aspects to this work, including more disaggregation of financial information by route, benchmarking, and paying subsidies through train operating companies rather than via the Network Grant paid to Network Rail.[42]

30. Progress in the direction of greater transparency has begun. The Office of Rail Regulation (ORR) has published an analysis of income and expenditure by route, which for the first time brings together spend by train operators and Network Rail by route.[43] It has also recently published an analysis of train operating companies' costs and revenues.[44] Both studies show wide and as yet unexplained variations in the financial performance of different routes and operators. Getting to the bottom of why these variations occur will be crucial in ensuring that the rail subsidy is well spent.

31. This is not simply a technical exercise of interest solely to the bean counters. Public trust in the train operators rests on confidence that their taxes and fares are not being siphoned off into excess profits derived from the complexity and opacity of the system. For example, there is a widespread belief that some train operators are happy to accept compensation when the railway is closed for engineering and just operate buses, rather than strive to find a way of operating some form of train service. There is also concern that many passengers do not receive the compensation payments to which they are entitled when their journeys are delayed.[45] The Association of Train Operating Companies (ATOC) has so far been unable to demonstrate conclusively that train firms have not retained compensation payments to which passengers were entitled.

32. **We fully endorse the call in the McNulty report for more transparency in the finances of the rail industry. Comparisons between routes and franchisees of how and where money is spent will help drive efficiency savings by shining a light on complacent management, waste and profiteering. Commercial confidentiality should not be used to block legitimate requirements for information given the amount of public money at stake.** The Office of Rail Regulation has a lead role to play in championing transparency. We consider this in more detail in our concluding chapter.

42 *McNulty summary* p63.

43 *GB rail industry financial information 2010-11*, ORR, Jan 2012.

44 *Costs and Revenues of Franchised Passenger Train Operators in the UK*, ORR, Nov 12.

45 For example see *Train Companies Get Away With Millions In Delay Payouts*, TSSA press notice, 30 Apr 12 (http://www.tssa.org.uk/en/whats-new/news/index.cfm/delaypayots), *Train companies respond to union claims over compensation*, ATOC press notice, 10 May 12 (http://www.atoc.org/media-centre/latest-press-releases/train-companies-respond-to-union-claims-over-compensation-100698) and HC Deb, 28 Nov 12, cc338-39W.

3 Improving efficiency

McNulty's analysis

33. The McNulty report's analysis of what the railway should cost "if it was operating at the frontier of efficiency" estimated that savings of between £2.5 billion and £3.5 billion (in 2008/09 prices) are achievable.[46] Table 2 shows how the higher level of estimated savings (£3.5 billion) breaks down.

Table 2: Higher estimate (£bn, 2008/09 prices)[47]

	Train operating and rolling stock companies	Network Rail	Total
High estimate of efficiency gap	1.2	2.3	**3.5**
Network Rail savings in control period 4 (2009–14)		-1.2	**-1.2**
Network Rail savings indicated in control period 5 (2014–19)		-0.6	**-0.6**
Remaining Efficiency Gap	**1.2**	**0.5**	**1.7**

The Government has tasked the rail industry with meeting the full £3.5 billion efficiency gap identified by McNulty.[48]

Is it achievable?

34. Many witnesses agreed that the higher level of efficiency savings identified by McNulty could be achieved. Examples were given of savings from reform of franchising,[49] standardisation of rolling stock,[50] and more efficient freight operations.[51] However, ATOC, representing many of the firms expected to deliver savings by 2018/19, cautioned against the scale and deliverability of the efficiencies.[52] The Campaign for Better Transport warned that the savings "could be counter-productive to the overall vision of increasing rail's share of travel".[53]

46 *McNulty summary* pp25-26.

47 Ibid, p26.

48 *Command Paper* paragraph 11 and *CP5 HLOS and SOFA* paragraph 2

49 ROR 7 (Railfuture) paragraph 2.1.

50 ROR 2 (Angel Trains).

51 ROR 17 (DB Schenker Rail) paragraph 16.

52 ROR 25 (ATOC).

53 ROR 22 (Campaign for Better Transport) paragraph 2.1.

35. Many witnesses argued that complex, bureaucratic interfaces between Network Rail and train operators needed to be addressed in order to achieve the McNulty efficiency gains.[54] Manuel Cortes of the Transport Salaried Staffs' Association argued that "further tinkering" with the system could not deliver efficiency gains and that renationalisation was necessary instead.[55] The McNulty report rejects renationalisation because "major cost reductions and value for money improvements can be achieved without sweeping away most of the present structure – this latter course of action would take years to complete, cause major diversion of effort, incur massive costs, and delay progress on improvements that are now being initiated or which could be initiated in the relatively near future".[56] The DfT has also ruled out further structural change, arguing that "the rail industry is not broken. The case for a further round of major structural change ... has not been made".[57]

36. **The £3.5 billion savings which the McNulty report identifies are undoubtedly challenging, particularly as their achievement would require a large number of companies to work together to make the railway's current structure work more efficiently. We support the general approach recommended by McNulty, but with concerns about some specific issues which we set out in this report. If these savings do not materialise, the arguments for more far-reaching structural changes will be compelling.**

37. McNulty made a number of recommendations aimed at "creating an enabling environment" for savings to be made, including the establishment of a senior change management team, the Rail Delivery Group (RDG). This group brings together for the first time the senior management of Network Rail and the main passenger and freight train operators.[58] The RDG is in the process of formalising its status as a company limited by guarantee.[59]

38. The Rail Delivery Group is expected to play a crucial role in achieving more effective cross-industry co-operation and delivering the savings identified by McNulty. However, the Government must not lose sight of the fact that it is dominated by firms whose principal interest is profit-maximisation and which have a vested interest in maintaining the industry's current structure.[60] **We recommend that the DfT and ORR keep a close eye on the work of the RDG to ensure that it acts in the best interests of the farepayer and taxpayer, rather than of established rail interests.**

How to do it

39. The McNulty report makes numerous recommendations for greater efficiency on the railway, covering over 20 pages in the summary report. We have not examined each in

54 ROR 22 (Campaign for Better Transport) paragraph 2.2 also ROR 18 (TravelWatch NorthWest).

55 Q94.

56 *Realising the Potential of GB Rail: Report of the Rail Value for Money Study*, detailed report, May 2011, p283; and Q3.

57 *Command Paper* paragraph 7

58 www.raildeliverygroup.org and their submission to this inquiry, ROR 1.

59 http://www.raildeliverygroup.org/Formalisation.aspx.

60 See ROR 19 (Local Government Association) paragraph 3.2 and ROR 24 (trades unions) paragraphs 10 and 26.

detail but looked instead at some of the most significant themes. In the remainder of this chapter we look at the impact of savings on staff, alliances between Network Rail and train operating companies, and opportunities for more commercial development of stations and rail services.

Staffing

40. The rail trade unions did not respond positively to the McNulty report's recommendations on staffing. These included calls for ticket office hours to be reduced, driver-only operating to be the norm, and salary restraint.[61] The unions argued that over 20,000 jobs were at risk leading to a "reduced service to passengers and a reduction in customer-facing staff that runs directly in contrast to what passengers want".[62] Mr Cortes warned that taking staff out of stations would enable them to become magnets for "petty crime, antisocial behaviour and vandalism" and reduce the service provided to people with impaired mobility.[63]

41. We have two concerns in this area. **Firstly, any changes to staffing, terms and conditions and salaries should be made within the context of a wider programme of changes made throughout the industry and after full consultation with trades unions. Any changes in the numbers and duties of station staff should not be pursued solely to reduce costs but should reflect changes in passenger ticket-buying behaviour and be designed to improve the passenger experience at stations, including safety**.

42. **In addition, we are very concerned that proposals to reduce staffing at stations and on trains could make the railway less safe, particularly at night, and deter women and vulnerable users from travelling by train. We recommend the Government develop a strategy for improving the security of the rail network, as well as perceptions of how safe the network is.**

Alliances

43. One of the innovations which has arisen from the McNulty report is the formation of a variety of alliances between Network Rail and train operating companies in certain parts of the network. As at 26 November there were eight alliances in place on the network.[64] The first and most high-profile is on Network Rail's Wessex route, where a joint senior management team has been formed comprising staff from Network Rail and South West Trains.[65] Paul Plummer, Group Strategy Director, Network Rail, said the alliance "will certainly deliver benefits" in terms of innovation and new ways of working although he did not think it would save tens of millions of pounds.[66] The ORR said that it was too early to say whether alliances would deliver savings.[67] We also heard from Balfour Beatty about

61 *McNulty summary* section 6.9.

62 ROR 24 (trades unions) paragraph 31.

63 Q118.

64 ROR 26B (letter from the Minister of State to the Committee Chair, 26.Nov 12).

65 http://www.stagecoach.com/media/news-releases/2012/2012-04-30-south-west-trains-and-network-rail-alliance.aspx.

66 Q226.

67 Qq723-24.

alliances between contractors and the rail industry, for example to reduce the disruption caused by engineering work.[68]

44. The Government has welcomed this development and intends to encourage alliances in future franchise agreements. It said "on more complex routes, with many operators or no single dominant operator, such arrangements may be more difficult. Nonetheless ... in principle most franchise routes are suitable for some form of alliancing arrangement".[69]

45. We have no objection in principle to the development of new models of working between Network Rail and train operating companies and believe such arrangements could represent a sensible evolution of railway management. However, the Wessex alliance raises two concerns which will need to be addressed if such experiments are to succeed in cutting costs and become more prevalent. Firstly, we note the concerns expressed by the trades unions that alliances between Network Rail and train operating companies will create "mini-Railtracks" which cut corners on safety measures in order to deliver profits to the train operator.[70] This was refuted by Network Rail and South West Trains who described safety as their "first objective" in the Wessex alliance.[71] **The ORR must ensure that the high standard of rail safety achieved in recent years is not jeopardised by different ways of working between Network Rail and train operators. We recommend that the ORR devote additional resources to monitoring safety in areas where Network Rail and a train operating company have formed an alliance.**

46. Secondly, there is a risk that an alliance which benefits Network Rail and the principal train operating firm will not be in the best interests of passengers and may disadvantage other operators. This is of particular concern to freight operators. The Freight Transport Association expressed concern that freight could become "second class citizens on the network".[72] The ORR is responsible for approving proposals for alliances.[73] **We recommend that in considering proposals for alliances and joint working between Network Rail and train operating companies the ORR pay particular regard to protecting the interests of passengers and firms outside of the alliance. There must be clear procedures for revising alliances' working practices or ending such arrangements if it can be shown that they are disadvantaging passengers or other operators, particularly freight.**

Commercial opportunities

47. ATOC expressed concern that the McNulty report had not paid sufficient attention to proposals for increasing the industry's ability to generate income.[74] However, Sir Roy McNulty told us that the rail industry was under-exploiting its commercial assets.[75] We

68 Q228.

69 *Command Paper* paragraph 4.11.

70 Q95.

71 Qq232-34. Also see Q39.

72 ROR 21 (Freight Transport Association) paragraphs 14-15 and see ROR 17 (DB Schenker) paragraph 19.

73 *Command Paper* paragraph 4.12. and *Alliancing: ORR policy statement*, Mar 12 (see http://www.rail-reg.gov.uk/server/show/ConWebDoc.10854).

74 ROR 25 (ATOC).

75 Q42.

share this concern and specifically sought oral evidence from Select Service Partners (SSP), the firm which operates many of the retail outlets and concessions at stations.[76] We also discussed this issue in the Netherlands, where we heard that 25% of the income from the Dutch stations division comes from retail and land sales. They were clear that retailing at rail stations is a specialist activity and that standard retail approaches, such as aiming to maximise customers' in-store time, are inappropriate. Station retailers must be incentivised to speed passengers through.

48. We were surprised to hear that the market share for SSP was as high as 30–40% and that many of the brand names found at stations are actually franchises run by SSP.[77] Joel Brook, SSP's Property Director, said that there were stations where SSP provided the only retail outlet but emphasised that his firm was "a long, long way from a monopoly" position.[78]

49. Witnesses noted that retail facilities at major stations were evolving to become destinations in themselves, particularly new developments such as St Pancras International and the redevelopments of King's Cross and Waterloo stations in London.[79] However, in our view there remains scope for Network Rail and the train operating companies to generate more income from the railway. Retail offerings at stations can be tired and uninspiring or at many stations non-existent. On-train retail is often similarly unimaginative. The facilities at St Pancras International station, now a destination for shoppers and people eating out, have set a standard to which other major stations should aspire. **We recommend that the Rail Delivery Group, working with Passenger Focus, develop and publish a clear strategy for improving retail facilities on stations and trains. This would be welcomed by passengers and could generate extra revenue to contribute to achievement of the McNulty targets.**

50. There is also scope to raise money by selling off or developing redundant railway land. We took evidence on this issue from Simon Rutter of Solum Regeneration, a joint venture between Network Rail and Keir Property which aims to use the commercial development of rail land to pay for improvements to existing rail infrastructure.[80] We do not object to selling redundant railway land in principle, but note with concern that the rail depot we visited in Allerton, Liverpool, was nearly sold off for redevelopment some years ago but has now been brought back into use because of the growth of the railway. Mr Rutter explained that the ORR had the final say in land disposals.[81] **We recommend that the ORR take a cautious approach to approving the sale or redevelopment of former railway land, given that with the growth of the industry that land may be needed again for rail in future, while responding promptly and positively to proposals for disposing of genuinely surplus land.**

76 Qq431-36.

77 Qq 433-34.

78 Qq434, 440.

79 Qq448, 450.

80 Qq 417, 426.

81 Q418.

4 Franchise reform

Government proposals

51. The coalition agreement on which the current Government is based included a commitment to "grant longer rail franchises in order to give operators the incentive to invest in the improvements passengers want".[82] The rail Command Paper sets out the Government's reform agenda in more detail. New franchises would involve "less intrusive day-to-day management of the franchise" by the DfT; more flexibility about how to configure services; better alignment with the interests of Network Rail and passengers; a mechanism for sharing profits with the Government; and, possibly, regulation by the ORR rather than DfT.[83]

52. These changes reflected a view that the DfT was too closely involved in the regulation of train services, because of over-prescriptive franchises. In addition, it was argued that longer franchises would encourage increased investment by operators and the development of long-term relationships with Network Rail and others.[84] The Government also sought to respond to problems which had arisen with its predecessor's experience of franchising. These included the failures of two successive East Coast Main Line franchises and the number of franchisees experiencing 'cap and collar' arrangements which protect them from lower than forecast revenues but also reduce or eliminate the incentive to over-achieve.

53. With 14 of the 17 franchises on the network due to be re-let between 2012 and 2016, the Government had an opportunity to reshape more than one half of the railway within a relatively short space of time. In announcing the shape of the new franchising regime in January 2011 the then rail minister, Theresa Villiers MP, also announced a public consultation on the first franchise to be let under the new policy, that for the West Coast Main Line.

Reaction to the proposals

54. The Government's proposals elicited a wide range of responses, from cautiously supportive to complete disagreement. Network Rail described the reforms as "eminently sensible".[85] ATOC described franchise reform as "vital to empowering train operating companies to deliver greater value themselves and jointly with industry players such as Network Rail".[86] However, it did not think that the invitation to tender for the West Coast Main Line franchise had gone far enough in embracing reform.[87] The Chartered Institute of Logistics and Transport agreed:[88]

82 Coalition agreement, p31.

83 *Command Paper* p48.

84 See HC Deb, 19 Jan 11, c43W.

85 ROR 12 (Network Rail) paragraph 3.2.

86 ROR 25 (ATOC) paragraph 16.

87 Ibid, paragraph 18.

88 ROR 14 (CILT) paragraph 13.

> The West Coast invitation does not bode well for producing imaginative or cost-reducing solutions, as demonstrated by the minimum service specification having been set effectively at current levels, giving no scope for cost reduction by replanning services.

The Institute was also concerned that even under a reformed system there would be little incentive for franchisees to invest in rail during the second half of the contract.[89] TravelWatch NorthWest described aspects of reform as "promising developments" but drew attention to the limited involvement of passengers in the franchising process.[90] Several other witnesses, including the trades unions, argued that franchising led to a fragmented system and that the Government's proposals would make things worse.[91]

Impact of the WCML franchise competition collapse

55. The collapse of the West Coast Main Line franchise competition has thrown the Government's plans for the reform of franchising into doubt. The West Coast Main Line will be run by Virgin Trains for another 23 months.[92] The re-letting of other franchises is also likely to be delayed.[93] The future of franchising is on hold until the DfT receives and decides its response to the review of franchising currently being conducted by Richard Brown.

What now for franchising?

56. We look forward to scrutinising the Brown proposals and the Government's response when they emerge, in the early part of 2013. We do not consider that the system of franchising is fundamentally flawed, but there are a number of significant changes which we think should be considered by the Brown review.

57. Firstly, **although we acknowledge that Government micro-management of franchises can be costly and stifle creativity, there is a balance to be struck with democratic accountability. In particular, there needs to be an effective mechanism to reconcile fairly the competing demands for train paths on congested lines, for example between fast and stopping inter-city services, commuter trains and freight traffic. Franchise specification should include a reasonable level of detail about service levels and timetables, so that ministers can be held properly to account for matters which directly affect passengers**.

58. However, **we are not convinced that DfT as currently structured is best placed and resourced both to set rail policy and do the detailed work necessary to run each franchise competition.** This latter task requires focus, commercial expertise and deep knowledge of railway operations. We will consider this issue in more detail in scrutinising what went wrong with the West Coast Main Line franchise, but **we have sympathy with**

89 Ibid, paragraph 12.

90 ROR 18 (TravelWatch NorthWest) paragraph 3.1.

91 ROR 24 (trades unions), ROR 4 (Jonathan Tyler) and ROR 11 (Tyne Valley Users' Group).

92 HC Deb, 6 Dec 12, c1019.

93 HC Deb, 15 Oct 12, c46.

the argument that franchises should be let and managed by a DfT agency or arms-length body. Under this arrangement, DfT would specify what it wished to be delivered under the franchise and the new franchising body, employing staff with appropriate specialist, commercial skills, would let and manage the contract. It is important that any change can be made without the need for legislation, since this would further delay the programme for franchise re-letting.

59. Finally, in the West Coast Main Line franchise competition bidders were expected to make an assessment of economic conditions to the end of the contract in putting forward premium payments. Both First Group and Virgin Rail offered well over £1 billion a year in cash premium payments for the final four years of the franchise. This was widely criticised because any assessment of economic conditions so far in the future is entirely speculative. **We see merit in continuing with longer franchises, in order to encourage investment by franchisees, but we recommend that the Government explore options for reviewing contracts every five years. This would enable contracts to be adjusted to take account of changed circumstances, particularly in the economy. Clear parameters for ending contracts early would need to be established at the start of the process and there would also need to be a different approach to evaluating bids for contracts. We suggest this could involve spreading out premium payments over the full length of the contract or weighting payments so that the offer of generous premium payments in ten years or more would be heavily discounted.**

60. **Any further redesign of the franchise system will take time to get right. We therefore recommend that for those franchises which need to be re-let in the near future, the DfT specifies contracts of medium length, of seven to ten years.**

Decentralisation

61. Another aspect of franchise reform is the suggestion that franchises could be devolved to local or regional bodies. This would be an extension of existing arrangements, as there are already examples of devolved franchises or concessions in Scotland, Wales, Merseyside and London.[94] In addition, passenger transport executives can be invited by the Secretary of State for Transport to be co-signatories of franchises, giving them some influence over the specification and management of contracts.[95]

62. The Government published a consultation paper on decentralisation in March. This set out desired objectives, such as passenger benefits, value for money, and economic impacts, and proposed five models for decentralisation. It is clear that a key issue will be governance: to which bodies can existing franchises, which invariably cross local authority boundaries, be devolved?

63. The Government's proposals have generally been welcomed. *pteg* strongly supported decentralisation, arguing that it would lead to "significantly improved local rail services, greater accountability, more integration with wider local public transport networks and better value for money".[96] Transport for London made similar points[97] and the Local

94 *Rail Decentralisation* pp13-14.

95 Ibid, p15.

96 ROR 10 (*pteg*) paragraph 2.27.

Government Association was also supportive, calling for a variety of approaches to devolution to take account of different circumstances.[98]

64. We paid particular attention to the devolution of rail franchising in our visit to Germany. Devolution of rail funding to regional governments was introduced in 1996, since when there has been a rebalancing of expenditure away from intercity services and towards regional rail. However, there is a better fit between the structure of local rail services and the geography of regional government in Germany than there would be in the UK and there are also wide disparities in the quality of regional rail services around the country.

65. **We agree that there is scope to devolve control over some rail franchises to local or regional bodies and we support the Government in looking at how to achieve this.** The Northern franchise, which is due to be re-let in 2014, is a prime candidate for this approach given that the five northern passenger transport executives are keen to take on responsibility for the network. However, the Northern franchise serves many rural communities as well as towns not in the major conurbations. Their interests must be taken into account alongside those of the big cities. **If the services within the current Northern franchise are devolved we recommend that the Government consider whether there are elements which could be individually franchised (similar to the situation with Merseyrail) and look to involve all of the emerging local transport boards in the north in the governance of the franchise. Alternatively, the DfT must retain reserve powers to vary the specification of the franchise to ensure that the interests of the whole region are protected.**

97 ROR 20 (Transport for London) paragraph 6.8.

98 ROR 19 (Local Government Association) section 7.

5 Fares and ticketing

66. The McNulty report identified numerous problems with rail fares and ticketing:[99]

- the fare structure is outdated, complex and illogical: "hard for the uninitiated (or even the initiated) to understand";
- "the current structure does not do some of the important things that a pricing structure should do – it does not send efficient pricing signals to the market, it does not help operators sufficiently to manage peak demand or match capacity to demand efficiently and, although fares overall are high relative to other countries, it appears that some fares are set below the level which passengers would be prepared to pay"; and
- the industry is lagging behind with the implementation of smartcards and other modern methods of selling tickets.

67. Alongside the rail Command Paper the Government published a consultation paper on fares and ticketing which picked up on McNulty's criticisms. It also drew on research by Passenger Focus into consumer views on ticketing.[100]

68. Witnesses offered widespread support for reform of fares and ticketing. There was particular enthusiasm for the more widespread introduction of smartcards, building on the experience with Oystercards in London, or other ticketing innovations.[101] It was suggested that simpler fares could increase passenger confidence and be linked to the promotion of integrated public transport.[102]

69. Network Rail argued that fares and ticketing could offer "some assistance" in managing demand for rail services, helping to reduce peak demand. For example, "people may be encouraged to work one or two days a week from home if they could receive money back on their season ticket".[103] However, the Campaign for Better Transport cautioned against using demand management to increase fares on peak-time trains as "most commuters have no choice but to travel at the busiest times".[104] These comments were echoed by the rail trades unions.[105] The unions also cautioned against over-reliance on technology for buying rail tickets, arguing that most passengers valued face-to-face contact.[106]

70. The ideas proposed in the Government's consultation paper on rail fares and ticketing have merit and we look forward to firm proposals being brought forward. However, we have concerns in three areas which the Government must address.

99 *McNulty summary* p38

100 *Ticket retailing website usability*, Passenger Focus, Jul 11.

101 For example ROR 10 (*pteg*) paragraph 2.21

102 ROR 13 (Susan van de Ven), 16 (South Yorkshire Passenger Transport Executive) and 18 (TravelWatch NorthWest).

103 ROR 12 paragraph 4.2.

104 ROR 22 (Campaign for Better Transport) paragraph 4.4.

105 ROR 24 (trades unions) paragraphs 54-57.

106 Ibid, paragraphs 58-60.

71. Firstly, the Government's policy on the pricing of regulated fares is unclear.[107] In 2010 the Chancellor of the Exchequer announced that for three years from 2012 regulated rail fares would rise by RPI+3%, in order to help reduce the rail subsidy and contribute to deficit reduction. However, the Government has been unable to implement this increase because of the outcry from rail users, increasing fares by RPI+1% instead. **We welcome the decision not to proceed with RPI+3% increases but are concerned about where that leaves the Government's fares policy, especially at a time when it is attempting to reduce the cost of rail to the taxpayer. We recommend that the DfT set out a long-term policy on regulated fares.**

72. Secondly, although there are opportunities to use flexible ticketing to manage the demand for rail travel more effectively – for example by selling season tickets which provide discounts to part-time workers – there are clear limits to what demand management can achieve. Many lower-paid workers have no choice but to travel at peak times.[108] Higher prices at peak times might make a difference to demand at the margin but would for the most part be a tax on commuters who have no effective choice over how or when they travel. **We recommend that the Government rule out forms of demand management which would lead to even higher fares for commuters on peak time trains.**

73. Finally, nine years after Oyster cards were first introduced in London, it is surprising that smartcard technology has not been implemented across the rail network.[109] Steve Howes of ATOC conceded that implementation of smartcards had been slow but effectively blamed the Government for requiring the railway to use ITSO technology rather than the Oyster system.[110] He said that train companies had concentrated on other developments, such as print-at-home tickets.[111] In our view, there is likely to be considerable demand for smartcards or other ticketing innovations on the railway, incorporating the various forms of railcard, and enabling greater interoperability with other forms of public transport.[112] **The Rail Delivery Group has an opportunity to step up to the plate and show its effectiveness by spearheading the swift implementation of innovative ticketing technology throughout the rail system – certainly by 2020, preferably by 2015. We call on the RDG to respond to this recommendation by explaining its plans in this area and providing a clear timescale for implementation.**

107 For more information about which fares are regulated see *Fares and Ticketing*, Annex A.

108 Q270.

109 For example see *Passenger Transport*, issue 46, 30 Nov 12, p13 for recent examples of the piloting of new technology in this field.

110 Qq278-80.

111 Q277.

112 See Q264 on recent migration from paper tickets towards other formats.

6 Conclusion

Creating a vision for rail

74. We welcome the Government's recent confirmation that there is a case for subsidising the railway, for environmental, social and economic purposes.[113] It makes a welcome contrast from the understandable focus on reducing the subsidy, in the context of the UK's wider economic problems. However, the Government must do much more to explain why the taxpayer should subsidise rail and where that money is spent. At present, the Government cannot demonstrate how the subsidy achieves the purposes it has set out and nor can it explain what level of subsidy it thinks is appropriate.

75. On our visit to the Netherlands, Germany and Switzerland we saw different models for organising railways, each based on state ownership and with a clearer sense of what the railway was for. For example, in the city-state of Berlin there was a concern that the population was in decline and migrating towards the neighbouring state of Brandenburg, and a belief that an integrated public transport system was a means to address this: whereas in Switzerland there was a commitment to good links between the principal cities and good timetable connections. In all three countries there was much more focus on end-to-end journeys, with integration with bus networks, bicycle hire and low carbon vehicle hire.[114] These examples show how the specification of rail services can be linked to the wider purposes of the rail subsidy. **We recommend that in developing a new framework for rail franchising the Government focus more on wider policy objectives, such as the promotion of sustainable end-to-end journeys, the quality of the passenger experience, or economic or social development, alongside the premium payments offered by train operating firms.**

76. If the savings identified in the McNulty report do not materialise we cannot rule out radical structural reform of the industry in future. It should be noted that these savings do not take account of further spending which might be necessary to cater for further increases in demand. The suggestion in the McNulty report that the Government's "predict and provide" approach to rail capacity might not be sustainable could provide the context for difficult debates in the next decade about how to cope with rising demand if extra capacity is unaffordable.[115]

77. Everyone agrees that the fragmentation of the railway has generated costs which initiatives like alliances now seek to minimise. Ironically, some of the reform proposals now being pursued, including alliances and the decentralisation of franchises, have the potential to make the railway still more fragmented. David Higgins, Chief Executive of Network Rail, spoke of the possibility of an "explosion of overheads".[116] This is a key risk

113 ROR 26B (letter from the Minister of State to the Committee Chair, 26.Nov 12).

114 For comments on this issue in the UK context see ROR 22 (Campaign for Better Transport) paragraph 1.3.

115 *McNulty summary* section 6.2.2.

116 Q69.

for the industry to manage. It remains to be seen whether the Rail Delivery Group will have the motivation and clout to do so.

DfT and the ORR

78. The current Government has tried to take a step back from the management of the railway but has instead found itself embroiled in a gigantic row about the West Coast Main Line franchise plus a series of consultations and debates about quite detailed aspects of rail. There is a degree of inevitability about this. The Government does not formally own Network Rail, but guarantees its enormous debts; the Chancellor of the Exchequer has used investment in rail projects as a tool for boosting growth; and the Government will always be responsible for keeping the railway running if train operators or even the infrastructure manager pull out. More than this, there is a presumption in Parliament and amongst the wider public, that the Government is accountable for what happens on the railway.

79. However, DfT is not an economic regulator and the West Coast Main Line franchise episode suggests that the department lacks commercial nous. We have suggested earlier that DfT should consider delegating responsibility for awarding and managing franchises to an arms-length body. There is also more scope to delegate work to the Office of Rail Regulation so that it monitors and challenges the efficiency of the whole industry, not just Network Rail. If ORR takes on this role it will need to develop a thorough understanding of the economics of the entire rail industry so that it can set appropriate savings targets and apply pressure in the right places to ensure that savings are made. In 2011 the Public Accounts Committee published a damning report on the ORR, describing its relationship with Network Rail as "too cosy" and concluding that "it is disappointing that after 10 years' existence the Regulator still does not properly understand the reasons for the gap [between Network Rail's efficiency and that of the most efficient European operators]".[117] We asked Richard Price, ORR's chief executive, about these criticisms and he defended the role ORR had played in reducing Network Rail's costs in recent years.[118] **We support the notion of a single economic regulator for the rail industry. It makes sense for the ORR to take on this role, but in doing so it must show it has the capacity and credibility to deliver savings across the board.**

Our vision for rail

80. Our vision for rail in 2020 includes the following elements:

- Clarity about the objectives of subsidising rail and how these can be achieved
- A clear link between policy on rail and other aspects of transport policy, for example a focus on sustainable end-to-end journeys
- A strategic approach to policy-making by DfT which does not sacrifice democratic accountability; assisted by a strong industry regulator, and an effective industry leadership

117 Public Accounts Committee, Forty-first Report, Session 2010-12, *Office of Rail Regulation: Regulating Network Rail's efficiency*, HC 1036, pp5-6.

118 Qq720-21.

- More transparency about the costs of rail, which helps with scrutinising different approaches to organising rail operations (eg alliances, different forms of franchises) and debates about the costs of new services and infrastructure
- Passenger interests more clearly taken into account in deciding questions of rail policy
- More modern, flexible fare and ticketing options and a clear long-term policy on regulated fares
- No diminution in existing safety standards.

Conclusions and recommendations

Subsidising the railway

1. The debate about the size of the rail subsidy raises a number of questions. Is a subsidy justifiable and, if so, what should be subsidised and to what extent? Although the ORR has direct responsibility for regulating the efficiency of Network Rail, how can the Government ensure that the efficiency of the train operating companies is improved? Does the McNulty report point towards the need to restructure the rail industry again, or can efficiencies be achieved within existing structures as he recommends? How can the industry continue to grow without soaking up more public money? These questions provide the context for our inquiry and report. (Paragraph 20)

Why subsidise rail?

2. We recommend that the DfT publish the assumptions underpinning its analysis of the ratio of taxpayer to farepayer funding on different types of rail service. (Paragraph 25)

3. We believe that there are justifiable economic, social and environmental reasons for subsidising the railway. However, the Government does the railway a disservice by its inability to articulate more clearly why it subsidises rail and what taxpayers get for their money. We recommend that the Government publish and consult on a clear statement of what the rail subsidy is for and where it should be targeted. (Paragraph 28)

Transparency

4. We fully endorse the call in the McNulty report for more transparency in the finances of the rail industry. Comparisons between routes and franchisees of how and where money is spent will help drive efficiency savings by shining a light on complacent management, waste and profiteering. Commercial confidentiality should not be used to block legitimate requirements for information given the amount of public money at stake. (Paragraph 32)

Regulation

5. We support the notion of a single economic regulator for the rail industry. It makes sense for the ORR to take on this role, but in doing so it must show it has the capacity and credibility to deliver savings across the board. (Paragraph 79)

McNulty's analysis

6. The £3.5 billion savings which the McNulty report identifies are undoubtedly challenging, particularly as their achievement would require a large number of companies to work together to make the railway's current structure work more efficiently. We support the general approach recommended by McNulty, but with

concerns about some specific issues which we set out in this report. If these savings do not materialise, the arguments for more far-reaching structural changes will be compelling. (Paragraph 36)

7. We recommend that the DfT and ORR keep a close eye on the work of the RDG to ensure that it acts in the best interests of the farepayer and taxpayer, rather than of established rail interests. (Paragraph 38)

How to do it

8. Firstly, any changes to staffing, terms and conditions and salaries should be made within the context of a wider programme of changes made throughout the industry and after full consultation with trades unions. Any changes in the numbers and duties of station staff should not be pursued solely to reduce costs but should reflect changes in passenger ticket-buying behaviour and be designed to improve the passenger experience at stations, including safety (Paragraph 41)

9. In addition, we are very concerned that proposals to reduce staffing at stations and on trains could make the railway less safe, particularly at night, and deter women and vulnerable users from travelling by train. We recommend the Government develop a strategy for improving the security of the rail network, as well as perceptions of how safe the network is. (Paragraph 42)

10. The ORR must ensure that the high standard of rail safety achieved in recent years is not jeopardised by different ways of working between Network Rail and train operators. We recommend that the ORR devote additional resources to monitoring safety in areas where Network Rail and a train operating company have formed an alliance. (Paragraph 45)

11. We recommend that in considering proposals for alliances and joint working between Network Rail and train operating companies the ORR pay particular regard to protecting the interests of passengers and firms outside of the alliance. There must be clear procedures for revising alliances' working practices or ending such arrangements if it can be shown that they are disadvantaging passengers or other operators, particularly freight. (Paragraph 46)

12. We recommend that the Rail Delivery Group, working with Passenger Focus, develop and publish a clear strategy for improving retail facilities on stations and trains. This would be welcomed by passengers and could generate extra revenue to contribute to achievement of the McNulty targets. (Paragraph 49)

13. We recommend that the ORR take a cautious approach to approving the sale or redevelopment of former railway land, given that with the growth of the industry that land may be needed again for rail in future, while responding promptly and positively to proposals for disposing of genuinely surplus land. (Paragraph 50)

What now for franchising?

14. The collapse of the West Coast Main Line franchise competition has raised serious doubts about the DfT's capability to manage major procurements as well as about its internal organisation and governance. A number of franchise competitions have been delayed while the Government reconsiders its policy on franchising. There are likely to be significant costs to the taxpayer, well in excess of the £40 million to be repaid to the four firms which bid to run trains on the West Coast Main Line. Confidence in DfT has been badly shaken. Ministers, current and former, as well as senior officials, have many questions to answer about this debacle. We will be asking these questions, and expecting clear answers, in the weeks to come before reaching our conclusions on this matter**.** (Paragraph 12)

15. although we acknowledge that Government micro-management of franchises can be costly and stifle creativity, there is a balance to be struck with democratic accountability. In particular, there needs to be an effective mechanism to reconcile fairly the competing demands for train paths on congested lines, for example between fast and stopping inter-city services, commuter trains and freight traffic. Franchise specification should include a reasonable level of detail about service levels and timetables, so that ministers can be held properly to account for matters which directly affect passengers (Paragraph 57)

16. we are not convinced that DfT as currently structured is best placed and resourced both to set rail policy and do the detailed work necessary to run each franchise competition. we have sympathy with the argument that franchises should be let and managed by a DfT agency or arms-length body. Under this arrangement, DfT would specify what it wished to be delivered under the franchise and the new franchising body, employing staff with appropriate specialist, commercial skills, would let and manage the contract. It is important that any change can be made without the need for legislation, since this would further delay the programme for franchise re-letting (Paragraph 58)

17. We see merit in continuing with longer franchises, in order to encourage investment by franchisees, but we recommend that the Government explore options for reviewing contracts every five years. This would enable contracts to be adjusted to take account of changed circumstances, particularly in the economy. Clear parameters for ending contracts early would need to be established at the start of the process and there would also need to be a different approach to evaluating bids for contracts. We suggest this could involve spreading out premium payments over the full length of the contract or weighting payments so that the offer of generous premium payments in ten years or more would be heavily discounted. (Paragraph 59)

18. Any further redesign of the franchise system will take time to get right. We therefore recommend that for those franchises which need to be re-let in the near future, the DfT specifies contracts of medium length, of seven to ten years. (Paragraph 60)

19. We recommend that in developing a new framework for rail franchising the Government focus more on wider policy objectives, such as the promotion of sustainable end-to-end journeys, the quality of the passenger experience, or economic or social development, alongside the premium payments offered by train operating firms. (Paragraph 75)

20. We agree that there is scope to devolve control over some rail franchises to local or regional bodies and we support the Government in looking at how to achieve this. (Paragraph 65)

21. If the services within the current Northern franchise are devolved we recommend that the Government consider whether there are elements which could be individually franchised (similar to the situation with Merseyrail) and look to involve all of the emerging local transport boards in the north in the governance of the franchise. Alternatively, the DfT must retain reserve powers to vary the specification of the franchise to ensure that the interests of the whole region are protected. (Paragraph 65)

Fares and Ticketing

22. We welcome the decision not to proceed with RPI+3% increases but are concerned about where that leaves the Government's fares policy, especially at a time when it is attempting to reduce the cost of rail to the taxpayer. We recommend that the DfT set out a long-term policy on regulated fares. (Paragraph 71)

23. We recommend that the Government rule out forms of demand management which would lead to even higher fares for commuters on peak time trains. (Paragraph 72)

24. The Rail Delivery Group has an opportunity to step up to the plate and show its effectiveness by spearheading the swift implementation of innovative ticketing technology throughout the rail system – certainly by 2020, preferably by 2015. We call on the RDG to respond to this recommendation by explaining its plans in this area and providing a clear timescale for implementation. (Paragraph 73)

Annex A: Programme of visit to the Netherlands, Germany and Switzerland, October 2012

Monday 15 October 2012

Train from St Pancras International to Brussels included onboard briefing from Pierre Delande, Head of Public Affairs, Eurostar

Utrecht

- Briefing on current political situation in the Netherlands by British Embassy staff
- Briefing by Dutch Ministry of Infrastructure and the Environment
- Dinner with representatives from politics, the business community and interest groups

Tuesday 16 October

- Presentations by Netherland Railway (NS)and Prorail.

Train from Utrecht to Berlin

Berlin

- Dinner discussion with members of the German parliamentary transport committee

Wednesday 17 October

- Meeting with Deutsche Bahn
- Meeting with Veolia Verkehr
- Lunch with State Secretary, Transport and Environment, Berlin Senate and DG Transport, Berlin City Government
- Meeting with federal State Secretary for Transport and DG Rail, Federal Transport Ministry

Flight from Berlin to Munich

Thursday 18 October

Munich

- Meeting with Gunnar Heipp, Head, Strategic Planning, MVG
- Meeting with Muenchner Verkehrs-Verbund (MVV — the consortium that interfaces the different transport companies with the city council and state government).
- Lunch with Andreas Barth, Pro Bahn (passenger lobby group)
- Meeting with Siemens AG

Train from Munich to Bern

Friday 19 October

Bern

- Meeting with Bern-Lötschberg-Simplon Railways
- Meeting with Federal Office of Transport
- Meeting with Swiss Federal Railways (SBB)
- Meeting with Trasse Schweiz (independent Swiss train-path allocation body)

Train from Bern to Basel and then flight back to the UK.

Annex B: Government cash input to the rail industry

Note by Robert Linnard and Richard Goldson, Specialist Advisers to the Transport Committee, 1 November 2012.

Summary

1. This note shows the increase in government support to the GB rail industry since the end of British Rail's era and considers reasons for the increase. The main conclusions are:

- support to the passenger railway has increased by about 50% (allowing for inflation and disregarding privatisation receipts),while patronage has nearly doubled;
- the main reasons are the extra costs of leasing and running more trains more frequently and—nearly as significant—of paying Railtrack/Network Rail a return on its asset base, which has grown from under £5bn at privatisation to over £40bn now;
- total net profits of franchised passenger train operators have roughly halved in the past three years;
- securing the efficiency target implicit in the recent HLOS settlement will necessitate difficult decisions by government as well as industry. The current disorder in the franchising programme is deeply unhelpful.

A. How the numbers have changed

2. Table 1 below shows a variety of indicators including total government cash to the industry over the past 23 years since 1989. All monetary totals are shown in cash terms and at current (2011–12) prices. The figures for BR have been adjusted to exclude receipts from the sale of Roscos and other BR businesses in the period 1995 to 1997.

3. Broadly, this shows a pattern of subsidy in the latter BR era through the early 1990s of £2.0 to £3.5 bn p.a. It is unsurprising that support fluctuated in the BR era, not only because of the impact of economic cycles on revenue, but because the availability of funds for capital investment (including renewals) was variable and expenditure was controlled according to the cash available. However, it is striking that the pre-privatisation railway was shrinking in size (as measured by passenger-kms) while at the same time increasing its subsidy requirement.

TABLE 1

ERA	YEAR	PASSENGER-KM BILLIONS	PASSENGER REVENUE AT 2011–12 PRICES £BN	PASSENGER COSTS £M AT 2011–12 PRICES £BN	TOTAL INDUSTRY CASH/SUBSIDY AT 2011–12 PRICES £BN
BR	89–90	33.5	3.69		1,60
BR	90–91	33.7	3.69		2,18
BR	91–92	32.1	3.58		2,79
BR	92–93	32.0	3.54		3,71
BR	93–94	30.6	3.50		2,74
Transition	94–95	28.8	3.42		3,55
Transition	95–96	29.7	3.64		3,30
Transition	96–97	31.6	3.79	7.69	3,25
Private Sector (Railtrack)	97–98	34.1	4.05	7.81	2,73
Private Sector (Railtrack)	98–99	35.8	4.35	7.97	2,30
Private Sector (Railtrack)	99–00	37.9	4.65	8.16	2,03
Hatfield & aftermath	00–01	39.0	4.65	9.26	1,68
Railtrack in Administration	01–02	38.6	4.73	10.51	2,51
Railtrack in Administration	02–03	39.3	4.73	11.73	3,46
Network Rail	03–04	40.4	4.90	13.04	4,73
NR CP 3	04–05	41.7	5.08	12.60	4,79
NR CP 3	05–06	42.7	5.39	11.93	5,67
NR CP 3	06–07	45.2	5.84	12.03	7,48
NR CP 3	07–08	48.3	6.29	12.31	6,00
NR CP 3	08–09	50.6	6.63	13.26	5,76
NR CP 4	09–10	50.4			5,09
NR CP 4	10–11	53.3			4,16
NR CP 4	11–12	56.1			3,90

NOTE: Data in this table come from the McNulty Report (updated to current values) supplemented with some ORR official data. Revenue, cost, and subsidy do not balance, firstly because the revenue and cost data relate to the passenger business only and secondly because of externalities – primarily NR borrowings.

4. After privatisation, subsidy fell marginally during the Railtrack era, but rose back in the Administration era to similar levels to BR, and then ascended to a peak of £7.5bn in the middle of Control Period3. This big increase in subsidy financed the renewals needed to return the infrastructure to acceptable quality. A further cause was the loss of financial discipline while Railtrack was in administration.. Since then, support has steadily reduced to under £4bn.

5. Overall, it can be said that subsidy has risen since BR from numbers around the £2.75bn mark to numbers around the £4bn mark. We are thus looking to explain a real terms increase of some £1.25bn.

B. Why the numbers have changed

6. Table 1 shows how substantially both revenue and costs have increased: both have broadly doubled since privatisation. It might have been expected that an industry with a high ratio of fixed to variable costs which doubles its output would see costs rising at a slower rate than revenue as economies of scale and efficiencies kick in.

7. This has not been the case, and in explaining why the net subsidy numbers have increased so much, it is necessary to look at both revenue and costs. Key drivers have been as follows:-

8. Revenue. Revenue is a function of volume and pricing. The growth has been overwhelmingly due to volume; since 96/97, there has been only a 10% increase in real yield (i.e. real fares) almost all concentrated in the 5 years from 2003 to 2008 when regulated fares were RPI+1. (At other times, regulated fares have been at in line with RPI or negative.) Thus growth in volume has generated some £2.3bn, and growth in pricing some £0.3bn.

9. Operating Costs. McNulty showed that between 1996 and 2008 train operating (i.e. TOC own costs excluding track access and ROSCO charges) increased from £2.6bn to £4.4bn, i.e. by £1.7bn. This is broadly in line with revenue, i.e. there has been no improvement from operating on a larger scale.

10. Rosco Charges. Since BRB days, the financial structure has completely changed, and new capital investment in rolling stock no longer drops through immediately to the cash requirement. There has also been substantial expansion in the size of the fleet to support growth, and a significant improvement in the average age. McNulty estimates that rolling stock charges per passenger-km have been pretty static since 1996 and assuming this is true since 1989, this would explain an increase in costs of some £0.5bn.

11. Infrastructure opex and maintenance. Now coming down steadily, having peaked in 2003, following the substantial increases following the demise of Railtrack. Overall it contributes little to the explanation of the change.

12. Regulatory Asset Base (RAB). Since privatisation, new infrastructure capital expenditure (including the substantial quantity of enhancements) and renewals have been financed through borrowing and has been added to the Regulatory Asset Base (RAB) on which a regulated rate of return is allowed to enable Network Rail to meet its borrowing costs. At the time of privatisation, the RAB was very low (under £5bn), and has now grown to £42bn. The allowed return on the RAB amounted (after technical adjustments) to £1.5bn in 09/10 and is effectively a new item since BR days, mostly reflecting the substantial expenditure on investments (enhancements, and renewals) in recent years, all of which were artificially low (or zero) at the end of the BR era. [1]

1 Network Rail is funded through a conventional regulatory approach where renewals and enhancement expenditure is mostly capitalised and added to the Regulatory Asset Base. This is paid for through an amortisation allowance and an allowed return on the RAB. About two thirds of the £42bn RAB – and of the allowed return on the RAB – is attributable to investments and improvements, the rest being of a technical regulatory nature.

13. Train operator profits. (The annex shows the operating profits earned by passenger train operators). Excluding the (unsubsidised) open access operators but including the London Overground concession, the net total of operating profits fell from £188m in 2009 to £91m in 2011. This latest figure is relatively small compared to the major items listed above and some of it will be funding investment, for example in station facilities.

Table 2

	£bn
Revenue growth from volume	-2.3
Revenue growth from Pricing	-0.3
Increase in TOC costs largely in line with volume	+1.7
Changes in Rolling Stock costs	+0.5
Cost of providing a return on the NR RAB	+1.5
TOTAL NET CHANGE	+1.1

Table 2 shows that the key drivers have been the significant change in volume which has affected both revenue and TOC costs, and the impact of the burgeoning RAB which is itself driven by the volume of infrastructure investment. In short the issues are the rate of growth, and the costs of accommodating that growth.

14. Thus Table 2 largely – though admittedly not entirely – explains the rise of £1.25bn noted at the end of paragraph 4.

C. Is the picture reasonable?

15. McNulty makes it very clear that the picture is *not* reasonable. One would have expected unit costs to have declined as volume increased. They have not, and McNulty suggests some reasons for this such as increasing unit costs of labour. The capital costs of providing for growth are significant both in terms of infrastructure and rolling stock, and once spent will push up operating costs for the future, through the ROSCO and RAB mechanisms. McNulty points out that *de facto* we have a policy for the railway sector of "predict and provide" uniquely amongst the transport sectors, and he suggests that the policy should instead be one of "predict, manage, and provide". Had this policy been in force, it can be argued that the costs of growth would have been partially mitigated through changes to the balance of the investment programme, train utilisation, and demand management.

D. What of the future?

16. Table 3 shows the support available for Control Period 5 according to the Statements of Funds Available issued by DfT and by the Scottish Government alongside the recent HLOS. All these figures are in nominal (cash) terms.

Table 3

YEAR	ENGLAND AND WALES	SCOTLAND	TOTAL
14–15	3165	639	3804
15–16	3382	664	4046
16–17	3385	664	4049
17–18	3516	672	4188
18–19	3394	684	4078

17. Thus it can be seen that subsidy is expected to continue at broadly its existing level of £4bn for the next expenditure period despite real growth of 20% (as predicted in the Initial Industry Plan). This implies (at least) three things.

18. First, the government's cash limit assumes that the industry can reduce its annual costs by £3.5bn by 2019 (as compared to 2008/09). This is the most ambitious of the targets in the McNulty report. Some of the savings are already in Network Rail's plans, Most of the rest have to be secured by passenger train operators and their suppliers (notably the Roscos) via the next generation of franchises. But the problems with West Coast will delay the reletting not just of that franchise but of some or all of the other eight that expire over the next two years. There is therefore a major question mark over the achievability of TOC savings and hence over the realism of the HLOS targets.

19. Second, the looming financial pressures will probably mean that growth will need to be steered towards times and places where existing capacity (both rolling stock and infrastructure) can absorb it , so that the costs of growth in future grow more slowly than revenue. Slowing the rate of growth of Network Rail's RAB (and its attendant financing costs) is likely to become increasingly important,

20. Third, to the extent that in some places costs of growth will necessarily be higher than incremental revenues (services benefitting from the Northern Hub may well be a good example), then costs elsewhere on the existing network will need to be managed accordingly.

E. Conclusion

21. In real terms the passenger railway is costing about 50% more than in the early 90s. Its size (as measured by passenger kms) has nearly doubled. The substantial increase in subsidy has occurred over a period when the strategic focus of industry was largely on managing growth. Firstly, as McNulty has shown, unit costs stayed flat or were allowed to grow when it would have been expected that they would fall. Secondly, much attention and cost has been put into investing to meet peak demand at a time when policies of "predict and provide" were being modified in other modes.

22. Through the RDG, and other mechanisms to follow through the McNulty findings, the industry appears focused on managing a growing railway against a broadly steady level of subsidy and with regulated fares rising at no more than RPI plus 1%.

23. But, as Network Rail's growing RAB is almost entirely debt financed, the costs of servicing this will remain a challenge, and one which will become more acute as high levels of RAB-funded investment continue.

Annex to Annex B: train operator profits

Table 4		Operating Profit for year (£m)			Subsidy for financial Year (£m)		
	Year end	**2009**	**2010**	**2011**	**2009/10**	**2010/11**	**2011/12**
Arriva Trains Wales	31 December	13.8	15.3	20.5	128.6	129.8	136.8
c2c Rail	31 December	3.8	9.7	14.7	-3.3	-6.4	-12.1
Chiltern Railways	31 December	-4.3	-16.4	-57.1	8.8	-16.7	6.5
Cross Country	31 December	-8.4	-12.9	-30.0	65.5	31.4	6.7
East Coast (Directly Operated Railways)	31 March		1.3	4.6	-46.1	-170.7	-187.7
East Midlands Trains	30 April	3.4	-27.8	-34.0	10.0	-22.3	-40.4
First Capital Connect	31 March	5.4	-2.0	2.5	-89.1	-136.4	-162.7
First Great Western	31 March	-12.8	9.4	-52.3	-2.9	-103.7	-110.1
First Hull Trains (non-franchised)	31 March	3.3	-1.9	1.7	*	*	*
Grand Central (non-franchised)	years to 31 March 2010, 9 months to 31 Dec 2011	-3.9	-6.2	-8.4	*	*	*
Heathrow Express (non-franchised)	31 December	5.5	5.7	5.9	*	*	*
London Midland	03 July	-0.3	-4.7	-2.7	102.4	67.3	65.3
London Overground	31 March	3.8	0.8	7.5	N/A	26.0	26.1
Merseyrail	08 January	12.5	13.3	14.9	N/A	70.6	74.7
National Express East Anglia	31 December	19.9	19.3	29.6	-97.4	-108.9	-72.6
Northern Rail	08 January	30.3	37.9	35.2	106.4	68.4	96.7
First ScotRail	31 March	22.5	20.3	15.6	271.0	290.0	305.0
Southern	03 July		3.0	18.5	48.0	-102.3	-16.7
Southeastern	04 July	16.0	6.6	21.8	122.8	218.2	86.7
South West Trains	30 April	15.3	24.1	47.5	-137.7	-177.6	-228.6
Virgin Trains	05 March	67.5	49.4	34.3	50.0	-167.9	-165.7

Negative Subsidy indicates premium paid to Government

** First Hull Trains, Grand Central & Heathrow Express are open access, non-franchised operators, and do not receive subsidy or pay premiums*

Source: HC Library analysis of company annual reports and Office of Rail Regulation publications

Formal Minutes

Monday 17 December 2012

Members present:

Mrs Louise Ellman, in the Chair

Steve Baker
Sarah Champion
Jim Dobbin
Karl McCartney
Iain Stewart
Graham Stringer

Draft Report (*Rail 2020*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 80 read and agreed to.

Annexes agreed to.

Summary agreed to.

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

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

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

[Adjourned till Tuesday 18 December at 10.00 am

Witnesses

Tuesday 19 June 2012

Sir Roy McNulty, Chairman, and **Graham Smith MBE**, Team Leader, Rail Value for Money Study

Tim O'Toole CBE, Chairman, and **Sir David Higgins**, Vice-Chairman, Rail Delivery Group

Mick Whelan, General Secretary, ASLEF, **Bob Crow**, General Secretary, RMT, **Manuel Cortes**, General Secretary, TSSA, and **Julia Long**, National Officer for Docks, Rail, Ferries and Waterways, Unite

Tuesday 26 June 2012

Christian Wolmar, Railway author and broadcaster, **Nigel Harris**, Managing Editor, *Rail Magazine*, and **John Nelson**, Chairman of First Class Partnerships Limited

Tom Smith, Chairman, Association of Train Operating Companies, **James Colman**, Director of Corporate Affairs and Sustainability, Gatwick Airport, and **Ian Yeowart**, Managing Director, Alliance Rail Holdings

Tim Shoveller, Alliance Managing Director, South West Alliance, **Paul Plummer**, Group Strategy Director, Network Rail, and **Peter Anderson**, Managing Director, Balfour Beatty Rail

Tuesday 10 July 2012

Mike Hewitson, Head of Passenger Issues, Passenger Focus, **David Mapp**, Commercial Director, Association of Train Operating Companies, **Stephen Joseph OBE**, Chief Executive, Campaign for Better Transport, and **David Watkin**, Commercial Director, CrossCountry Trains

Steve Howes, Managing Director, Rail Settlement Plan, Association of Train Operating Companies, **Howard Smith**, Chief Operating Officer, London Rail, Transport for London, and **Shashi Verma**, Director of Customer Experience, Transport for London, gave evidence

Geoff Inskip, Chair, *pteg*, **Councillor Shona Johnstone**, Vice-Chair of Economy and Transport Board, Local Government Association, **Neil Buxton**, General Manager, Association of Community Rail Partnerships, and **Professor Chris Nash**, Research Professor, Institute for Transport Studies, University of Leeds

Tuesday 4 September 2012

Maggie Simpson, Policy Manager, Rail Freight Group, **Nigel Jones**, Head of Planning and Strategy, DB Schenker, and **Christopher Snelling**, Head of Supply Chain Policy, Freight Transport Association

Michael Roberts, Chief Executive Officer, Association of Train Operating Companies, **Paul Plummer**, Group Strategy Director, Network Rail, **Jeremy Candfield**, Director General, Railway Industry Association, and **Dr Richard Wellings**, Head of Transport, Institute of Economic Affairs

Kaj Mook, Head of Customer Service Transition, Merseyrail, **Joel Brook**, Property Director, Select Service Partners, and **Simon Rutter**, Director, Solum Regeneration

Monday 10 September 2012

Sir Richard Branson, Chairman, Virgin Group Ltd, **Tony Collins**, Chief Executive Officer, Virgin Rail Group, **Martin Griffiths**, Co-Chair, Virgin Rail Group, and **Graham Leech**, Commercial Director, Virgin Rail Group, gave evidence

Tim O'Toole, Chief Executive, FirstGroup plc, and **Vernon Barker**, Managing Director, UK Rail Division, FirstGroup plc

Wednesday 31 October 2012

Rt Hon Patrick McLoughlin MP, Secretary of State, and **Philip Rutnam**, Permanent Secretary

Monday 12 November 2012

Anna Walker, Chair, and **Richard Price**, Chief Executive, Office of Rail Regulation

Rt Hon Simon Burns MP, Minister of State, **Paul Collins**, Head of Rail Network Strategy, and **Steve Gooding**, Director General, Domestic Transport, Department for Transport

List of printed written evidence

(published in Volume II)

1 Rail Delivery Group
2 Rail Freight Group
3 Rail Freight Group – HLOS
4 pteg
5 Network Rail
6 DB Schenker Rail UK Ltd
7 DB Schenker Rail UK Ltd – HLOS
8 Local Government Association
9 Transport for London
10 Transport for London – HLOS
11 Freight Transport Association
12 Campaign for Better Transport
13 Campaign for Better Transport – HLOS
14 TUC, ASLEF, RMT, TSSA and Unite
15 Unite – HLOS
16 RMT – HLOS
17 Association of Train Operating Companies (ATOC)
18 Department for Transport
19 Department for Transport – WCMF
20 Balfour Beatty plc
21 Gatwick Airport
22 Alliance Rail Holdings
23 Professor Chris Nash, Research Professor, Institute for Transport Studies, University of Leeds
24 ATOC, Network Rail and Rail Industry Association – HLOS
25 Passenger Focus – HLOS
26 FirstGroup – WCMF
27 Merseyrail
28 Virgin Rail Group – WCMF
29 Office of Rail Regulation

List of additional written evidence

(published in Volume III on the Committee's website www.parliament.uk/transcom)

30 Angel Trains Limited
31 Angel Trains Limited – HLOS
32 Bluespace Thinking Ltd
33 Bluespace Thinking Ltd – HLOS
34 Bluespace Thinking Ltd – WCMF
35 Passenger Transport Networks
36 Oliver R J Parr
37 North East Combined Transport Activists Round Table (NECTAR)
38 Railfuture
39 Transport Watch
40 Tyne Valley Rail Users' Group
41 Susan van de Ven
42 Chartered Institute of Logistics and Transport
43 Freight on Rail
44 South Yorkshire Passenger Transport Executive (SYPTE)
45 Travel Watch North West
46 Travel Watch North West – HLOS
47 London First
48 Mr David Hodgson
49 Freightliner Group Ltd – HLOS
50 Skipton and East Lancashire Rail Action Partnership
51 Skipton and East Lancashire Rail Action Partnership – HLOS
52 Richard W Malins – WCMF
53 HS2 Action Alliance – HLOS
54 HS2 Action Alliance – WCMF
55 51m – HLOS
56 West Anglia Routes Group – HLOS
57 London Borough of Enfield
58 Little Missenden Parish Council – HLOS
59 West Yorkshire Passenger Transport Executive – HLOS
60 Tony Bolden and Reg Harman

List of Reports from the Committee during the current Parliament

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

Session 2012–13

Seventh Report	Rail 2020	HC 329
Sixth Report	The Coastguard, Emergency Towing Vessels and the Maritime Incident Response Group: follow up	HC 647
Fifth Report	Future programme: autumn and winter 2012–13	HC 591
Fourth Report	Plug-in vehicles, plugged in policy?	HC 239
Third Report	Competition in the local bus market	HC 10 *(HC 761)*
		(Incorporating
		HC 1861–i–iii)
Fifth Special Report	Flight Time Limitations: Government Response To The Committee's First Report Of Session 2012–13	HC 558
Fourth Special Report	Air Travel Organisers' Licensing (Atol) Reform: Government Response To The Committee's Seventeenth Report Of Session 2010–12	HC 557
Second Report	Road safety	HC 506 *(HC 648)*
		Incorporating HC 1738
First Report	Flight time limitations	HC 164
		Incorporating HC 1838
Third Special Report	Sulphur emissions by ships: Government Response to the Committee's Sixteenth Report of Session 2010–12	HC 87
Second Special Report	Counting the cost: financial scrutiny of the Department for Transport 2011–12: Government Response to the Committee's Fifteenth Report of Session 2010–12	HC 15
First Special Report	Draft Civil Aviation Bill: Pre-Legislative Scrutiny: Government Response to the Committee's Thirteenth Report of Session 2010–12	HC 11

Session 2010–12

Seventeenth Report	Air Travel Organisers' Licensing (ATOL) reform	HC 1798
Sixteenth Report	Sulphur emissions by ships	HC 1561
Fifteenth Report	Counting the cost: financial scrutiny of the Department for Transport 2011–12	HC 1560
Fourteenth Report	Cable theft on the Railway	HC 1609 *(HC 1933)*
Thirteenth Report	Draft Civil Aviation Bill: Pre-Legislative Scrutiny	HC 1694
Twelfth Report	Cost of motor insurance: follow up	HC 1451 *(HC 1934)*
Eleventh Report	Thameslink rolling stock procurement	HC 1453 *(HC 1935)*
Tenth Report	High Speed Rail	HC 1185–I *(HC 1754)*

Ninth Report	Out of the jam: reducing congestion on our roads	HC 872 *(HC 1661)*
Eighth Report	Bus Services after the Spending Review	HC 750 *(HC 1550)*
Seventh Report	Taxis and private hire vehicles: the road to reform	HC 720 *(HC 1507)*
Sixth Report	The Coastguard, Emergency Towing Vessels and the Maritime Incident Response Group	HC 948, incorporating HC 752–i *(HC 1482)*
Fifth Report	Keeping the UK moving: The impact on transport of the winter weather in December 2010	HC 794 *(HC 1467)*
Fourth Report	The cost of motor insurance	HC 591 *(HC 1466)*
Third Report	Transport and the economy	HC 473 *(HC 962)*
Second Report	Financial Scrutiny of the Department for Transport	HC 683
First Report	Drink and drug driving law	HC 460 *(Cm 8050)*
Tenth Special Report	The proposal for a National Policy Statement on Ports: Government Response to the Committee Fifth Report of Session 2009–10	HC 1598
Third Special Report	The performance of the Department for Transport: Government response to the Committee's Fourth Report of Session 2009–10	HC 549
Second Special Report	Update on the London Underground and the public-private (PPP) partnership agreements: Government response to the Committee's Seventh Report of Session 2009–10	HC 467
First Special Report	The major road network: Government response to the Committee's Eighth Report of Session 2009–10	HC 421